# The Difference Is...

AMBITION + DISCIPLINE

Abu Dhabi Commercial Bank PJSC
2015 Annual Report

بنك أبوظبي التجاري
ADCB

His Highness
Sheikh Khalifa bin Zayed Al Nahyan

President of the United Arab Emirates and Ruler of Abu Dhabi
Supreme Commander of the UAE Armed Forces

His Highness
Sheikh Mohammed bin Zayed Al Nahyan

Crown Prince of Abu Dhabi
Deputy Supreme Commander of the UAE Armed Forces
Chairman of the Abu Dhabi Executive Council


The Difference Is...
STRENGTH + STABILITY

ADCB is a bank you can count on today and for the future. Our strong foundation positions us well for changing market dynamics.

At ADCB, it is our mission to make a difference. This is true whether we are offering customers a better way to bank, investing in our region and communities, delivering strong performance and long-term value for shareholders, or advancing our employees' development.

We make a difference by effectively executing strategies that are steady and consistent, and yet agile and responsive to new opportunities and challenges. World-class financial solutions are delivered with a deep commitment to local needs. We offer the latest innovations whilst also maintaining and emphasising long-standing values and traditions. Our businesses strive for dynamic growth balanced by sound risk management practices.

When consumers and businesses improve their financial standing, the UAE continues to grow and thrive, and all our stakeholders have a bank they can rely upon — that's the ADCB Difference.

# The Difference Is...
# AMBITION + DISCIPLINE

ADCB's ambition is to create the most valuable bank in the UAE. Our discipline will get us there. We are guided by a consistent set of proven strategies that deliver sustainable growth: a UAE-centric approach, a stable liability structure, a culture of service excellence, diligent risk management and talented staff.

## The Difference Is...
## CUSTOMER-FIRST CULTURE

ADCB's culture places the needs of our customers at the centre of everything we do. Over 5,000 employees, representing 70 nationalities, share a single goal: to be a trusted partner for our customers along their financial journeys.


Money Can't Buy Ambition
ELCOME
مرحباً بك

# The Difference Is...
# FINANCIAL STRENGTH

The strength to perform and grow in a sustainable manner — across a range of economic scenarios — is a product of our carefully honed strategy. With assets of AED 228 bn, ADCB is amongst the leading banks in the UAE. We delivered a superior return on average equity of 20.3% in 2015, and had a strong capital adequacy ratio of 19.76% as at 31 December 2015. Over the past five years, we have delivered 24% growth in total assets, 36% growth in operating income and a 290% total return for shareholders.

In the pages that follow, we discuss the source of our financial strength and the elements of our strategic vision for sustainable growth.

# Chairman's Message

Eissa Mohamed Al Suwaidi
*Chairman*

On behalf of ADCB's Board of Directors, I am pleased to report that, despite a challenging business environment, 2015 was another record year for the Bank. Net profits of AED 4.927 bn were up 17% over 2014. At 20.3%, ADCB's return on average equity for 2015 was amongst the highest of our peers.

Whilst we face a number of heightened economic challenges in 2016, we believe that the Bank's well-defined strategy, commitment to excellent service, and strong, well-established governance standards will continue to serve shareholders well.

## Dividend and Financial Performance

As a result of ADCB's record performance in 2015, the Board has recommended a cash dividend of 45 fils per share, translating to a payout of AED 2.3 bn (excluding Treasury shares), equivalent to 47% of net profit. This is subject to approval by the shareholders at the Annual General Meeting.

In 2015, we continued the positive trend of increased earnings and dividend payouts, which has now prevailed for the past five years. ADCB has achieved compounded annual growth in operating income of 6% and compounded annual growth in dividends of 18% over the past five years.

4.927

Net profit (AED bn)

## Building on a Proven Strategy

Our core strategy has served us well throughout the past five years and should continue to do so. The strategy includes growth through a UAE-centric approach, a stable and conservative liability base, a culture of service excellence and efficiency, diligent risk management and highly talented staff.

We are building upon this strategy and aiming to strengthen ADCB's financial performance by developing a more granular balance sheet. We have continued to aspire to prudent growth, ensuring that our lending guidelines remain appropriate in the current economic environment, and we have continued to improve our credit quality.

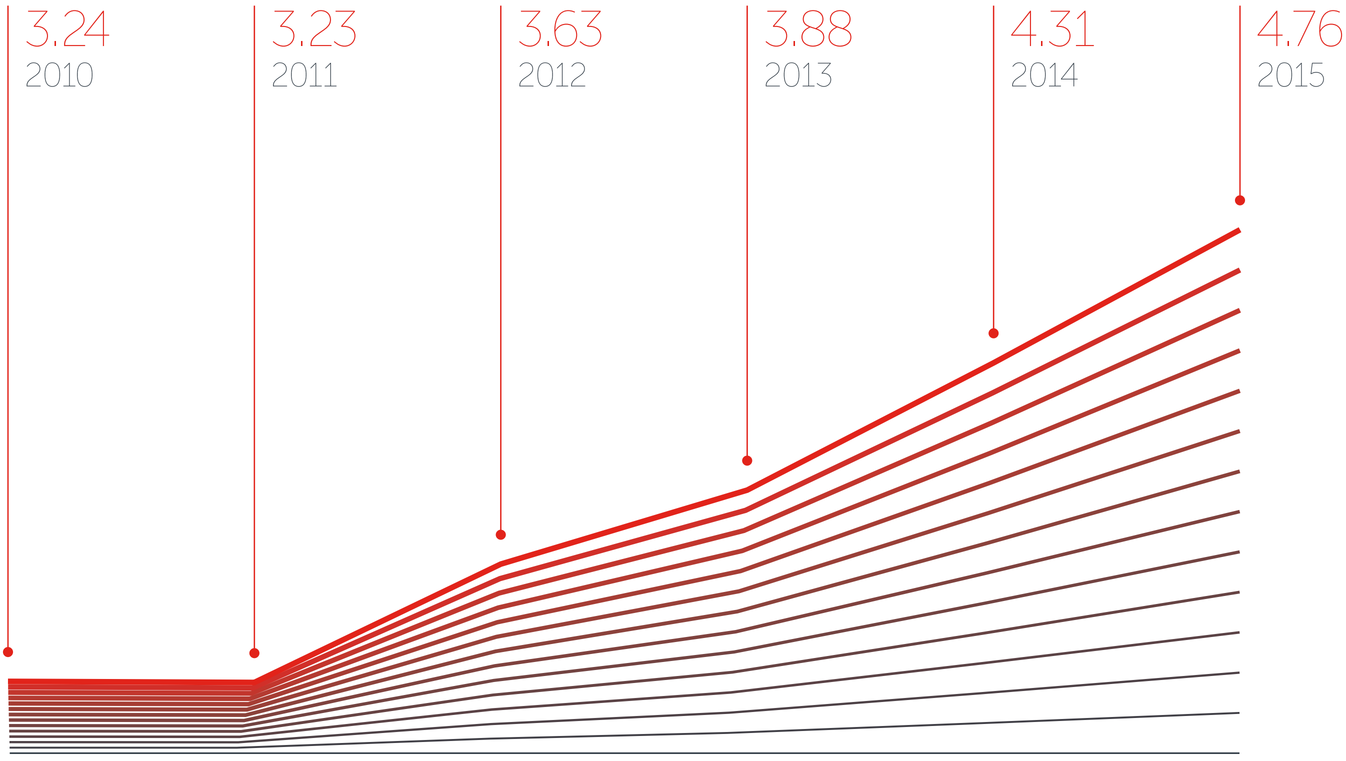
0.45

Recommended dividend payout (AED)

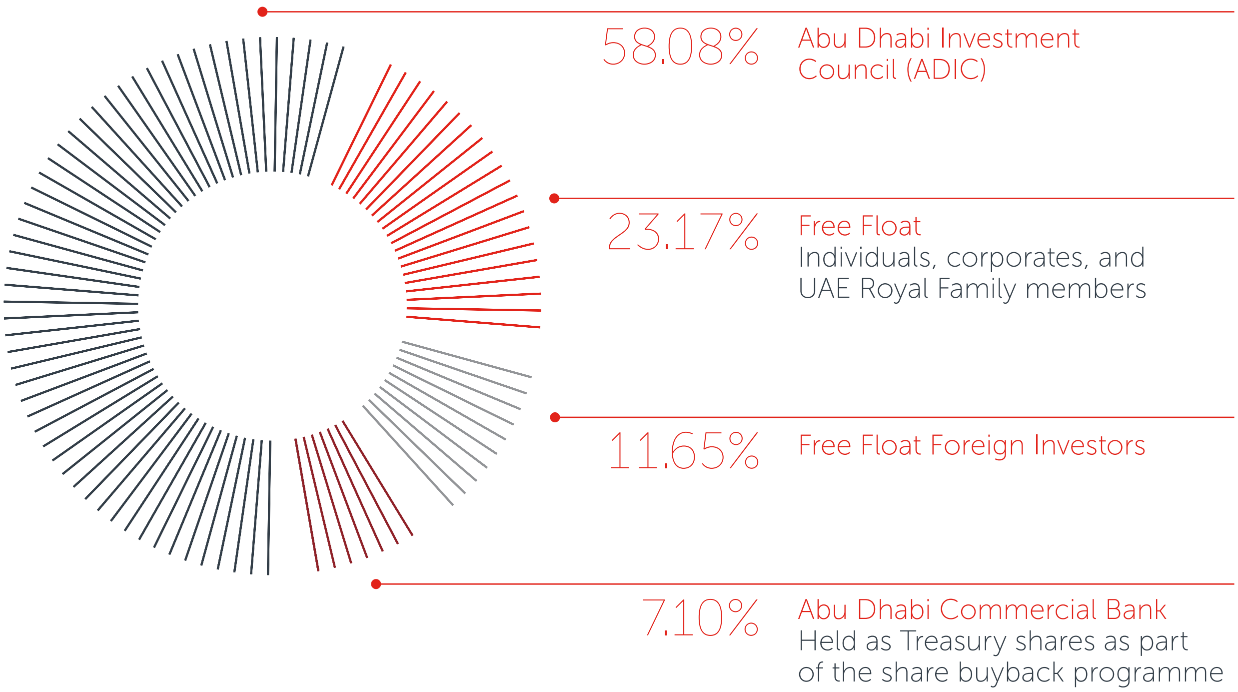
We continue to place greater emphasis on cross-selling opportunities with existing customers. Our strong customer service practices further improved in 2015, and we have made the investments necessary to continue to advance our leading franchise.

## Book Value per Share

(AED)




## Shareholding Structure



## Governance Developments

Throughout 2015, the Board was active and engaged, conducting 51 full Board or Committee meetings. The Board also engaged regularly with management outside of full Board or Committee meetings.

In October, the Board reviewed and confirmed the Bank's strategy. The Board also continued to emphasise the need for prudent risk management and took steps to ensure that remuneration structures are in line with global best practices.

The Bank's aim to excel in corporate governance continued. Our governance philosophy was explored in an in-depth story in the *Hawkamah Journal* in 2015. We are pleased that the Bank now meets or exceeds nearly all of the Basel Committee's Guidelines on corporate governance.

## Looking Forward

Whilst lower oil prices will pose a challenge, the UAE's economy remains robust and diversified. There have been a number of positive recent fiscal developments providing support to the economy, such as the removal of subsidies. Numerous sectors in the UAE economy have a positive economic outlook entering 2016, including airlines, tourism, logistics, hospitality, trade and transportation.

Whilst 2016 is expected to be a more challenging year for financial services globally, the Bank will continue to monitor conditions closely and will take actions as necessary. The Bank remains committed to the Abu Dhabi Economic Vision 2030 and to the long-term economic development of Abu Dhabi and the UAE.

## Extending Our Appreciation

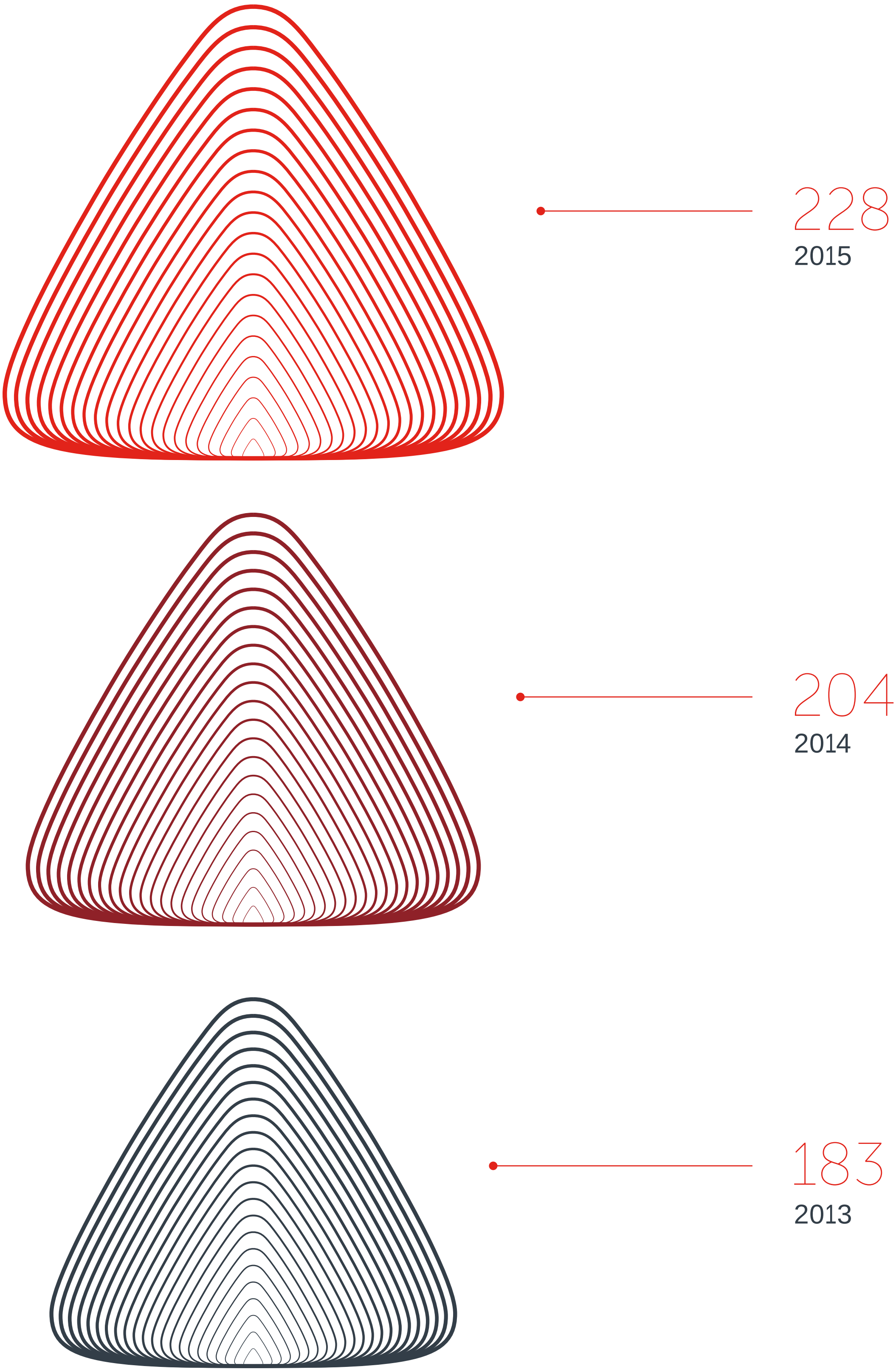
On behalf of the Board and all at ADCB, I extend our most sincere appreciation and gratitude to His Highness Sheikh Khalifa bin Zayed Al Nahyan, the UAE President and Ruler of Abu Dhabi; to His Highness Sheikh Mohammed bin Zayed Al Nahyan, Abu Dhabi Crown Prince and Deputy Supreme Commander of the UAE Armed Forces; to His Highness Sheikh Mansour bin Zayed Al Nahyan, Deputy Prime Minister and Minister of Presidential Affairs; and to the UAE Central Bank for its continued support of ADCB and the future development of the UAE economy.

I also extend the continued gratitude and appreciation of the Board to our shareholders, our valued customers, and the ADCB executive management team and employees for their continued dedication and commitment.

Eissa Mohamed Al Suwaidi
*Chairman*

# Total Assets

(AED bn)



# Group CEO's Message

Ala'a Eraiqat
*Group Chief Executive Officer*
*Member of the Board of Directors*

I am pleased to report that ADCB delivered another year of strong performance in 2015. As in past years, our success was the result of ambition and discipline. Our ambition is to serve our customers' needs and to become the most valuable bank in the UAE. Our discipline mandates that we pursue responsible, sustainable growth and profitability.

Among many noteworthy achievements of the past year, your Bank reported record net profit and revenues, produced healthy loan and deposit growth, maintained a solid capital foundation and worked to further enhance our excellent customer service.

Our ability to produce such accomplishments, in an environment buffeted by lower oil prices and other economic headwinds, reflects our differentiation from other banks. This "ADCB Difference" is supported by a well-defined and well-executed strategy that we have pursued consistently for over five years.



5.434

Operating Profit (AED bn)

## The Difference Is Consistency

Delivering consistent, profitable growth in a range of economic scenarios is clear evidence of the ADCB Difference. Our performance in 2015 was characterised by record-setting growth across many key measures. Total assets reached a record AED 228 bn, increasing 12% from the prior year. Net profit also set a record, rising 17% to AED 4.927 bn, whilst net profit attributable to equity shareholders grew by 22% to AED 4.924 bn. Return on average equity was an industry-leading 20.3% in 2015.

Our 2015 performance continued the steady pace of growth we have enjoyed since launching our current strategic course. Over the past five years, total assets have risen by 24% and operating income by 36%, and provision coverage ratio has improved from 80% in 2011 to 128.5% in 2015. Importantly, total shareholder return over the five-year period was 290%.

290%

5-Year Total Shareholder Return (TSR)

## The Difference Is Focus

ADCB's unwavering commitment to our core UAE market, and to core lines of business that will best serve that market, has long been one of our strategic pillars. The UAE offers economic opportunity on a vast scale, as reflected in our base of over 650,000 retail and over 52,000 corporate customers. Our UAE-centric focus is marked by a dedication to serving the UAE's people and businesses and supporting the long-term health of the UAE economy.

Reflecting our core market focus, 90% of our loan book (gross) and 45% of our investment portfolio were UAE-based at the end of 2015. The dynamic nature of our market helped drive a 9% increase in net loans and a 14% increase in deposits year on year in 2015.

Our mix of core businesses has been carefully tailored to the needs and opportunities of the UAE market. One important way in which we support the UAE's growth, and our own, is by serving small and medium-size enterprises (SMEs) in the UAE. Such businesses are powerful growth engines and give us the opportunity to offer a wide range of financial solutions whilst also broadening our business mix beyond large corporate clients. ADCB's offering to SMEs is delivered by a dedicated team of relationship managers, aided by best-in-class risk management practices and technology, providing us with a true competitive advantage in this segment.

We are also committed to meeting the needs of a broad range of individuals and households. For example, we have expanded our simplylife programme for UAE mass-market customers by opening our first simplylife Sales and Service Centre inside the BurJuman Dubai Metro station. We also launched an extensive ADCB Private Wealth Management product suite in December, and this initiative will be developed further in the coming year.

ADCB's Islamic Banking has continued to provide customers with the freedom to bank in accordance with their values and traditions. It is also an important contributor to our growth, with Islamic financing assets rising 32% and total Islamic deposits up 9% in 2015.

## The Difference Is Service

We strive to provide customers with a superior banking experience. Not only is this effort vital to earning their trust and loyalty, it is also a competitive differentiator and the pathway to sustainable growth and value. To maintain our high standards of service, we use the Net Promoter Score (NPS),[1] which measures our customers' propensity to recommend ADCB to friends and family. I am pleased to report that the Bank's NPS continued to rise throughout 2015. Exceptional customer service is also reinforced with real-time, fast feedback loops and led by a Customer Experience Working Group, which I chair.

To enhance service and convenience, ADCB continually invests in advanced technology. 55% of our retail customer base has registered for online banking, and 29% has registered for our market-leading mobile banking app. In 2015, we became one of the first UAE banks to launch an Apple Watch app. Another innovation was our Purely Business Web portal, a source of information, advice and other resources tailored specifically to SMEs.

The ADCB Difference is reflected not only in the performance of our business, but also in the power of our brand. We are proud that ADCB was recognised as one of the "Top 10 Brands" in the UAE according to

1. NPS is well-recognised as the ultimate measure of customer advocacy. "Net Promoter Score" and "NPS" are trademarks of Satmetrix Systems Inc., Bain & Company, and Fred Reicheld.

the MBLM Brand Intimacy 2015 Report, an independent study by an international branding authority. In this study, which ranked those brands that have done the best job of forming emotional bonds with customers, ADCB was the only local brand in the Top 10, alongside a collection of global names. Also, ADCB was the UAE's #1 "most Googled" local brand in 2015. This strong brand engagement is a tribute to our customer-centric culture and the passion of our team members, who bring our culture to life every day.

## The Difference Is Stability

A strong balance sheet is a vital defence against economic turbulence — and another differentiator for ADCB. We have built a robust capital structure, with a capital adequacy ratio of 19.76% at 2015 year-end. We run a stable and resilient business and remain disciplined in the way we operate, govern and grow our business, and we always look for a better way to build capital for our businesses, improve shareholder returns and offer the best products and services to customers.

We strive to create a sustainable liability base supported by stable, cost-effective customer deposits. Consequently, we have focused on enhancing our franchise and building relatively sticky low-cost current account and savings account (CASA) deposits, which comprised 44% of total customer deposits as at 31 December 2015. The growth in CASA deposits over the past five years has helped to drive down overall cost of funds, providing a strategic advantage for the Bank.

We continually evaluate our risk strategy, appetite and analysis in response to current and anticipated economic conditions, conducting vigorous stress tests, extensive risk reporting and analysis, and digitisation of certain monitoring systems and processes. This is reflected in our improved asset quality, with our cost of risk reported at record low levels.

## The Difference Is People

ADCB's ability to deliver excellent customer service, business performance and long-term shareholder value springs from the talent, energy and motivation of our people. Over 5,000 team members, representing 70 nationalities, share a culture that is entrepreneurial, puts customers first, and values accountability and integrity. We are committed to attracting and retaining the best talent through effective career development and leadership programmes as well as competitive compensation and incentives.

Our investment in human potential is reflected in the Tamooha programme, launched in 2014, which provides career development and a flexible workplace to bring Emirati women into the workforce in a way that is consistent with their beliefs. After extensive training at the Tamooha Centre, participants can work from home, from the Centre or from a combination of both, taking on increasingly challenging and

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diverse tasks. We are proud of the role of Tamooha in providing over 1,400 hours of training and in enabling 140 Emirati women to find meaningful employment, and we look forward to expanding the range of job functions available.

## Delivering the ADCB Difference

Whilst the global economic environment for 2016 is uncertain, the core of the UAE economy remains sound. It is characterised by a robust non-oil sector, strong liquidity and foreign exchange reserves, and ongoing economic diversification.

ADCB possesses an array of strengths that will enable the Bank to weather challenging cycles, as we have in the past. We have a sharp focus on the dynamic and resilient UAE market, a solid customer franchise based on exceptional service, and a strong financial foundation. Most important, we have a proven strategy and a team that is committed to achieving sustainable success.

It is an honour and privilege to be part of ADCB. Our strong performance and exciting potential are the result of the dedication of our Board and employees, the loyalty of our customers and the confidence of our shareholders. We deeply appreciate your support and will strive to continue to earn that support every day.

Going forward, we are confident that the Bank is well-positioned to sustain and strengthen the elements of the ADCB Difference. We will continue to aim higher and to do more to serve our customers, grow our business profitably and build value for our stakeholders. We look forward to reporting on our progress in the coming year.

Ala'a Eraiqat
*Group Chief Executive Officer*
*Member of the Board of Directors*

# Group CFO's Message

Deepak Khullar
*Group Chief Financial Officer*

8.260

Total Operating Income (AED bn)

0.29%

Cost of Risk

In 2015, ADCB continued to focus on the strategic drivers of measured and sustainable growth, whilst also making course corrections for the changing economy. We remained steadfastly UAE-focused and customer-centric, managed our balance sheet for liquidity in a difficult environment, contained expenses whilst making prudent investments for growth, and maintained a sharp eye on asset quality and risk management. As a result, we made significant financial progress throughout our business and delivered another year of consistent performance and record earnings.

Amongst the highlights of 2015, net profit increased 17% to AED 4.927 bn, whilst net profit attributable to equity shareholders was up 22% to AED 4.924 bn. Return on average equity grew from 18.1% in 2014 to 20.3% in 2015, and return on average assets for 2015 was 2.22% compared to 2.00% in 2014.

## Maintaining Our Strategy — Consistency and Agility

Over the years we have been very disciplined in our approach to growth, including resisting calls to grow more quickly. This responsible approach, a strong franchise and stable financial footing have left us well-positioned for the current economic slowdown following the decline in oil prices.

Today we continue to pursue opportunities for growth with a prudent risk-reward balance, emphasising liquidity before profitability, whilst also prioritising loans of high credit quality that can be written at acceptable margins.

We have consistently delivered good financial results whilst maintaining our margins, despite ubiquitous challenges in the global financial markets. Going forward, we will stay committed to our clients and customers in our core geography and core businesses. This is a reflection of our agility in adapting to the changing macro and regulatory environments whilst also maintaining a solid strategic framework focused on sustainable growth.

## Measured and Sustainable Growth

We manage our balance sheet conservatively, and our loans and advances are diversified across all economic sectors to minimise risk. One of the ways we have achieved responsible, sustainable growth is through granular lending to consumers and to small and medium-size enterprises, which play an important role in the diversification and growth of the UAE economy. We believe our proven discipline in this market will continue to provide us with opportunities to grow our market share.

Our Ratings

A/A-1/
Stable

S&P

A+/F1/
Stable

Fitch

AAA/P1/
Stable

RAM

As a result of our lending practices, our net fees and commission income grew 16% year on year, and total non-interest income was up 6% over 2014. Our loan book (net) increased 9% over 2014, helping us to maintain our margins as we saw growth in higher-yielding loans supplemented with improved recoveries and lower impairment charges.

The credit quality of our loan book remains strong, with our year-end non-performing loan and provision coverage ratios at 3.0% and 128.5%, respectively. We remain selective about the sectors to which we lend and remain prudent about our provisioning.

Therefore, we will continue to focus on granular growth opportunities to build our balance sheet and on diversifying our revenue stream by placing increased emphasis on non-interest income generation.

## Continued Emphasis on Liquidity

We continue to place a high priority on maintaining adequate liquidity, as we have for quite some time. Our balanced mix of long-term and short-term liabilities provides a stable funding base. Total customer deposits increased 14%, with current account and savings account (CASA) deposits accounting for 44% of total deposits as at 31 December 2015. Wholesale funding accounted for 20% (including euro commercial paper) of our total liabilities in 2015, providing a stable, long-term and reliable source of funding. The Bank was a net lender of AED 22 bn in the interbank markets, and our investment portfolio totalled AED 21 bn as at 31 December 2015, providing a further source of liquidity for the Bank.

It is important to note that the Basel III reforms have strengthened Liquidity Coverage Ratio (LCR) requirements for the banking industry overall. The new liquidity regulations will result in improved liquidity management for banks and will help the industry become stronger and safer, but they will also require more funds to be deployed in high quality liquid assets (HQLAs), which may have an impact on margins going forward. Our HQLAs include cash, Central Bank certificates, qualified reserves with the Central Bank and investment grade bonds, which represented 15.4% of total assets at year-end. ADCB is well-prepared to adapt to the changing global landscape and to comply with these new regulatory requirements.

## Capital Ratios and Credit Ratings

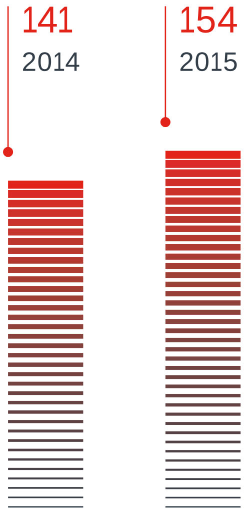
We increased our revenues whilst also building a strong capital base. The Bank's capital ratios continue to rank amongst those of industry leaders. Our capital adequacy ratio was 19.76%, and our Tier 1 ratio was 16.29%, at the end of 2015.

It is noteworthy that, even after maintaining strong capital and liquidity ratios, we were able to increase our return on equity and our dividends. In addition, our credit ratings from Standard & Poor's, Fitch and RAM remain strong at A, A+ and AAA, respectively.

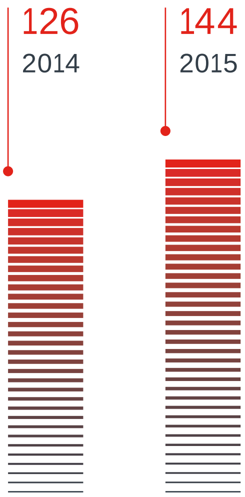
بنك أبوظبي التجاري
ADCB

## Net Loan and Customer Deposit Growth (AED bn)

Net Loans




Customer Deposits




## Cost Control Discipline

In 2015, our cost to income ratio was 34.2%, which was within our target range and stable over 2014. The increase in staff costs in 2015 primarily reflected increases in the personnel needed to support our more granular approach to growth and to maintain our superior level of service.

At the same time, we have digitised many systems and processes to expand business opportunities with customers whilst also providing a better and more comprehensive banking experience. Today, more than 90% of our retail financial transactions are done electronically, enabling us to better serve customers whilst moderating costs. Our differentiation comes down to disciplined execution and customer-centricity. As a result, we are able to source new business more efficiently and profitably.

ADCB is ready to meet today's ongoing challenges and welcomes the opportunities at hand. We approach 2016 with optimism, tempered by caution and discipline. We look forward to building on our proven business model, expanding our relationships with current and new customers, and maintaining our conservative approach towards liquidity, capital, expense and risk management.

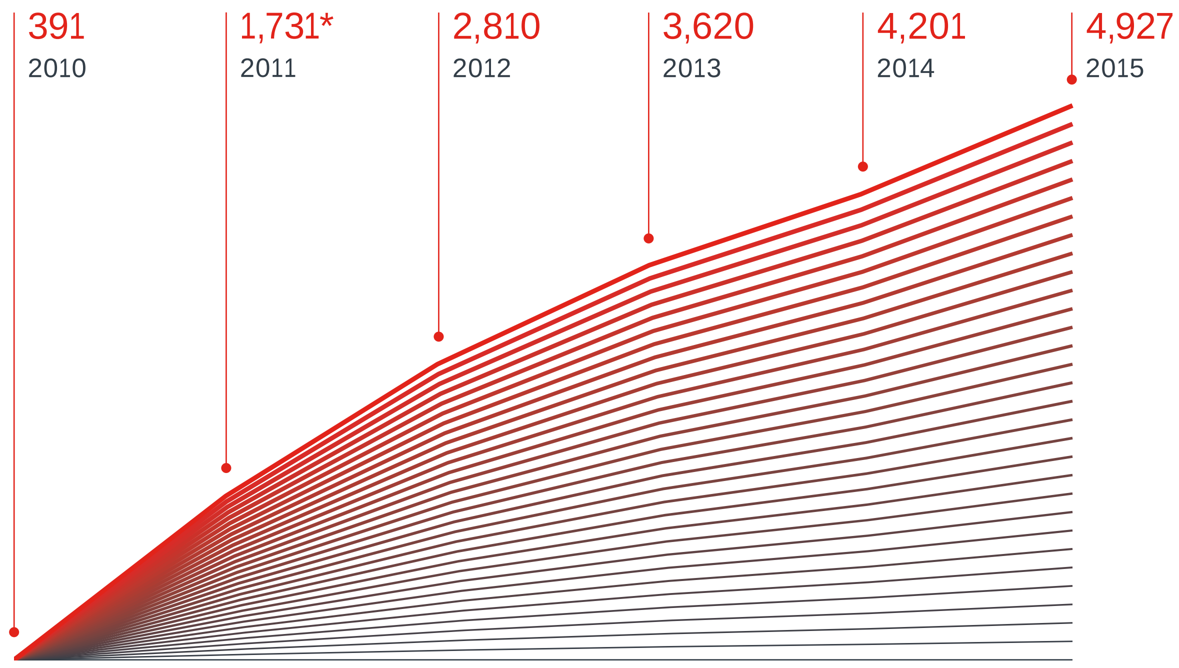
Deepak Khullar
*Group Chief Financial Officer*

# Financial Highlights

## Net Profit (AED mn)

17%

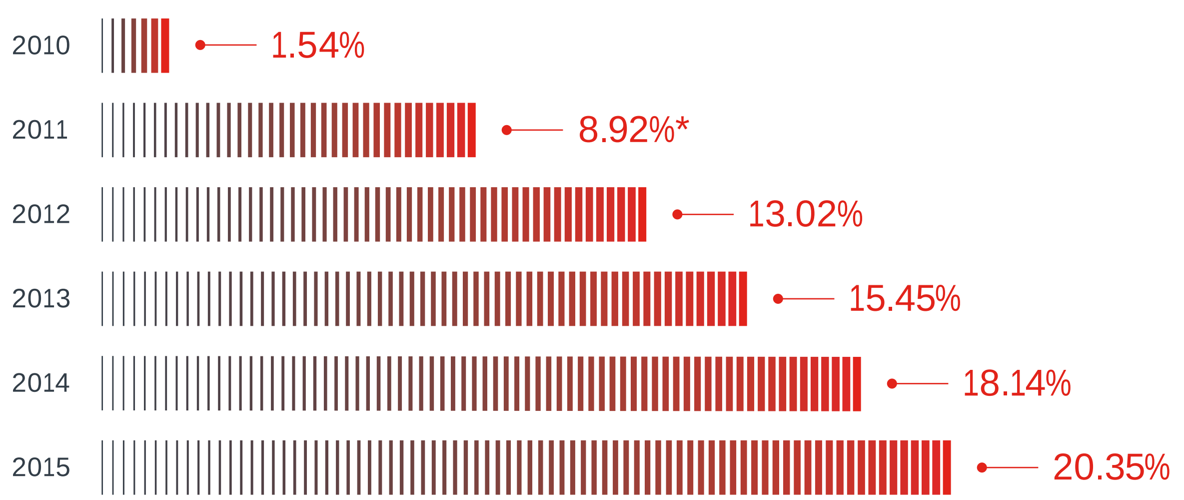
increase in the past year




## Return on Average Equity

20.35%

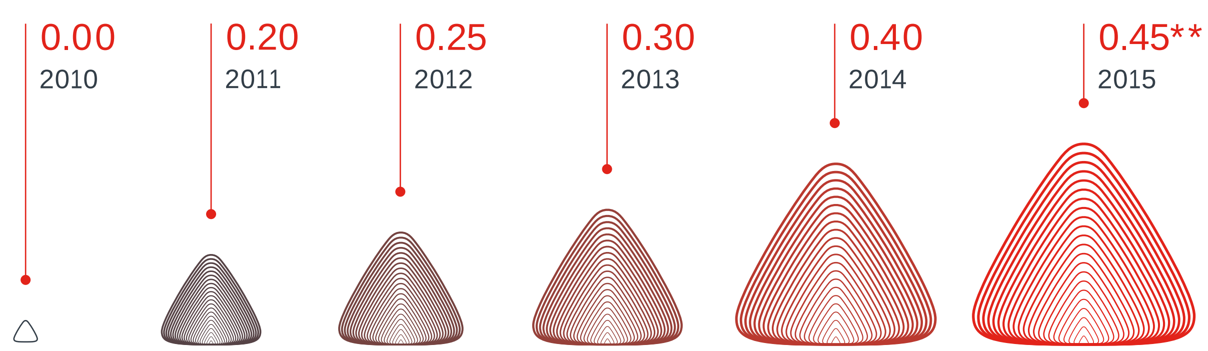
in 2015




## Dividends per Share (AED)

AED 0.45

in 2015



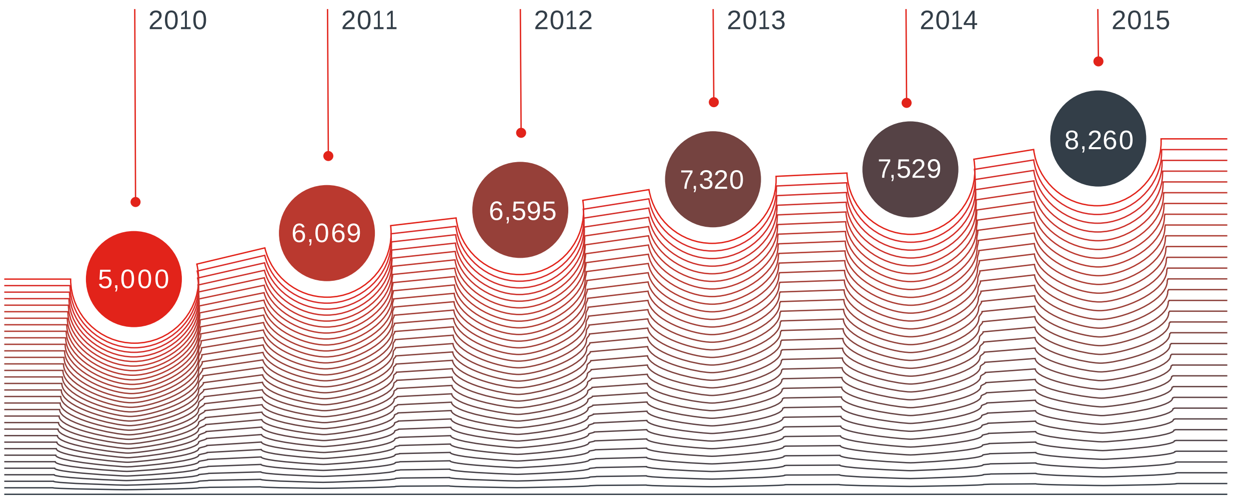

*Normalised to reflect sale of investment in associate

**Subject to approval by the shareholders at the Annual General Meeting

## Total Operating Income (AED mn)

10%

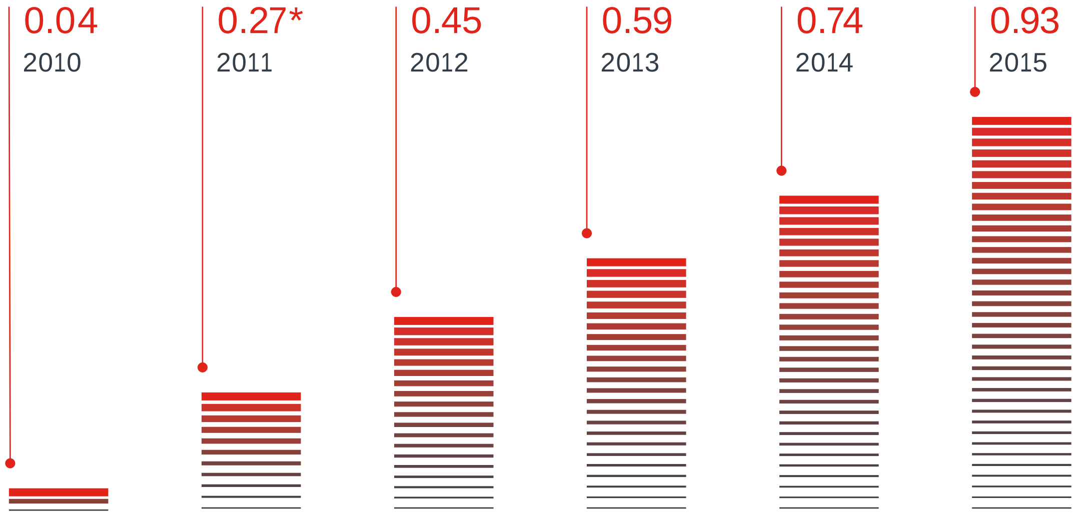
increase in the past year




## Basic Earnings per Share (AED)

26%

increase in the past year

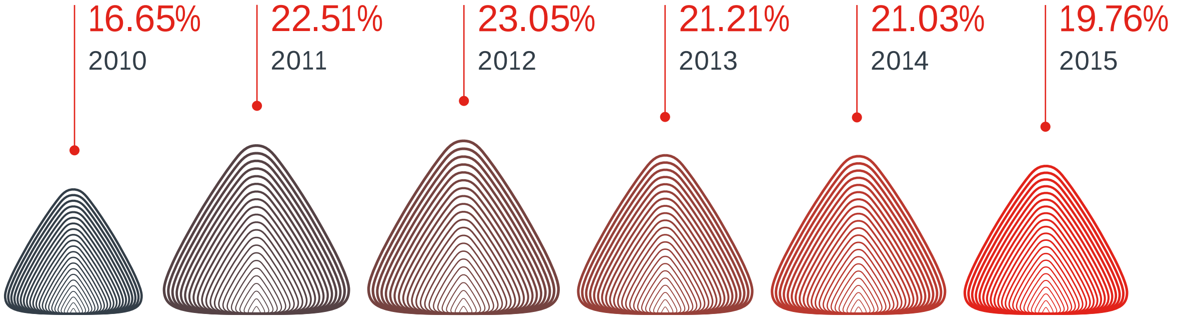





## Capital Adequacy Ratio

19.76%

in 2015



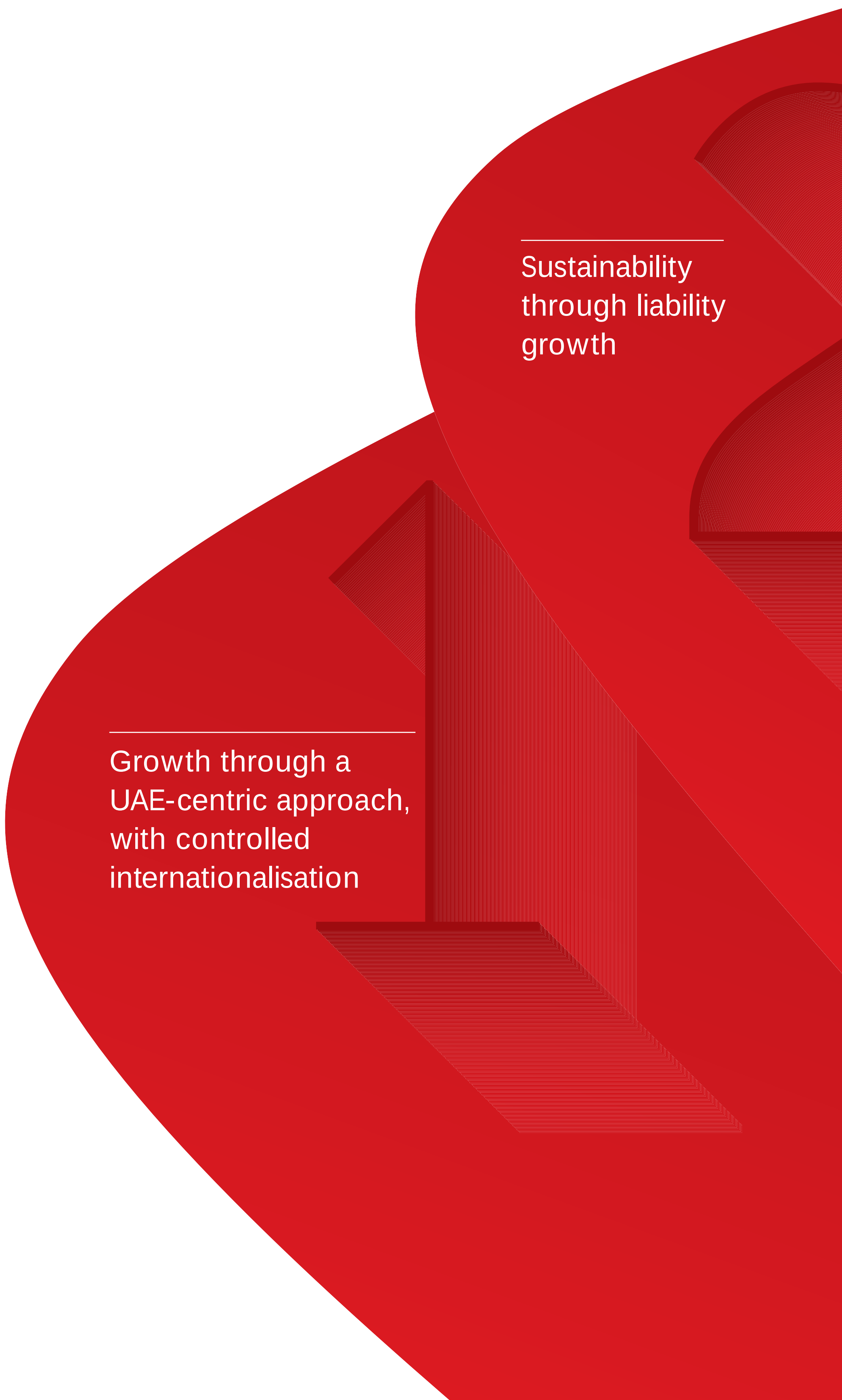

*Normalised to reflect sale of investment in associate

# The Difference Is...
# Focus

ADCB's strong results come from a well-defined, well-executed strategy. Our 2015 performance, in a challenging economic environment, reflects our consistent pursuit of sound, proven strategies. The result was a year of noteworthy progress. We delivered significant growth and rising profitability; expanded our portfolio of products and services; and honoured our commitments to consumers, businesses, shareholders, employees and the communities we serve.

Our strategy is aimed at achieving an ambitious goal: to create the most valuable bank in the UAE. Realising that ambition requires a sustained, rigorous commitment to providing exceptional customer service, a sound business model focused on delivering profitable growth balanced by sound risk management, superior long-term returns for shareholders, and an excellent workplace environment for employees. These attributes differentiate ADCB from other financial institutions and enable us to deliver enduring value for all our stakeholders.

Our well-defined and consistently executed strategic platform, adopted in 2009, is supported by five strong pillars:



Maintain a culture of service excellence and efficiency

Manage our risk in line with a predefined risk strategy

Success through staff

UAE-CENTRIC

# 01

## The Difference Is a UAE-Centric Approach

ADCB's sharp focus on serving the UAE — a dynamic, growing market of significant business potential — is one of our major differentiating strengths. Our vision is to build the biggest retail bank in the UAE, and the largest wholesale franchise in our chosen business segments, by maintaining and consolidating our business in the UAE.

Our UAE-centric focus has given ADCB a strong domestic franchise and extensive, high-quality brand recognition, with 49 branches in the UAE. Today, we serve a growing customer base of more than 650,000 retail customers and over 52,000 corporate clients. ADCB is also committed to investing in the UAE's long-term social and economic infrastructure, in line with the UAE Vision 2021 and the Abu Dhabi Economic Vision 2030.

The strengths of our Consumer and Wholesale Banking franchises form the foundation of our solid position in the UAE. We focus on serving the financial needs of UAE households, businesses and communities in a disciplined manner and with the highest standards of integrity. As at 31 December 2015, 90% of our loan book (gross) and 45% of our investment portfolio was in the UAE.

We have a highly selective presence outside the UAE, primarily to expand the financial solutions available to our UAE customers. In addition to two branches in India and one in Jersey, we recently opened representative offices, one in London and one in Singapore, that allow us to capitalise on global economic trade and investment flows. We also have strategic partnerships in place with Bank of America Merrill Lynch and Banco Santander to provide a global network for our clients.

GROWTH THROUGH A UAE-CENTRIC APPROACH, WITH CONTROLLED INTERNATIONALISATION


90% of gross loans are within the UAE

10% of gross loans are outside of the UAE

SUSTAINABLE GROWTH

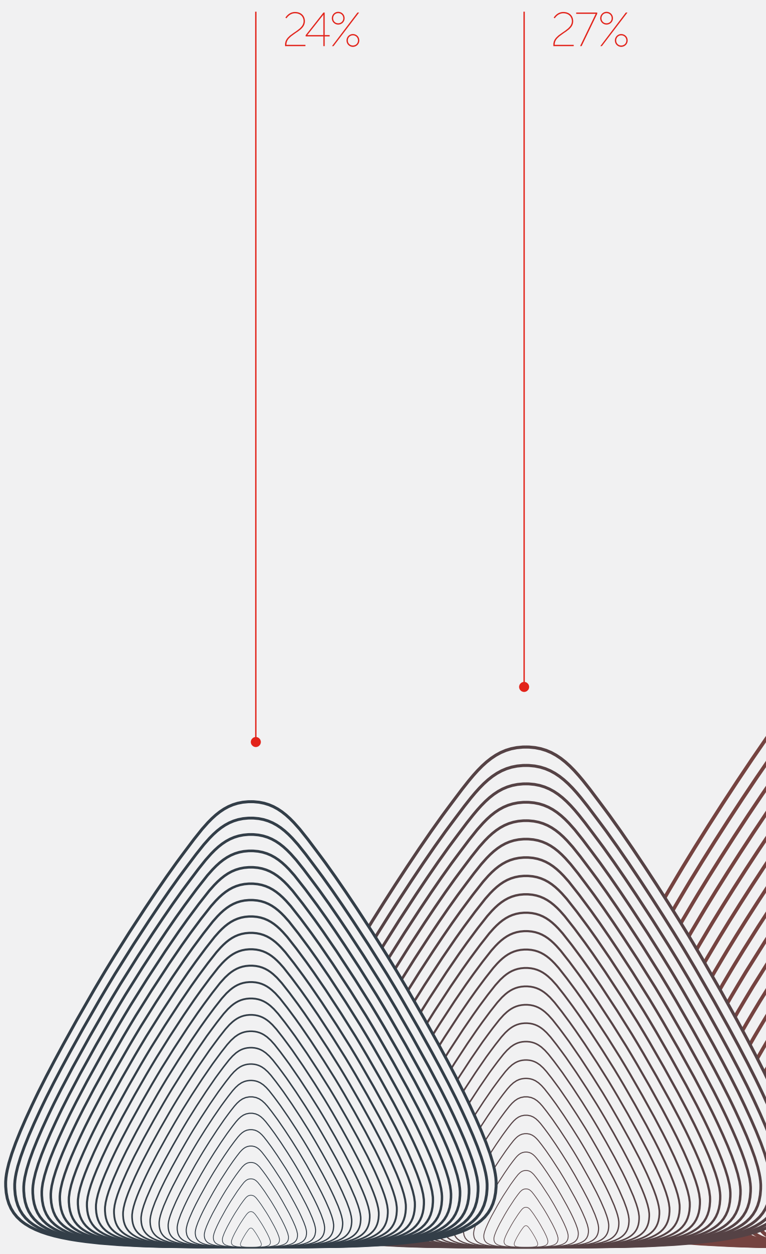
# 02

## The Difference Is Sustainability through Liability Growth

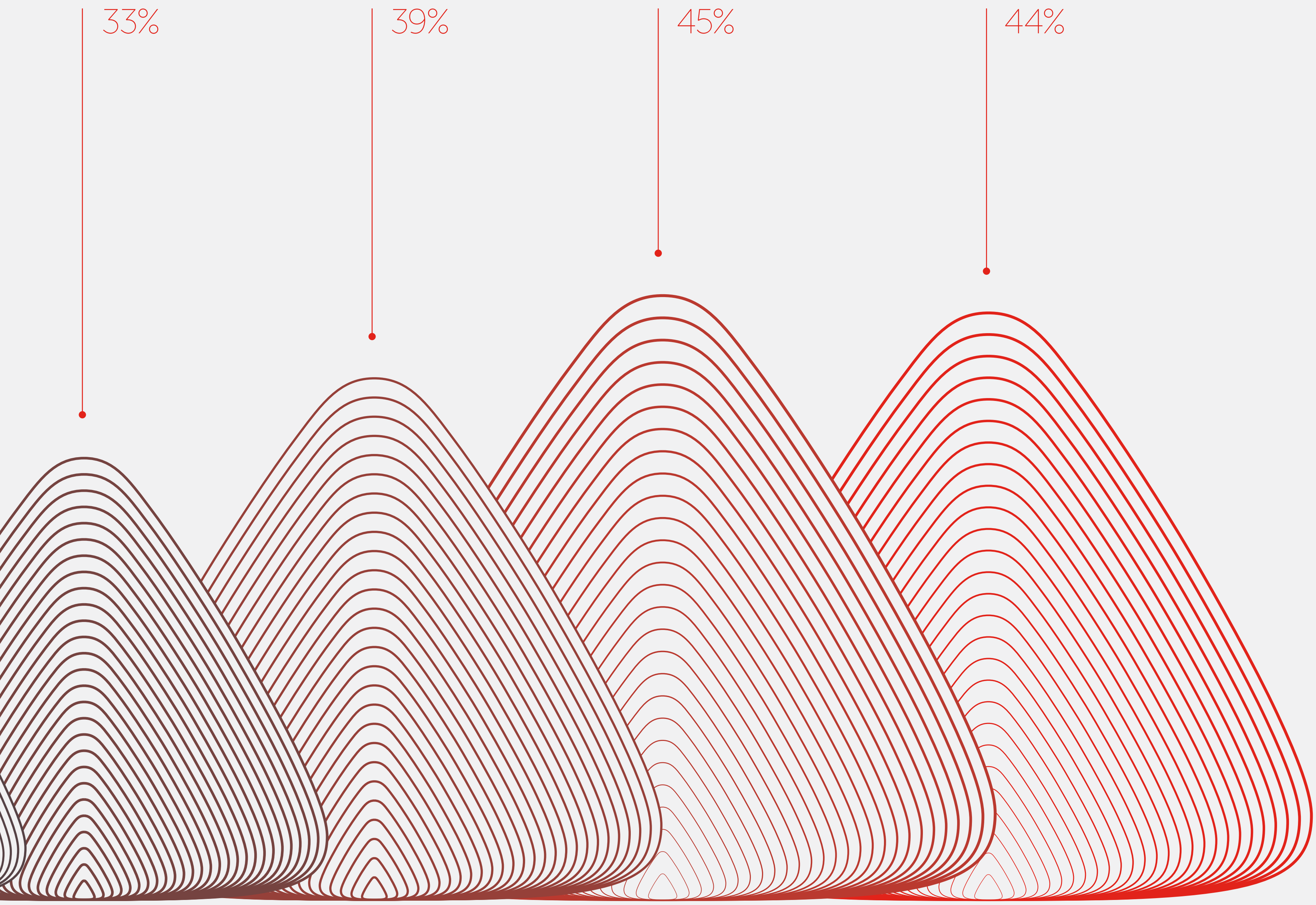
ADCB's liability structure continues to deliver sustainable profitability and growth. Our customer deposits increased 14% in 2015 and comprised 72% of total liabilities as at 31 December 2015.

Our balance sheet strength benefits significantly from current account and savings account (CASA) deposits. Our award-winning and world-class cash management services help clients make their businesses more efficient and automated, reducing administration and risk. These services also deliver CASA balances for ADCB — a strategic advantage over fixed deposits, as CASA deposits provide stable, low-yield/low-cost customer deposits that help to hold down our overall cost of funds.

CASA deposits were 44% of total customer deposits at year-end 2015. ADCB's cost of funds for 2015 was 0.92% compared to 2.64% in 2010. The increase in CASA deposits also resulted in a meaningful improvement of the Bank's loan to deposit ratio, from 115.7% in 2010 to 107.1% in 2015.



CURRENT ACCOUNT AND SAVINGS ACCOUNT (CASA) DEPOSITS
AS A PERCENTAGE OF TOTAL CUSTOMER DEPOSITS



CUSTOMER-CENTRIC

# 03

## The Difference Is a Culture of Service Excellence and Efficiency

ADCB's customer-centric approach is embodied by a culture that places the needs of customers first, setting world-class professional standards. We believe that helping our customers succeed financially is the key to our own success. As such, we continually work to enhance relationships, build loyalty and earn trust.

Customer satisfaction is measured and guided by our use of the Net Promoter Score (NPS). NPS measures the propensity of customers to recommend a business to their friends and associates, and as such is well-recognised as a meaningful measure of customer advocacy. We employ NPS as a single currency throughout the Bank. Every member of our staff has at least 30% of his or her annual performance objectives tied to delivering a superior customer experience. We are extremely proud that ADCB's NPS scores continued to rise throughout 2015.

Our commitment to customer satisfaction is maintained and enhanced by our Customer Experience Working Group, chaired by our CEO, and championed every day across our organisation by the people of ADCB. In addition, throughout the Bank we have created a customer-first culture by following the Bank's 'Our Promise' guidelines, a set of principles and commitments embraced by all employees when dealing with customers.

We continue to enhance our customer-centric culture by continuing to invest in technology and simplifying our businesses. In 2015, we have digitised many processes to provide a better banking experience for our customers, whilst delivering best-in-class service.

## TOWARDS SERVICE EXCELLENCE

**#1**
We retained the #1 position among our peers across our Wholesale, Mid Corporate, Treasury and Private accounts segments.*

**1,474**
Staff trained in service

**1,994**
Service recoveries following feedback from a fast feedback loop

**20,600**
Staff provided feedback on internal service providers

**60,800**
Customers spoken to for feedback

**5,619**
Staff trained on service standards and Our Promise

**4,601**
Mystery shopping surveys

**130**
Studies undertaken on the voice of the customer

**10**
Processes fully re-engineered

**29**
Customer focus groups undertaken

**24**
Live fast feedback loop

**22**
Service quality forums and customer experience working groups



*Source: 2015 survey conducted by independent third-party research agencies for ADCB customers

RISK-AWARE

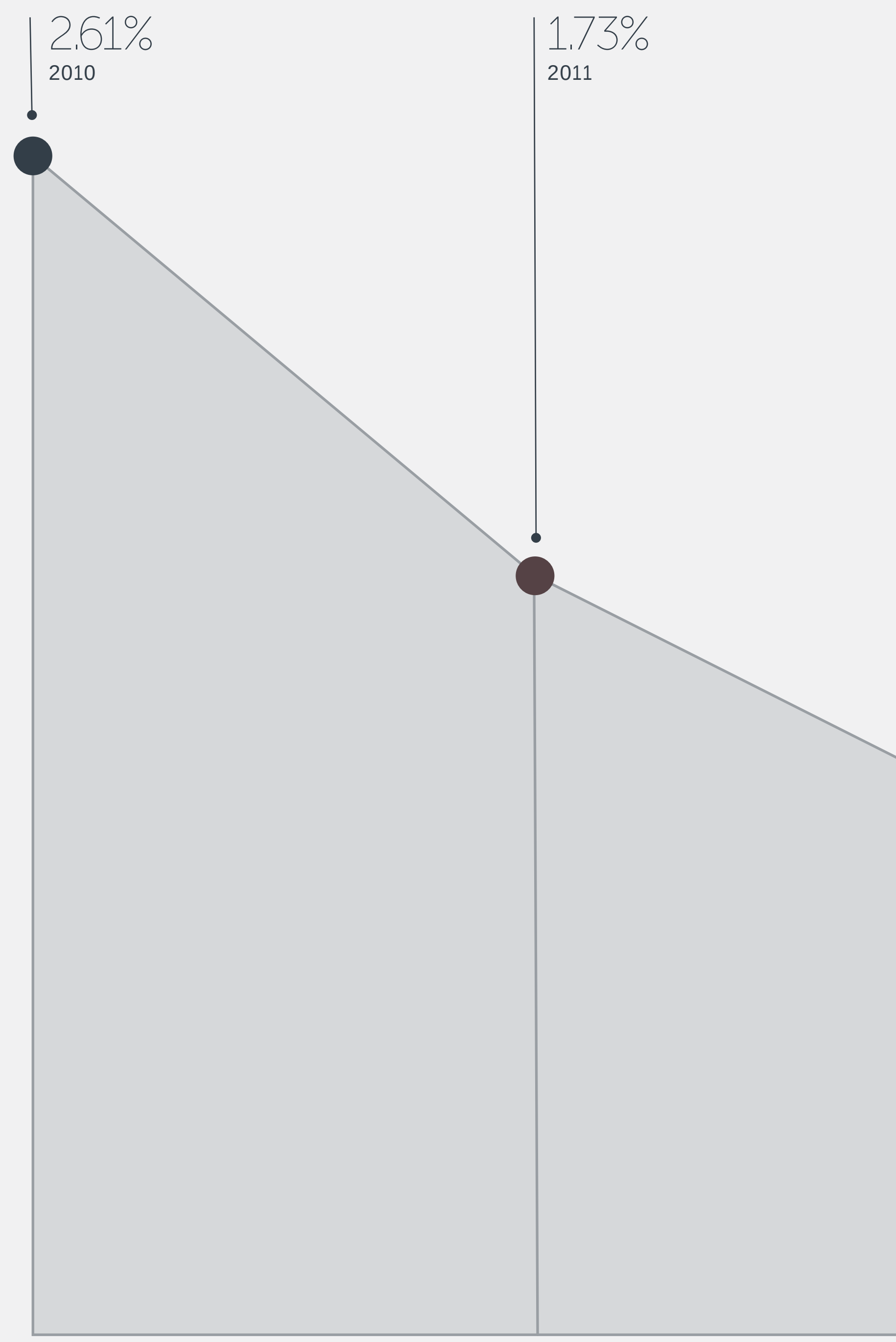
# 04

## The Difference Is Predefined Risk Strategy

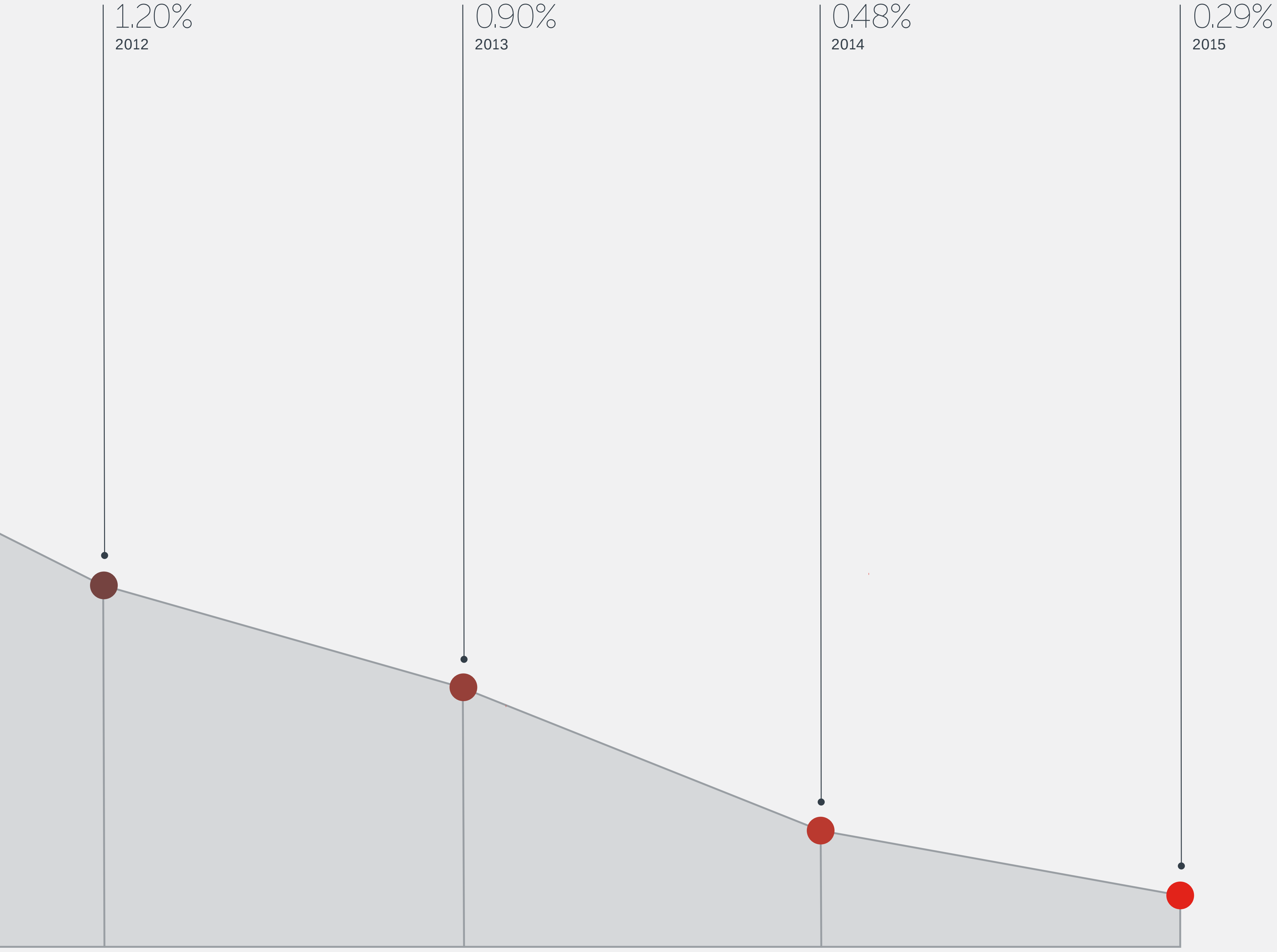
Robust risk management protocols are vital to preserving and protecting ADCB's long-term financial strength and growth potential. The foundation of these protocols is built upon a rigorous control framework, disciplined risk practices and a strong risk management culture that guides each and every employee. Our Risk Management team strengthened over the past few years, comprising professionals with extensive international and regional experience. We continue to improve our Risk Management function, corporate governance and transparency through regular reviews of our risk policies and procedures. Our risk appetite is always in alignment with our overall strategy to maintain the quality of our portfolio and our long-term growth prospects. As a result, our cost of risk improved significantly, from 2.61% in 2010 to 0.29% in 2015.

We actively monitor and assess macroeconomic conditions and realign policies and practices to ensure our portfolio remains robust. We continue to enhance our risk management capabilities through upgraded risk management systems; expanded portfolio exposure reporting and analysis techniques; standardised stress tests; and assessments of ratings migration.

We are committed to maintaining a disciplined risk profile. Our effectiveness and efficiency are reflected in, amongst other things, three key elements: (i) a conservative balance sheet; (ii) a clear risk governance structure and strong risk management culture; and (iii) a strong capital and liquidity position.



## COST OF RISK



TALENT-DRIVEN

# 05

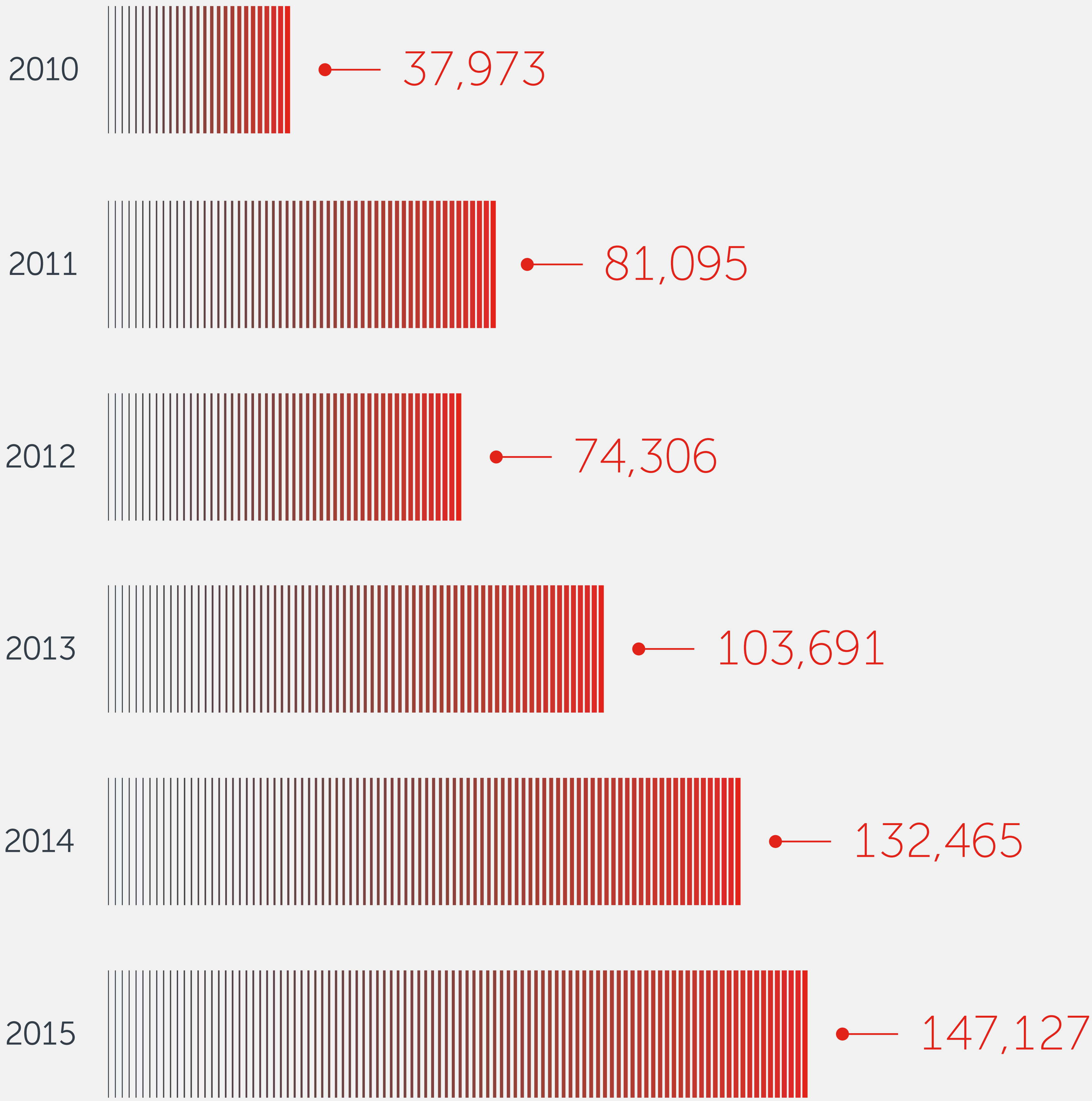
## The Difference Is Success through Staff

ADCB recognises the contribution of its staff members to its long-term profitability and success. Outstanding service and financial performance can best be attained and maintained through a highly talented and motivated workforce. Thus, building an engaged, healthy and inclusive workforce is crucial for the successful realisation of our strategic aspirations. Our strategy for enhancing the Bank's "human capital" is to inspire employees to develop continuously and to make their own unique contribution to ADCB's continued success.

Our focus, to build partnerships with customers that last a lifetime, is entirely dependent upon the talent and service of our people. To retain key staff members, we periodically review their compensation and incentives and reward them in accordance with their performance. ADCB also remains focused on attracting talent to key new roles within the organisation through a competitive compensation structure, investment in our people and a commitment to building meaningful career paths for staff.

The success of our efforts can be seen in our best-in-class retention rate amongst our peers. Our professional development, function-specific training academies and career advancement opportunities work together to promote individual growth and institutional excellence.

TRAINING HOURS



## Measuring Against Strategy

We rigorously measure the progress of our strategy to create the most valuable bank in the UAE through a range of performance measures, including those below.

| STRATEGIC AIM | HOW WE MEASURE OUR STRATEGIC KPIs | OUR 2015 PERFORMANCE |
|---|---|---|
| Most valuable bank in the UAE | **Total Shareholder Return (TSR)**<br>Calculated as the growth in share price plus dividends paid to shareholders during the year. TSR is recognised as one of the best measures of achieving a good investment return. | 6%<br>Total Shareholder Return |
| Most profitable | **Return on Average Equity (ROAE)**<br>Calculated as the profit attributable to equity shareholders as a percentage of average shareholders' equity.<br><br>To increase ROAE, we focus on growing our business where risk-adjusted returns are maximised and capital is efficiently deployed. | 20.3%<br>Return on Average Equity |
| Most resilient | **Basic Earnings per Share (EPS)**<br>Calculated as profit attributable to equity shareholders of the Bank as divided by the weighted average of the equity shares in issue during the year. | AED 0.93<br>Basic Earnings per Share |
| Most efficient | **Cost to Income Ratio**<br>Calculated by dividing operating expenses by operating income. We made important changes to our core processes and introduced specialist management techniques to do more with less, and thus became more efficient whilst still investing in our businesses. | 34.2%<br>Cost to Income Ratio |
| Best customer service | **Net Promoter Score (NPS)**<br>NPS is based on customers' likelihood to recommend ADCB to a friend or colleague.<br><br>NPS is calculated as the percentage of customers who are promoters, rating the Bank a 9 or 10 on a 0-to-10 point scale, minus the percentage who are detractors, rating it a 6 or lower. | Retained No. 1 position among our peers across our Wholesale, Mid-corporate, Treasury and Private account segments |

## The Difference Is Vision for the Future

ADCB's well-defined strategic framework and solid financial foundation have created a clear path towards our ambition and empowered us to deliver consistently strong performance in a rapidly changing business environment. Our strategic pillars have been in place since 2009 and are continually refined to ensure that they remain relevant and effective in a dynamic global financial marketplace. The effectiveness of our strategy is closely monitored by the Board of Directors using a range of performance measures and key financial gauges.

As we look ahead, we remain focused on creating the most valuable bank in the UAE by continuing to build our retail operations, growing our wholesale franchise in select segments, maintaining our emphasis on shareholder value, pursuing a disciplined risk management approach, and delivering a customer experience that is second to none.

### Our ambition

To create the most valuable bank in the UAE

### Our strategy

1 Growth through a UAE-centric approach with controlled internationalisation

2 Sustainability through liability growth

3 Maintain a culture of service excellence and efficiency

4 Manage our risk in line with a predefined risk strategy

5 Success through staff

The Difference Is...

# Sustainable Growth

ADCB delivered a year of record financial results in 2015. The consistent application of our strategies, as well as significant contributions by each of the Bank's businesses, enabled ADCB to achieve profitable growth and maintain a prudent risk-reward balance, despite an environment characterised by increasingly challenging economic headwinds.

Amongst the highlights of our 2015 performance, net profit was a record AED 4,927 mn, rising 17% from the prior year. Net profit attributable to equity shareholders increased 22% from a year ago to AED 4,924 mn. Basic earnings per share for 2015 were AED 0.93, growing 26% from 2014. The primary factors resulting in this strong performance were: record operating income, driven by increases in net interest and Islamic financing income and non-interest income; well-controlled operating expenses, which were stable as a percentage of income; and lower net impairment allowances, reflecting continued improvement in asset quality.

Total assets increased 12% over 2014, to AED 228 bn at 31 December 2015. ADCB's sustained growth is reflected in the 9% increase in net loans and advances, with both Wholesale Banking and Consumer Banking contributing to the increase, whilst total customer deposits were up 14% over the prior year.

12%
increase in
ROAE over 2014

14%
increase in customer
deposits over 2014

9%
increase in net
loans over 2014

10%
increase in total
operating income
over 2014

17%
increase in net profit
over 2014

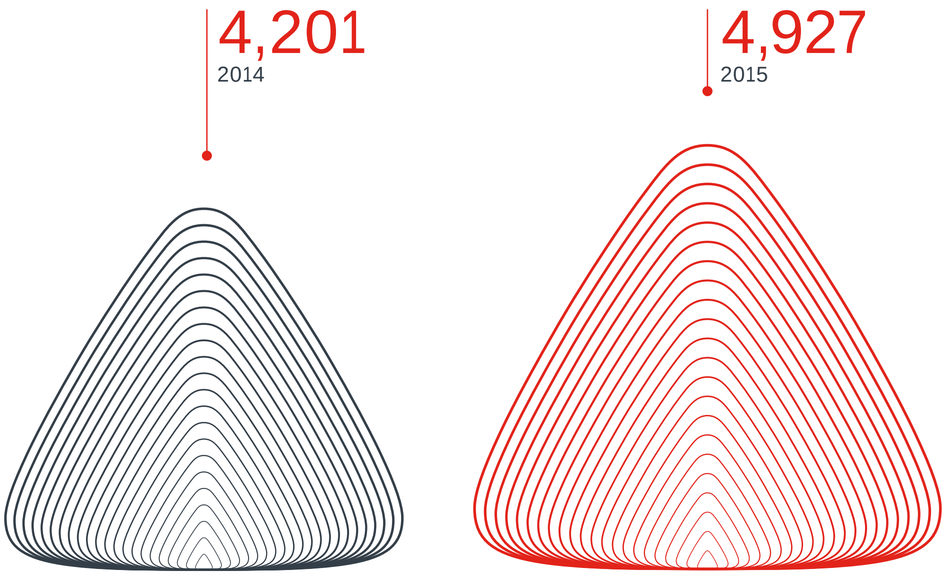
| Income statement highlights (AED mn) | Year-on-year trend | | | Quarterly trend | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Change % | | | | Q4'15 Change % | |
| | 2015 | 2014 | YoY | Q4'15 | Q3'15 | Q4'14 | QoQ | YoY |
| Total net interest and Islamic financing income | 6,206 | 5,585 | 11 | 1,476 | 1,545 | 1,392 | (4) | 6 |
| Non-interest income | 2,055 | 1,945 | 6 | 539 | 466 | 493 | 16 | 9 |
| Operating income | 8,260 | 7,529 | 10 | 2,016 | 2,011 | 1,885 | 0 | 7 |
| Operating expenses | (2,827) | (2,563) | 10 | (715) | (740) | (709) | (3) | 1 |
| Operating profit before impairment allowances | 5,434 | 4,966 | 9 | 1,301 | 1,271 | 1,176 | 2 | 11 |
| Net impairment allowances | (502) | (762) | (34) | (110) | (66) | (154) | 67 | (28) |
| Overseas income tax expense | (6) | (3) | 100 | (1) | (1) | 1 | NA | NA |
| **Net profit for the period** | 4,927 | 4,201 | 17 | 1,191 | 1,204 | 1,023 | (1) | 16 |
| **Net profit attributable to equity shareholders** | 4,924 | 4,050 | 22 | 1,190 | 1,203 | 1,022 | (1) | 16 |

| Balance sheet highlights (AED mn) | 2015 | 2014 | Change % | Dec'15 | Sep'15 | Dec'14 | Change % QoQ | Change % YoY |
|---|---|---|---|---|---|---|---|---|
| Total assets | 228,267 | 204,019 | 12 | 228,267 | 215,329 | 204,019 | 6 | 12 |
| Net loans and advances | 153,677 | 140,562 | 9 | 153,677 | 150,653 | 140,562 | 2 | 9 |
| Deposits from customers | 143,526 | 126,011 | 14 | 143,526 | 130,009 | 126,011 | 10 | 14 |

| Ratios (%) | 2015 | 2014 | bps | Dec'15 | Sep'15 | Dec'14 | bps | bps |
|---|---|---|---|---|---|---|---|---|
| CAR (capital adequacy ratio) | 19.76 | 21.03 | (127) | 19.76 | 19.68 | 21.03 | 8 | (127) |
| Tier 1 ratio | 16.29 | 17.01 | (72) | 16.29 | 16.14 | 17.01 | 15 | (72) |
| Advances to stable resources | 88.2 | 88.5 | (30) | 88.2 | 92.9 | 88.5 | (470) | (30) |

Figures may not add up due to rounding differences.

## Net Profit (AED mn)



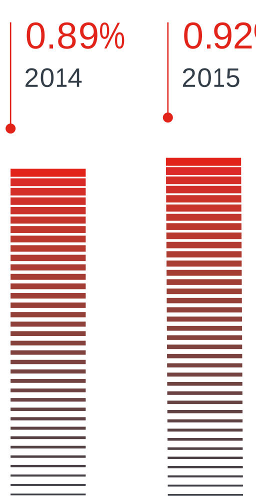

17%

Increase in the past year

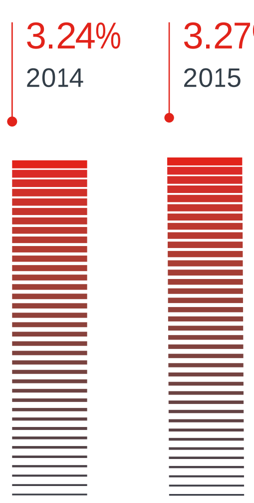
### RECORD LEVEL OF NET PROFIT DESPITE A CHALLENGING BUSINESS ENVIRONMENT

- The Bank reported a record net profit of AED 4,927 mn compared to AED 4,201 mn in 2014, an increase of 17% year on year. Net profit attributable to equity shareholders was AED 4,924 mn, an increase of 22% over 2014.
- Basic earnings per share were AED 0.93 compared to AED 0.74 in 2014, an increase of 26% year on year.
- Despite maintaining a high level of capital and a higher equity base, the Bank delivered a strong return on average equity (ROAE) of 20.3% compared to 18.1% in 2014.
- Return on average asset (ROAA) for 2015 was 2.22% compared to 2.00% in 2014.
- Operating income in 2015 reached a record AED 8,260 mn, an increase of 10% year on year. Total net interest and Islamic financing income for 2015 was

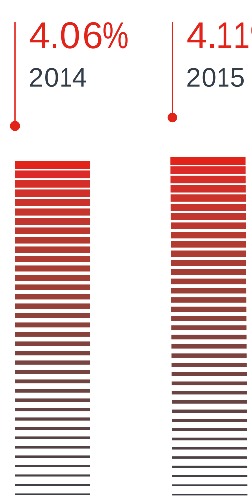
## Cost of Funds (%)



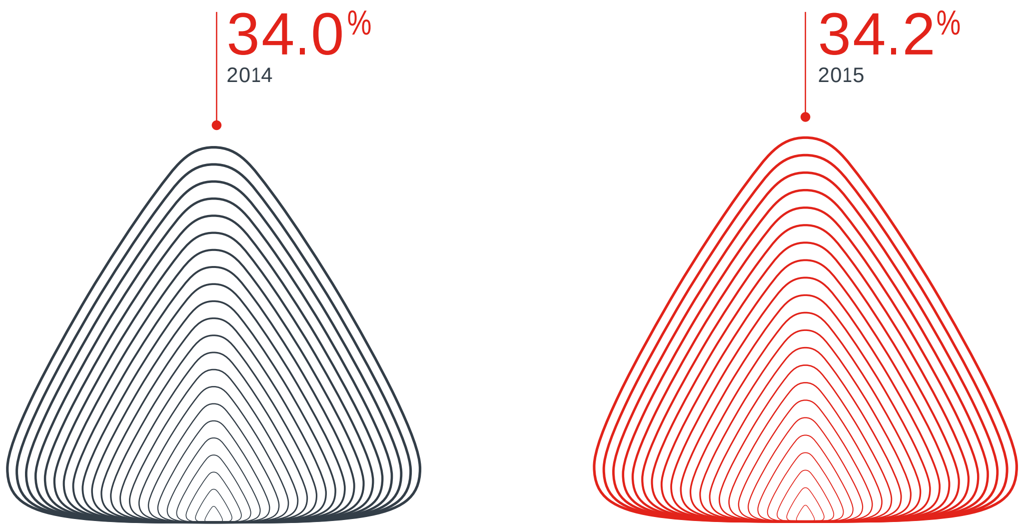

## Net Interest Margin (%)




## Asset Yield (%)



## Cost to Income Ratio (%)




AED 6,206 mn, up 11% over the prior year. This was mainly on account of increased volumes and a shift in our asset mix towards higher yielding interest earning assets combined with improved recoveries and higher interest in suspense reversals. As a result, the Bank was able to improve its margins in 2015 to 3.27% from 3.24% in 2014. Interest expense for 2015 was AED 1,591 mn, increased 14% over 2014 due to an increase in liabilities volume. Cost of funds increased slightly from 0.89% in 2014 to 0.92% in 2015, primarily on account of higher EIBOR/LIBOR and higher spreads on time deposits gathered in the fourth quarter of 2015. The increase in customer deposits resulted in an improvement of the Bank's loan to deposit ratio from 111.5% in 2014 to 107.1% in 2015, whilst the Bank's current account and savings account (CASA) deposits remained stable year on year comprising 44% of total customer deposits as at 31 December 2015.

- Non-interest income for 2015 was AED 2,055 mn, up 6% year on year, mainly on account of higher fees and commission income, which was offset by lower trading income. Net fees and commission income grew 16% year on year to AED 1,438 mn in 2015, primarily attributable to higher retail and corporate banking fees combined with higher gains from trust and fiduciary fees. Net fees and commission income accounted for 70% of total non-interest income in 2015, compared to 64% in 2014. Net trading income for 2015 was 14% lower year on year, on account of funds de-consolidation on 31 March 2014. Excluding the impact of the funds de-consolidation in 2014, net trading income increased 37% year on year, whilst non-interest income was up 14% over the prior year.
- Cost to income ratio for 2015 was 34%, remaining stable over 2014. Ongoing Bank-wide cost management initiatives enabled the Bank to maintain a cost to income ratio within our target range. Operating expenses for 2015 were AED 2,827 mn, an increase of 10% year on year. The increase in staff costs reflected increases in the personnel needed to support our more granular approach to growth.

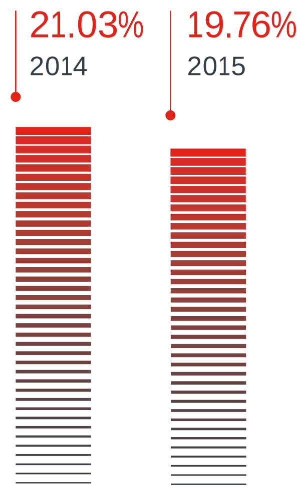
## MEASURED AND SUSTAINABLE GROWTH, ROBUST CAPITAL POSITION AND CONTINUED FOCUS ON LIQUIDITY

- Total assets reached AED 228 bn as at 31 December 2015, an increase of 12% over the prior year. Net loans and advances were AED 154 bn, up 9% over 2014. 90% of loans (gross) were within the UAE, in line with the Bank's UAE-centric strategy. Wholesale Banking loans (gross) were up 7%, whilst Consumer Banking loans (gross) were up 10% year on year.
- As at 31 December 2015, investment securities totalled AED 21 bn and the Bank was a net lender of AED 22 bn in the interbank markets, whilst the liquidity ratio was 25.8% compared to 25.2% as at 31 December 2014, providing a further source of liquidity for the Bank.
- Total customer deposits were AED 144 bn as at 31 December 2015, up 14% over the prior year. As at 31 December 2015, advances to stable resources ratio was 88.2% compared to 88.5% as at 31 December 2014.
- As at 31 December 2015, the Bank's capital adequacy ratio was 19.76%, and Tier 1 ratio was 16.29% compared to 21.03% and 17.01%, respectively, as at 31 December 2014. The reduction in capital adequacy ratio was on account of higher risk weighted assets which totalled AED 176 bn as at 31 December 2015. The capital adequacy ratio minimum requirement stipulated by the UAE Central Bank is 12% and Tier 1 minimum requirement is 8%.

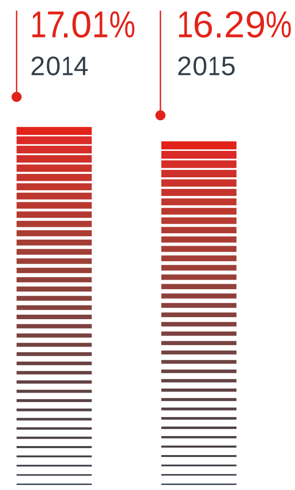
## CONTINUED IMPROVEMENT IN ASSET QUALITY, COST OF RISK AT RECORD LOW LEVELS

- As at 31 December 2015, non-performing loan and provision coverage ratios were 3.0% and 128.5%, respectively, whilst cost of risk improved to 29 bps from 48 bps as at 31 December 2014. As at 31 December 2015, non-performing loans were AED 4,834 mn compared to AED 4,611 mn as at 31 December 2014.
- Charges for impairment allowances on loans and advances, net of recoveries amounted to AED 500 mn in 2015 compared to AED 811 mn in 2014, 38% lower year on year.
- As at 31 December 2015, the Bank's collective impairment allowance balance was AED 2,969 mn, 1.89% of credit risk weighted assets and the individual impairment balance stood at AED 3,376 mn.

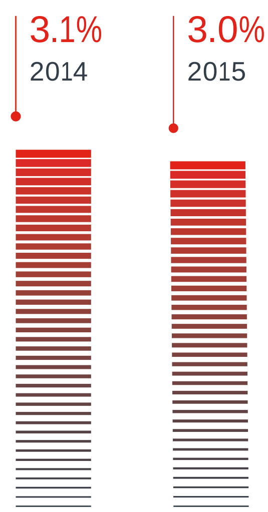
Capital Adequacy Ratio (%)



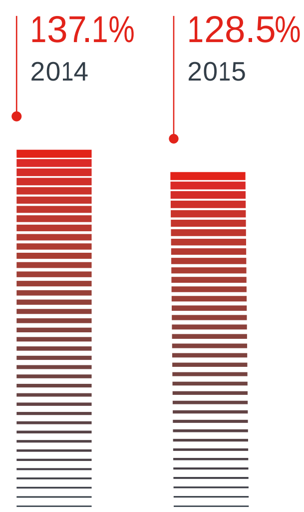

Tier 1 Ratio (%)




NPL Ratio (%)




Provision Coverage Ratio (%)



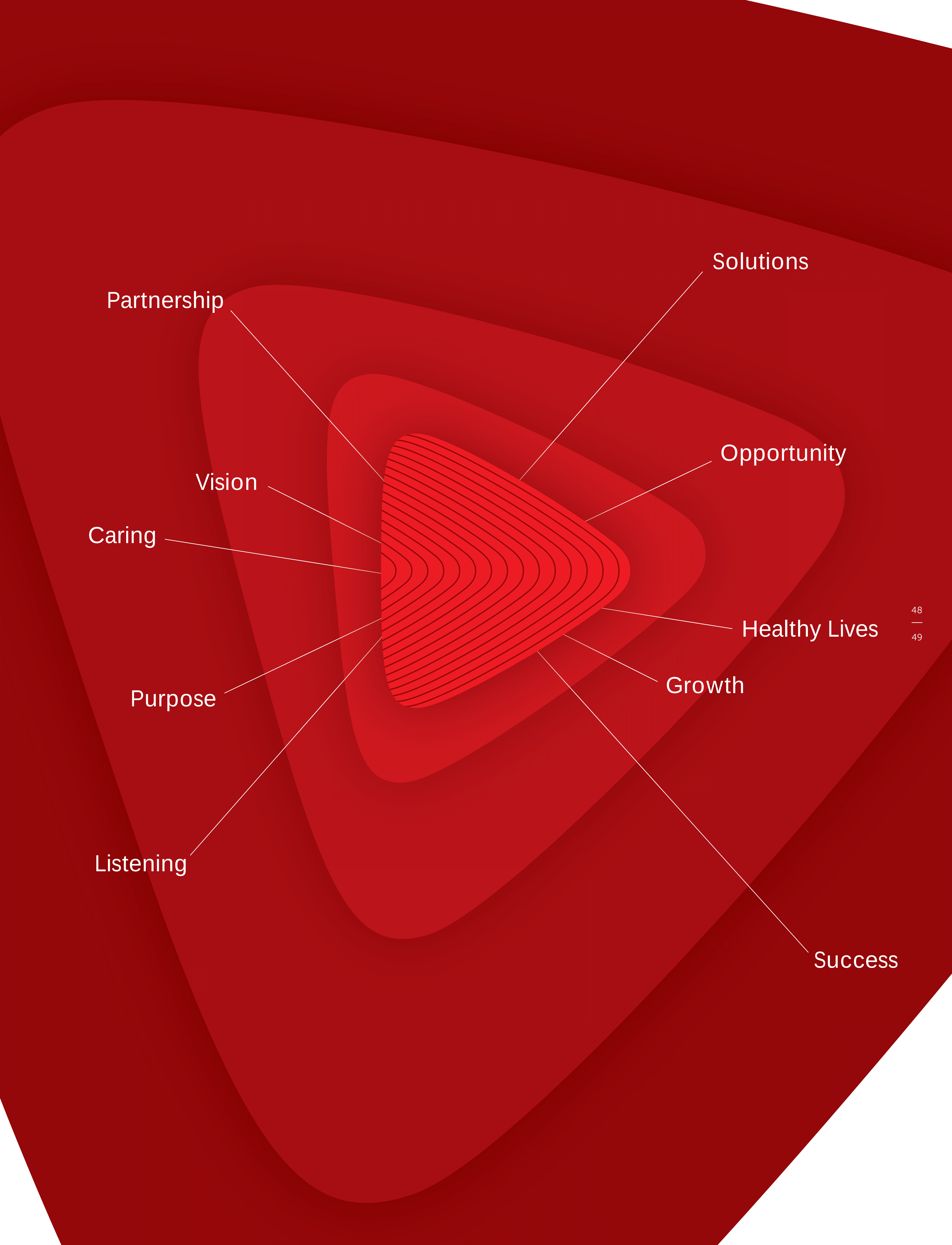
The Difference Is...

# Engagement

At ADCB, we are deeply engaged with our customers, our communities and our employees — and committed to making a difference in their lives.

We offer our customers a broad portfolio of products and services — along with attentiveness to their needs and sound advice — to help individuals and families attain their financial goals and to enable businesses to grow and thrive. For our communities, we provide vital support for worthy causes in areas such as culture, the environment, health and wellbeing. And for our employees, we provide opportunities for professional and personal development.

ADCB's efforts to make a difference in the lives of our customers, community and employees are discussed on the following pages.


Solutions
Partnership
Opportunity
Vision
Caring
Healthy Lives
Growth
Purpose
Listening
Success


simplylife
بنك أبوظبي التجاري
ADCB

# The Difference Is Listening

## simplylife

At ADCB, we know that listening and responding to the needs of customers is the key to delivering a better customer experience — and to creating new growth opportunities for our business.

Listening to our customers, and learning from their needs, led ADCB to create an entirely new and differentiated suite of services tailored to the mass market segment in the UAE. Thus, in 2014 ADCB launched the simplylife sub-brand, catering to those salaried between AED 5,000 and AED 15,000 per month.

Simplylife, true to its name, differentiates itself by offering financial solutions that are simple, fast and accessible. Its portfolio of products and services ranges from personal and auto loans, to cash-back credit cards, to financing for business owners.

The common thread in all simplylife products is the belief that realising one's financial ambitions should be uncomplicated and hassle-free. A team of 350 dedicated sales professionals are the face of the brand, responsible for delivering our brand promise to customers every day.

Technology is also a big part of the simplification equation. For example, a "Click to Talk" facility enables a simplylife team member to respond to a customer's request in around 30 seconds. Customers can also use an online calculator to find out about their eligibility for loans and the applicable pricing.

To make the brand even more accessible to customers, in 2015 we launched a state-of-the-art simplylife Sales and Service Centre inside the BurJuman Metro Station in Dubai. The centre is equipped with interactive self-service zones and multimedia touchscreens which empower customers to learn more about available products and services.

2015 was a year of significant progress for the simplylife brand, which has attracted 35,000 new customers to ADCB. We were also awarded the "Best Brand Building Exercise in 2015 in the Middle East" by the prestigious *Asian Banker* publication.

Simplylife Sales and Service Centre,
BurJuman Metro Station, Dubai

# The Difference Is Partnership

## Al Maryah Central

The collaborative nature of ADCB means we appreciate that very often a great partner is the key to success when it comes to bringing a big idea to life. ADCB's relationship teams treat their clients like partners: understanding the nuances of their business, the breadth of their capabilities, the specifics of their cultural sensitivities and, most importantly, the nature of their goals.

When Gulf Related, a joint venture between the UAE's Gulf Capital and the US-based Related Companies, sought to secure financing for the mixed-retail development in Al Maryah Central, they turned to ADCB. In September 2015, Gulf Related announced ADCB's commitment to provide senior debt project financing of AED 2.3 bn (US$626 mn) for the completion of the 2.3-million-square-foot mall.

*"With ADCB, we have a bank that has the respect of the community and a major position in the marketplace. So everyone we do business with can have confidence that we have a bank that can deliver."*

*Kenneth Himmel*
*Co-Managing Partner, Gulf Related*

Al Maryah Central, which is scheduled to open in March 2018, will be a unique development for the UAE and the wider Middle East. Consumers will find 400 retail locations, 145 restaurants and cafés, as well as a 20-screen cinema complex. The super-regional mall development will have significant dedicated parking, excellent road connectivity and will be anchored by the first Macy's outside the United States and the first Bloomingdale's in Abu Dhabi. At the same time, the mall will have great community oriented amenities such as a medical centre, crèche, health club, public library and food market. Al Maryah Central mall will connect directly to adjacent properties, housing a collection of high-end boutique retail stores and hotels.

Gulf Related partnered with ADCB in large part due to our positive track record of structuring selective large ticket financing for major real estate investments, our local expertise and the competitiveness of our terms compared to other local and international financing providers. The partnership between ADCB and Gulf Related is bringing to life a grand vision for the future of UAE and we are honoured to be able to play our part in bringing that vision into reality.

Al Maryah Central construction site

# The Difference Is Shared Vision

## Bin Touq Fire & Safety

At ADCB, we know that small and medium-size enterprises (SMEs) are the lifeblood of the UAE economy, driving economic activity, creating employment, and diversifying the region's business base. That is why, as part of a commitment to the growth of the UAE, the Bank has a special focus on meeting the financial needs of SMEs — thus contributing to our own growth as well.

This requires a willingness to provide exceptional customer service through long-term relationship focus, attention to detail, and creative solutions to help SMEs overcome challenges and capture opportunities. More importantly, it takes an ability to share the vision and passion of the business owners.

ADCB's relationship with Bin Touq Fire & Safety (BTFS) is a clear example of the Bank's dedication to supporting the growth of SMEs. BTFS is a leading fire protection, engineering, supply and service company. Established in 2009, BTFS offers a full range of fire protection services and products across the UAE, Oman and Qatar.

BTFS has successfully completed projects for Abu Dhabi International Airport, Dubai International Airport, Masdar City and many other commercial, transportation, retail, industrial and government facilities. A deep commitment to customer satisfaction and strong performance has enabled BTFS to win numerous SME-related awards in the region.

*"The key to our relationship with ADCB is confidence and trust. They stand behind us with support and advice. Whatever our requirement is, they will come back to us immediately with a solution."*

*Obaid Khadim*
*CEO, Bin Touq Fire & Safety*

BTFS has been a customer of ADCB since 2013. Since that time, ADCB has provided such services as lines of credit and cash management to the company. ADCB is proud to have done its part in providing the resources and financial expertise to help BTFS realise its potential, growing revenue by 300%, adding over 250 employees and expanding its regional footprint in the past two years.

# The Difference Is Purpose

## Tamooha

When a group of people share a purpose, it connects them and drives them in the common pursuit of success. A year after starting Tamooha, a first-of-its-kind programme designed to bring more Emirati women into the workforce in a manner consistent with their cultural traditions and values, ADCB is seeing excellent results.

Tamooha's success is reflected in the increasing number of women joining our workforce — 143 in total since the launch of the programme, of which 58 joined in 2015; in the awards it has received; and, equally important, in the high Net Promoter Score the participants awarded to the programme.

In the year since Tamooha's inception, ADCB has dedicated significant resources and hundreds of hours to training the employees in the programme, with plans to further build on this robust foundation. This emphasis on learning has allowed us to enhance the Tamooha programme from being primarily focused on data-entry roles, to include more sophisticated jobs and individual competencies. Participants now have opportunities for customer interaction, through conducting survey calls aimed at assessing the level of service delivered by ADCB.

Tamooha is one of ADCB's core Emiratisation initiatives. By continuing to focus on and invest in Tamooha, we are honouring our commitment to providing innovative opportunities for Emirati women to fulfil their professional aspirations, to become role models and to give back to their communities.

In the coming year, ADCB will continue to look for novel ways to enhance the effectiveness of the Tamooha programme and provide increasingly complex and meaningful opportunities for its participants, thus securing a growing pool of well-trained and motivated Emirati women for the Bank, whilst also contributing to the economic growth of the UAE.


MMRM
ADCB
POLO CLUB
ADCB

# The Difference Is Caring

## A Commitment to Women's Health

ADCB's engagement in our community extends beyond simply promoting healthier financial habits. It also involves a concern for healthier lifestyles and wellbeing. A concerted focus on breast cancer awareness, education and screening is a vital part of our health and wellness commitment.

Breast cancer is a major health concern in the UAE, where incidents of breast cancer are detected at an earlier age than in other regions of the world. At ADCB, we strive to redress this problem by supporting the dissemination of breast cancer information that is medically sound, current and meets international standards — with the aim of improving the detection, treatment and care of breast cancer. We have a long-term commitment to combat breast cancer and have continually enhanced our initiatives, expanded our partnerships, and extended our outreach to make a difference for more members of our community.

In 2015, the Bank continued its commitment to raise awareness of breast cancer. In partnership with Medeor 24x7 Hospital in Abu Dhabi, we offered free mammogram screenings through the ADCB Wellness-on-Wheels Mobile Mammogram unit. This mobile unit was available at all of ADCB's sponsored events during "ADCB Pink Month," the annual period in which we focus on addressing breast cancer through a range of public activities.

Over 300 women received Wellness-on-Wheels screenings in 2015. The free service offers a significant savings over the typical AED 900 to AED 1,500 cost of a mammogram, enabling members of our community to get life-saving information that may enable cancer to be detected sooner and improve their chances of survival.

ADCB also supports breast cancer awareness through a variety of other channels. Customers can use our ATMs to donate one dirham per transaction to the Al Jalila Foundation, which promotes medical research and education in the UAE. Our community was also able to partake in our Breast Cancer Awareness campaign through sponsored charitable events, build awareness through the ADCB *Think Pink* magazine, and contribute messages of hope through the ADCB Tree of Hope. Our efforts and customers' contributions helped raise donations of AED 239,913 in 2015 for the Al Jalila Foundation.

Her Highness Sheikha Maitha bint Mohammed bin Rashid Al Maktoum leading the ADCB Pink Polo team

The Difference Is...

# Performance

ADCB's business groups enable our clients and customers to prosper by helping them to achieve their financial goals and objectives whilst also driving sustainable and profitable growth for the Bank. Our business groups provide a differentiated, diverse range of excellent, customer-centric services to individuals, businesses and government institutions.

Consumer Banking, Wholesale Banking, Treasury & Investments, and Property Management comprise our four business groups. Within these groups, we offer a range of world-class products and services, including retail banking, wealth management, private banking, Islamic banking, corporate banking, trade finance, cash management, investment banking, corporate finance, foreign exchange, interest rate and currency derivatives, and project finance.

ADCB's strong financial performance in 2015 was driven by important contributions from these four groups. As a result of this teamwork and agility, the Bank achieved strong results in all major business segments, strengthened service to and relationships with our customers, introduced new product lines, and implemented several digitisation and other technological initiatives to operate more efficiently and better serve our customers.

Strong
Shareholder
Returns

Dynamic
Innovations

Products
& Services

Excellence
for Customers

## Consumer Banking Group

Our Consumer Banking Group (CBG) provides world-class financial services that help the people of the UAE realise their financial goals and life ambitions. Despite a challenging and competitive environment, CBG continued to grow profitably in 2015. Operating income rose 16% over the prior year, and net profit increased 36% year-on-year. Customer acquisition momentum was strong, with healthy loan growth (gross) of 10%. An increase in the customer base led to a 21% growth in the retail asset book, which comprises personal loans, auto loans, mortgages, credit cards and overdrafts to individuals. A 19% increase in credit card spend drove a 23% increase in outstanding balances.

CBG offers a comprehensive suite of conventional and Shari'ah-compliant banking products and services tailored to meet the needs of distinct customer segments that make up the diverse community of the UAE. Our broad array of banking solutions includes deposit and transactional accounts; personal and auto loans; mortgages; credit cards; and a wealth management platform covering proprietary and third-party investment products, third-party insurance, and brokerage services for local and international capital markets.

CBG's banking platform offers customers the convenience of a broad, sophisticated multi-channel distribution network. This includes 49 branches and three pay offices in the UAE, 304 ATMs, a 24/7 Contact Centre and leading online banking and mobile applications, tele-sales, and a feet-on-the-street direct sales force.

ADCB's proven, customer-centric strategy has helped build a sustainable and profitable Consumer Banking business. This includes the successful 2014 launch of simplylife, a unique value proposition for the mass-market segment, with a focus on making banking easier and more accessible. We opened the first simplylife Sales and Service Centre in the BurJuman Dubai Metro station. Its open layout offers multiple interactive self-service zones equipped with multimedia touch screens that enable customers to browse through product information and demonstration videos, and also to interact with ADCB relationship officers.

CBG also extended its offerings for high-net-worth individuals and families through the launch of ADCB Private at the end of 2015. ADCB Private offers holistic financial and succession-planning solutions, access to sophisticated global investment and capital market opportunities, tailored lending solutions, and bespoke services. ADCB Private Banking customer relationships are managed by qualified private bankers who have in-depth, multi-disciplinary experience supported by strong in-house research capabilities and a team of experienced analysts, product specialists and portfolio managers.

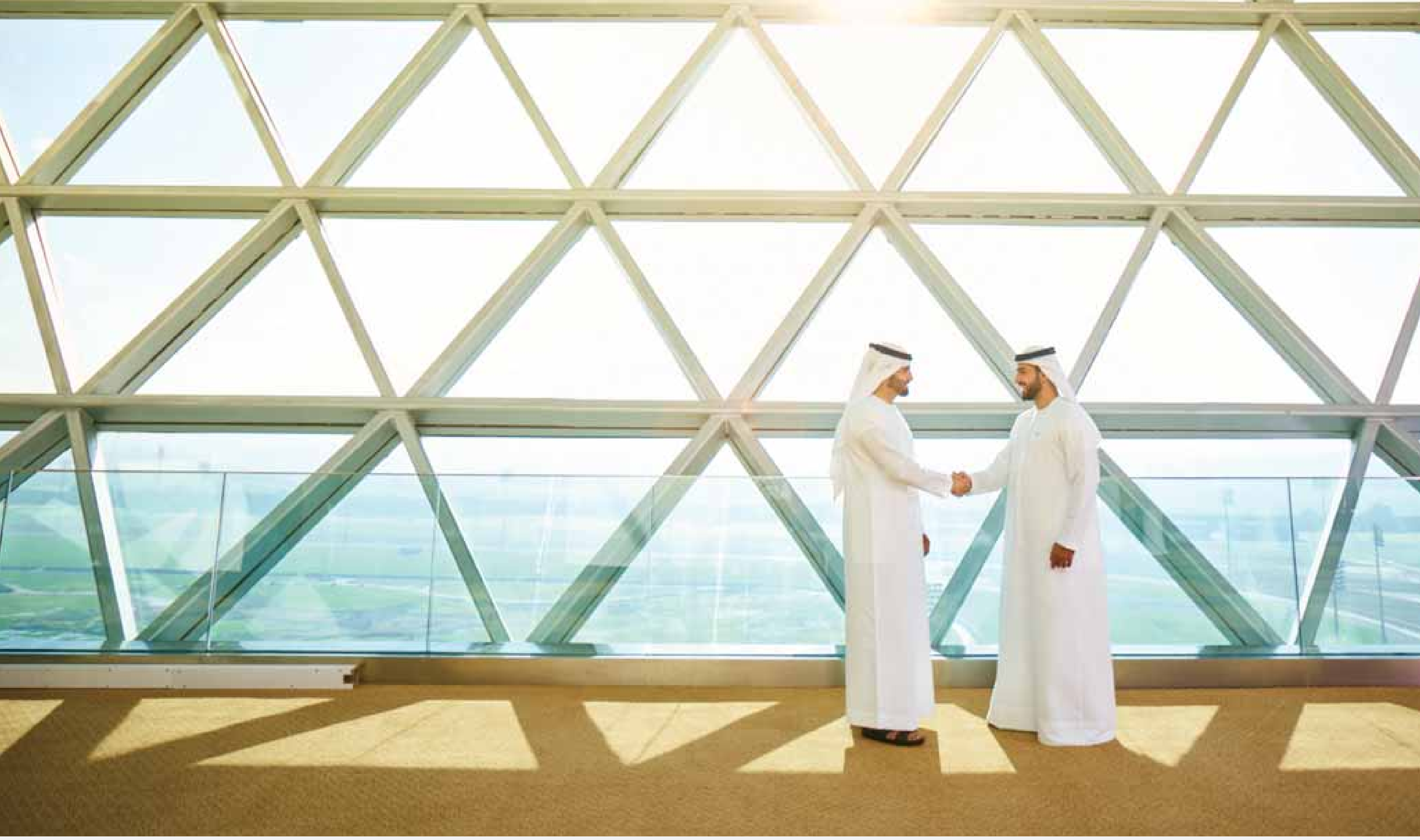
The biggest challenges in 2015 were a tough economic and operating environment, increased competition and rising credit costs. We effectively addressed these challenges through a focus on service excellence, driving volume growth in select customer segments, using technology innovations to make banking with ADCB even simpler and more convenient, and investing in risk-management capabilities and infrastructure.

In 2015, we continued to further improve our service excellence through the implementation of fast feedback loops. We listened to what customers said about their experiences with ADCB and then acted on this information to drive improvements in business performance and customer experience through a careful blend of people, processes, technology and marketing initiatives.

Our 2015 service initiatives included product-return policies for loans and cards, proactive customer alerts by email/sms regarding application status, process optimisation, and service-excellence training, all resulting in reduced process-turnaround times. These initiatives resulted in improvements to our Net Promoter Score (NPS) across customer segments.

Internet and mobile banking continued to grow, with the percentage of registered users reaching 55% for Internet banking and 29% for mobile banking. In 2015, we also launched a key technological innovation — instant, paperless, pre-approved personal loans, available online for existing customers from anywhere in the world.

Our online and mobile banking offer a user-friendly functionality and a superior service experience. Rather than having a product focus, we take a customer-oriented, needs-based focus, with menus that let consumers choose from a full array of options. Our strong and leading retail franchise in the UAE has been acknowledged and honoured by awards and accolades from eminent independent industry observers and authorities worldwide.





## The Difference Is Tradition

Islamic Banking forms an integral part of ADCB's offering, providing customers with fully Shari'ah-compliant financial solutions that are convenient and of the highest service quality, and which address a range of diverse banking needs. Whilst Islamic Banking offers our customers outstanding banking services consistent with their values, ethics and traditions, it is also a prime driver of growth for the Bank.

Islamic banking is growing worldwide and in the UAE, which has become the world's third largest Islamic Banking market. ADCB offers the largest Islamic Banking window in the UAE, with its size and growth comparable to many stand-alone Islamic banks. Our Islamic Banking business caters to the entire breadth of clientele, from large corporates to individuals. Our offering includes Islamic Active Saver Accounts, globally accepted debit cards, auto finance, home finance services and offshore banking.

Our Islamic Banking team remains focused on developing innovative products and services to meet customers' many and changing needs, whilst also staying true to the principles of Shari'ah, including transparency and integrity. To further grow Islamic Banking, we have been strengthening our sourcing teams. ADCB Islamic Banking also has strong social programmes, including support for many charitable causes.

Islamic Banking is a vital element of ADCB's offering to our customers and of our long-term growth plans. We are committed to providing superior, innovative Islamic Banking services for this growing marketplace in 2016 and beyond.

ADCB continues to offer many noteworthy and distinctive advantages for consumers. For example, we are the only local bank that offers 'Free Banking' services to qualified customers. Our customer loyalty programme offers miles on both Etihad Airways (a co-branded programme) and Emirates Airlines (through conversion of TouchPoints, in addition to several other lifestyle benefits through TouchPoints).

As consumer behaviour continues to evolve and consumers' expectations continue to rise, we will continue to offer the highest standards of service and customer-centricity. We are committed to deepening customer relationships through service excellence, increasing our portfolio of products, and digitising our offerings to enhance convenience and efficacy. We are committed to building on our strong and established relationships with existing customers whilst also attracting new customers, to deliver greater value to customers and drive continued growth.

## Wholesale Banking Group

Our Wholesale Banking Group (WBG) plays a vital role in the UAE's diversifying and growing economy, and in the performance of ADCB. WBG delivered year-on-year growth of 26% in operating income and an increase of 65% in net profit boosted by continuing improvement in cost of risk. WBG's net loans and advances (gross) increased 7% year-on-year to AED 89 bn as at 31 December 2015, with stronger percentage growth coming from small and medium-size enterprises (SMEs) and mid-corporate lending.

WBG serves SMEs, mid-corporates, large corporations, financial institutions, public enterprises and government institutions. Our high-quality services include cash management, transaction management, trade finance, corporate finance and investment banking. WBG is also responsible for ADCB's Indian branches and has representative offices in London and Singapore, as well as a selected offering through ADCB's Jersey branch.

Service is the hallmark of the WBG experience. In fact, it is a differentiating strength. We continually seek to improve turnaround time on lending requests and processing efficiency, including expanding the use of electronic channels. WBG's risk management approach is conservative and disciplined in terms of counterparty risk, lending structure and risk-return balance.

ADCB's cash management and client services are the key enablers for strong current account and savings account (CASA) growth. We have a record number of cash management clients across all segments, with payment automation now at 85% of all payment activity. Pro-Cash, our award-winning online transaction banking platform, saw a 39% increase in transactions in 2015, and has a record number of clients using the system. Much of our payments processing is straight-through, which reduces error rates and lowers the cost of doing business for both the Bank and our clients. World-class cash management capabilities contribute to our ever-increasing and low-cost book of CASA deposits to support ADCB's funding needs. In growing CASA deposits, we have focused on attracting liabilities that will not be rate-sensitive.

We have earned the loyalty of our cash management clients. More than 97% of the cash management clients who banked with us in 2011 are still customers today. We have also been able to grow deposits and attract new customers as part of our focused, proven business strategy. ADCB has also received numerous prestigious cash management awards over the years. In 2015, ADCB continued to benefit from its strategic banking relationships with Bank of America Merrill Lynch and Banco Santander. These institutions' clients who require services in the region can access ADCB's cash management and transaction banking services. This also provides access to a global network for our clients.

In 2015, WBG's investment banking unit helped close 22 transactions. Of particular note, ADCB is providing AED 2.3 bn in senior-debt project financing to Gulf Related for the Al Maryah Central mixed-use retail development scheduled to open in March 2018. This is a significant project for the UAE. The 2.3-million-square-foot regional mall will feature the first Macy's outside of the United States and the first Bloomingdale's in Abu Dhabi, along with other reputable retail outlets.



Gulf Related and ADCB senior management at ADCB head office

Trade finance had another good year, despite margin pressures. In 2015, we saw encouraging growth in the number of transactions and corporate clients served. Through diligent and meticulous work, we have re-engineered a number of processes to improve efficiencies and margins, whilst also further strengthening customer service. In addition, we have introduced new services, such as document preparation, to help serve our clients and grow our business.

We continue to grow in our mid-size corporate and SME businesses. Our team of dedicated relationship managers builds deep and long-lasting relationships with SME clients to comprehensively address their diverse needs. Through this approach, our loans to mid-size corporate clients increased by 42% whilst loans to SME clients increased by 21% in 2015.

We are building upon our excellent service to SME clients. We are increasing the number of cash-deposit machines and providing dedicated, branch-based SME staff in key locations. In May, we launched Purely Business, a public Web portal that offers expert advice to entrepreneurs on starting, financing and managing a business, and we launched a media campaign at the end of the year emphasising that ADCB remains open for business to SMEs in the UAE. We also have a dedicated SME call centre and a trade helpline staffed by a specialist team. As our SME clients grow, they are migrated to specialist mid-corporate relationship managers in a seamless process.

The challenges that ADCB's corporate clients face include the decline in oil prices and tighter credit and liquidity conditions in the UAE market. We have consistently and thoroughly monitored challenges whilst taking a number of steps to address them, including focusing on quality small- and middle-market lending whilst also materially reducing our exposure to corporate revolving-credit positions and exiting certain relationships. The decline in oil prices has also corresponded with a decline in pre-payments, helping to improve our return on assets. In 2015, we also realised improved recoveries, which helped us to improve our impairment position.

We believe maintaining delivery through our focused strategy, as well as our strong, established WBG operations and service levels, will enable us to sustain growth in 2016.

## Treasury & Investments Group

The Treasury & Investments Group (Treasury) provides clients with tailor-made financing and risk-management solutions that facilitate access to local and international capital markets, as well as investment solutions and structured products that meet clients' needs. With an experienced team of specialists equipped with advanced systems and technology, ADCB provides world-class service and a comprehensive product range. It also manages the liquidity of ADCB to international standards.

Treasury continued its strong performance in 2015, with a net profit of AED 1,488 mn.

Working in close collaboration with external clients and ADCB business groups, Treasury continues to address challenges through creative and effective solutions. Treasury acts as the gateway for all financial-market transactions between ADCB and many regional central banks, sovereign wealth funds, and other banks and financial institutions. Treasury continues to diversify revenues through increased cross-sell activities.

Treasury provides clients with solutions in the following areas: foreign exchange, money markets, interest rate derivatives, fixed income, equity derivatives, commodity derivatives, structured products, structured treasury solutions, investment, and capital markets advisory services. In foreign exchange (FX), Treasury is a leading regional provider of FX Spot, Options, Forward, NDF and Swaps on G10 and GCC currencies.

Treasury also specialises in providing pricing and liquidity to ADCB's clients on all investment-grade bonds and Sukuks (Shari'ah-compliant financing instruments) in the secondary markets. It also facilitates bespoke solutions for asset-liability management, risk management and yield enhancement.

Treasury has been effective in helping to ensure that ADCB has a high-quality and liquid investment portfolio. As at 31 December 2015, the investment securities portfolio totalled AED 21 bn, out of which, the bond portfolio was AED 20.3 bn. Of the total bond portfolio, 88% was invested in investment-grade or better-rated bonds, and 64% of these bonds were rated A- and above by Standard & Poor's. Bonds amounting to AED 6.8 bn were scheduled to mature in 2016.

In 2015, ADCB issued AED 4.5 bn of bonds in the capital markets and concluded bilateral loan facilities of AED 2.9 bn along with structured financing of AED 1.4 bn, making it the most productive year for wholesale funding in the last five years. This also includes a very well received March 2015 transaction that raised USD 750 mn.

Treasury continues to introduce more effective and convenient ways to conduct business. In 2015, it launched FX-E-Commerce Portal, a pioneering e-commerce platform for foreign exchange that is already in use in 16 institutions, providing market-leading prices via Bloomberg and 360T.

Treasury has also enabled ADCB to manage its liquidity to high international standards for International Settlements and Basel III. ADCB maintains an adequate liquidity buffer over a 60-day stress horizon, twice the level prescribed by Basel III standards. In addition, Treasury continues to conduct regular and extensive stress tests for liquidity centred on capital and credit risk. We will continue to place extensive emphasis on these tests in 2016.

## Property Management

Our Property Management business provides much needed services to the real estate sector of the UAE's economy. The Property Management business stands at the forefront of the Abu Dhabi real estate market and comprises the property management and engineering service operations of our wholly owned subsidiaries, Abu Dhabi Commercial Properties (ADCP) and Abu Dhabi Commercial Engineering Services (ADCE), as well as the investment properties and rental income of ADCB.

ADCP manages more than 2,100 buildings, comprising more than 53,000 residential and commercial units throughout the UAE on behalf of the Department of Finance of the Government of Abu Dhabi, and others. In addition, ADCP manages a rapidly growing private portfolio.

The units managed on behalf of the Department of Finance are part of a Government-sanctioned initiative whereby Abu Dhabi nationals are granted plots of land for the development of commercial or residential buildings. ADCE oversees the construction of those buildings, and upon their completion, ongoing facilities-management services are provided by ADCP.

ADCE provides a full range of building-design and construction property-development services, with a focus on high-efficiency and exceeding customer requirements for both the Bank's borrowing clients and external parties. This approach has helped make ADCE the partner of choice for complex medium- and large-size regional development projects.

In 2015, the Property Management business had a net profit of AED 208 mn. The Property Management business collected more than AED 3,110 mn in rent for its clients in 2015. It also addressed more than 105,000 service requests and resolved 230 landlord-tenant queries.



## World-Class Support Structure Sustains ADCB's Success

ADCB's business groups are supported by a strong technology and operational platform run by a skilled group of professionals who provide a range of technical, processing and other support services. Those who serve our business groups have the same high standards and commitment to excellence when serving our customers through any number of channels.

### GROUP BUSINESS SERVICES

Group Business Services (GBS) acts like the nervous system for ADCB's customer service and business performance. GBS comprises a number of key 'run the bank' and 'change the bank' support functions that keep ADCB's multi-faceted, complex operations functioning with reliability and agility so that the Bank can enter new service frontiers. Support functions include Group Strategy and Change, Technology Services, Group Operations, Corporate Services, Workplace Protection Services and the Itmam shared services centre.

GBS responsibilities include: managing ADCB's ATM network; providing teller services; managing investments in and the implementation of new technology platforms; keeping technology systems operating and agile; helping to protect stakeholders from fraud; operational risk management; safeguarding physical security; providing facilities and workplace management solutions; payment processing; and providing comprehensive online and mobile services to ADCB's customers. GBS consistently and effectively supports high operational volumes for one of the largest customer bases in the UAE banking sector.

GBS helped ADCB bring to market many exciting innovations, such as fully digitised in-branch account opening and biometric authentication, whilst also helping to streamline and simplify many procedures such as branch openings. ADCB's continuing investments in GBS have supported the creation of an in-house innovation laboratory and enabled the Bank to become a leader in mobile and digital banking, which is the preferred way of banking for our customers and a very cost-effective way for us to conduct business.


GBS continues to innovate. We are providing our staff with tools that enhance productivity, including an app for our Direct Sales Agents that makes their work more efficient and better harmonised with the Bank's branches and back office. We have also implemented secure mobile workplace solutions, allowing increased flexibility and productivity for our staff. GBS will continue to harness the dedication of our staff as well as technological and process innovations to help ensure the continued success of ADCB.

## HUMAN RESOURCES

ADCB employees embrace the Bank's commitment to ambition, discipline, customer-first service and excellence at all times. Our employees share a commitment to hard work and to the highest standards of integrity. We are continuous learners who grow professionally, supported by our culture of innovation, which we believe is essential for superior customer service. Our employees are also dedicated team players who work closely together in branches, business units and across the Bank.

Attracting, developing and motivating such talent is vital to customer service and the Bank's success. Towards that end, Human Resources (HR) continues to be an integral partner with the Bank's business groups. HR strives continuously to strengthen ADCB's high-performance culture as a key to delivering the Bank's value proposition to customers, employees and other stakeholders.

We diligently attract and select the best available talent from diverse backgrounds. Currently we employ over 5,000 professionals and our diverse workforce includes over 70 nationalities. UAE nationals represent 40% of the workforce.

In 2015, we implemented two significant initiatives. We enhanced our performance-management process by incorporating an appraisal rating scale that is more effective in differentiating and rewarding high-performing team members. Second, we implemented a Bank-wide project that consolidated our grading structure into a reduced number of job bands, including the introduction of the "job-family" concept, which led to greater simplicity and operational efficiencies.

These strategic initiatives empower our people to take charge of their development and careers, whilst also ensuring more targeted and structured assessments at career transition points. The result is a stronger link between performance and rewards.

HR maintains its high standards by constantly monitoring its service levels using the same Net Promoter Score (NPS) methodology that the Bank uses to measure external customer service. In recruiting and selecting talent, for example, the department functions like a recruitment agency. HR has a dedicated key account manager and a supporting team responsible for serving each major business group. This allows our talent needs to be addressed by teams that are fully conversant with our business objectives and culture, whilst also keeping recruitment costs under control.

HR has proactively implemented systems and practices that help the Bank retain and develop our talented and hardworking people. As part of our culture of openness and transparency, employees receive a comprehensive Total Rewards Statement that shows the many benefits available to our employees and the related investments made by ADCB on their behalf.

In addition to helping attract and retain quality professionals, HR plays an important role in facilitating smooth leadership transitions. This helps to minimise business disruption and to maintain exceptional customer service.

Executive continuity has been a hallmark of ADCB. At the end of 2015, the average time of service of an executive manager was nine years. These executives also have an average of more than 20 years of banking industry experience.

HR is also helping our business units work better together. It is training employees in cross-functional skills so that business units can interact more and customers can be better served.

Our Tamooha programme takes an innovative approach to advancing the goals of our Emiratisation initiatives. The programme broadens the career horizons of Emirati women, whilst also expanding the pool of available talent for ADCB. It offers Emirati women a part-time, highly digitised, women-only work group, along with the opportunity to work from home. Tamooha provides the dual benefit of providing employment opportunities for Emirati women in a manner consistent with their values whilst also developing a new source of talented and motivated employees for the Bank.

In the past year, we have enhanced the Tamooha programme, expanding its original primary focus on data-entry roles to include more sophisticated jobs and individual competencies. Participants now have opportunities for customer interaction through survey calls aimed at assessing the level of service delivered by ADCB. Tamooha now has a workforce of 143 women, 58 of whom joined in 2015.

Through Tamooha and many other programmes, ADCB has cultivated high-calibre, customer-centric staff throughout the Bank. This results in excellent customer service, innovation and collaboration on the best ways to get things done for customers — and enduring, sustainable value for all our stakeholders.

# The Difference Is...

# Commitment

ADCB differentiates itself by a deep commitment to fostering long-term economic opportunity and growing value for stakeholders. That commitment has led us to focus on several key drivers of sustainable growth and value-creation. We contribute to the UAE's economic growth by helping individuals and organisations to attain their financial goals whilst also generating strong performance for the Bank. We manage our business in a responsible, ethical manner, and we invest in our communities and their people.

ADCB is also committed to transparency and accountability in the areas of corporate, social and environmental responsibility. In that regard, our 2015 achievements are summarised in the following pages. We also have launched a sustainability page on our website, at *http://www.adcb.com/about/sstanrprt/sustainability.aspx*, which is one of our primary tools for reporting on related activities.

We are proud that ADCB has been included in the Standard & Poor's/Hawkamah ESG Pan Arab Index, which ranks 50 of the best-performing stocks in the pan-Arab region based on nearly 200 environmental, social and governance (ESG) metrics. ADCB ranked #2 in the Index in 2015, up from #4 in 2013 and 2014 and #6 in 2012.

143

Employees joined the Tamooha programme since the launch

305

Breast cancer screenings in 2015

17,24

Tons of carbon emissions avoided through ADCB Bikeshare in 2015

In 2015, ADCB partnered with the Al Jalila Foundation to support breast cancer research. A total of AED 239,913 was raised for the Foundation through the ADCB Breast Cancer Awareness campaign.

## Emirati Graduate Development Programme

# 14,700+ training hours

The Emirati Graduate Development Programme is our flagship initiative to develop the career potential of UAE nationals. Extensive training, job rotations, reviews and feedback give trainees an understanding of our business drivers and encourage them to achieve high standards of professionalism and contribute to the Bank's success. Programme participants logged over 14,700 training hours in 2015.

We are proud that ADCB's Tamooha initiative has been recognised by the Abu Dhabi Sustainability Group. Tamooha provides a unique career structure that adds value to our community by giving Emirati women the opportunity to join the workforce whilst meeting their everyday life responsibilities. Tamooha is a sustainable and innovative way to contribute to the UAE's economic development whilst advancing employment and diversity. This recognition reflects our keen enthusiasm to support the UAE's vision and to build a bright and ambitious future by providing career opportunities to Emirati women in harmony with cultural traditions and values.

## We contribute to UAE economic growth.

### STRATEGY
- Our strategic pillars support sustainable growth, demonstrated through our financial performance year on year.

### SMEs
- We support SMEs by providing the necessary finance and advisory tools needed for success.

### ISLAMIC FINANCE
- Our Shari'ah-compliant financial solutions support financial stability and corporate social responsibility, to serve the best interests of all our stakeholders whilst also allowing them to stay true to their values, traditions and ethics.

### TRADE FINANCE
- We support trade in the region through tailored financing solutions that meet our customers' needs.

## We responsibly manage our business practices.

### GOVERNANCE
- We have a clear and well-understood corporate governance framework to monitor strategic direction, adjust our risk profiles and engage our stakeholders.

### ETHICAL BANKING
- Our policies and internal practices mandate the highest standards of integrity in the way we conduct our business.

### OUR PEOPLE
- We empower and help our people to grow and succeed, thus ensuring we can deliver on our promises.

### ENVIRONMENTAL STEWARDSHIP
- We seek to minimise the environmental impact of our operations.

### CUSTOMER SERVICE
- We listen to our customers and constantly strive to deliver excellent services.

## We invest in our communities.

### UAE CULTURE
- We promote our nation's values, culture, heritage and people.

### COMMUNITY OUTREACH
- Our strategic partnerships seek to deliver maximum benefits for important social, cultural and environmental causes.

### FINANCIAL CONTRIBUTIONS
- We give back to the community by facilitating and donating to local charities and organisations.



## We Contribute to UAE Economic Growth

Growth is at the heart of UAE Vision 2021 and Abu Dhabi Economic Vision 2030. ADCB contributes to these visions through a sustainable growth strategy which delivers consistent and long-term value to our stakeholders. Our contribution to economic impact is both direct and indirect, through our financing activities and our business growth strategy and scope.

ADCB promotes economic opportunity in our communities by responsibly addressing our stakeholders' needs: opening new offices and branches; expanding the markets for which we deliver financial services; financing individuals buying their own homes; enabling businesses to grow; facilitating trade and investment; creating new products to support business; and raising our standards of service excellence. A number of our recent growth initiatives are described below.

### SUPPORTING SMEs

With small and medium-size enterprises (SMEs) contributing significantly to the UAE economy, our focus on serving this customer segment is an important part of

ADCB's commitment to sustainable growth. We have enhanced our services to provide tools and support to help address some of the common challenges faced by SMEs, such as managing finances.

In 2015, we launched the Purely Business Web portal to meet the needs of the SME business community. Purely Business offers access to a support network that provides expert knowledge, management solutions, financing advice and other resources that are valuable to anyone seeking to start, maintain or grow a business.

### FACILITATING TRADE FINANCE

Trade financing is well-recognised as an important sector expected to drive economic growth in the UAE. As a leading bank in the UAE, ADCB plays a key role in supporting trade in the region. Our dedicated Trade Finance team caters to the advisory needs of our customers whilst our specialist trade expertise and global reach enable customers to develop and implement tailored solutions across supplier/buyer networks, resulting in significant cost savings and increased resource flexibility and efficiency. Over the last few years, our trade financing activities have increased year over year, and continue to contribute to the UAE's economic growth.

### LISTENING TO OUR CUSTOMERS' NEEDS

We continually introduce new and innovative products that address important customer needs and responsibly expand our customers' financial options.

For customers who require loans for urgent matters, such as a medical emergency, ADCB introduced paperless, pre-approved personal loans in 2015. Pre-approved customers can now apply for a personal loan online, quickly and conveniently, with funds instantly credited to their account.

In 2015, we launched Critical Guard Insurance, an insurance product for critical needs. Underwritten by insurance providers, Critical Guard provides coverage against 37 relatively common critical illnesses. This product helps safeguard our customers' families against financial difficulties arising from unexpected health expenses.

### PROMOTING SOUND FINANCIAL VALUES

We offer various Shari'ah-compliant financial solutions to individuals and corporate customers. With AED 14,542 mn in assets and AED 10,222 mn in deposits at the end of 2015, our Islamic Banking operation plays a major role in helping customers meet their financial goals consistent with their values, ethics and traditions. For example, our Islamic Banking Emirati Millionaire Savings Account encourages Emiratis to save by offering prizes for maintaining specific savings account balances. The 17% increase in such savings accounts in 2015 shows how this programme is encouraging sound personal financial literacy and management practices.

## We Responsibly Manage Our Business Practices

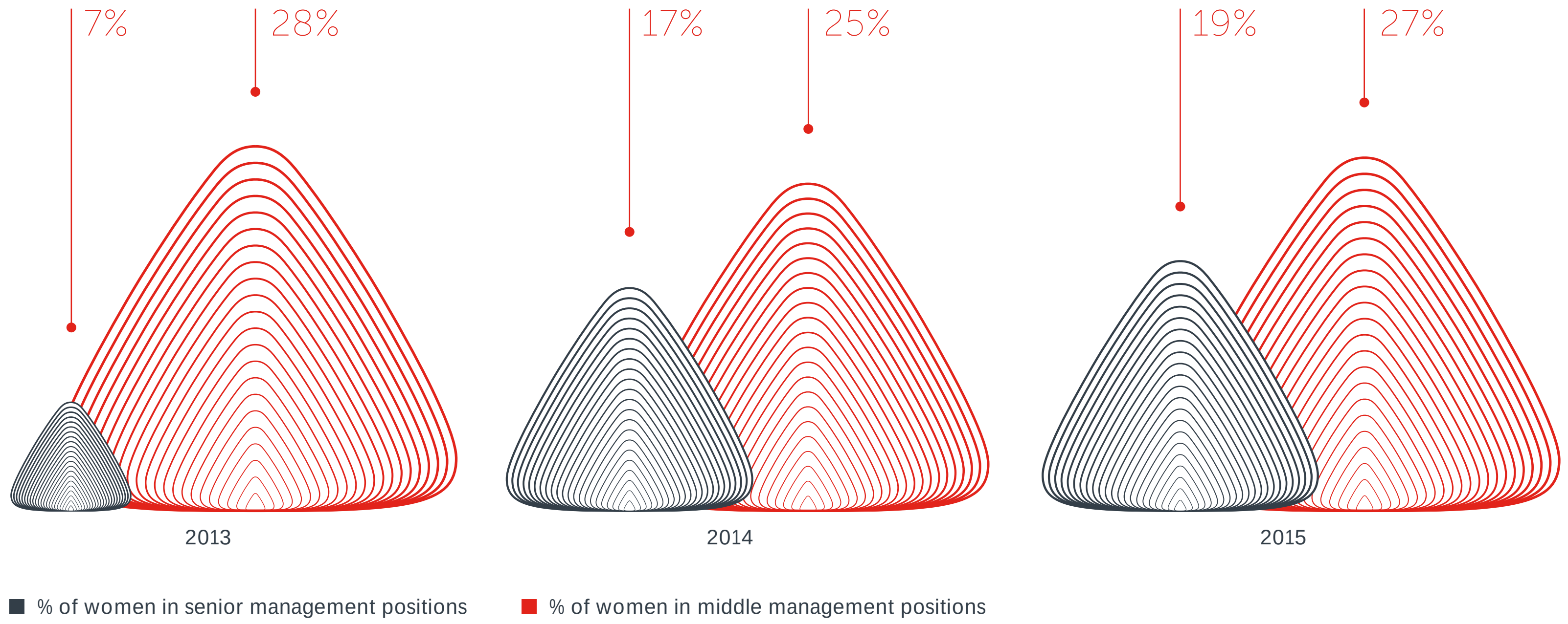
To ensure sustainable growth and long-term value for our stakeholders, we emphasise disciplined and responsible business conduct. We have embedded rigorous, well-developed policies and practices throughout our governance framework, which are supported by internal communications, training and development, and internal controls.

### EXCELLING IN GOVERNANCE PRACTICES

At ADCB, we know that excellent corporate governance is vital to our commitment to be a responsible bank. We continuously evolve our approach to our governance framework and principles, with an emphasis on transparency, integrity, accountability and fairness, which serve as the foundation for honouring the trust of our stakeholders.

For more information, please refer to the Corporate Governance section of this annual report.

# Promoting women in management






COMMITTING TO THE HIGHEST ETHICAL BANKING STANDARDS

The highest standards of integrity and ethical conduct in our banking practices are critical to our long-term viability and are expected by our stakeholders. Accordingly, our employees are responsible for complying with the ADCB Code of Conduct and applicable regulations. We have processes in place to ensure enterprise-wide awareness and implementation of our policies and control procedures. In order to protect our clients and operations against financial crime, we have continued our mandatory Bank-wide staff e-learning training programmes which address compliance, anti-money laundering, sanctions, operational risk, fraud prevention and information security. We also have conducted internal reviews of our policies to enhance and/or introduce protections against the risk of fraud and strengthen internal controls. Our commitment is ongoing.

INVESTING IN OUR PEOPLE

As a business that has been built upon the knowledge, experience and energy of our people, ADCB recognises the importance of investing in our employees. We facilitate employee development through a comprehensive suite of professional training and learning programmes provided under the umbrella of Ambition University, with a particular focus on identifying and fast-tracking UAE national talent. We monitor our employee engagement annually in order to evaluate our success and ensure that our staff understands our strategy and goals and are committed to meeting them. Our 2015 results showed greater effectiveness and enablement than in prior years. We also promote diversity through a range of initiatives and have actively advocated numerous health and safety efforts.

### REDUCING OUR ENVIRONMENTAL IMPACT

ADCB actively seeks to minimise the impact of its operations on the environment by being a responsible environmental steward. We view this as essential to protecting the resources needed for the future, better managing climate change risks, and enhancing the quality of life for our customers, employees, shareholders and fellow citizens. Some of the conservation steps we have undertaken in recent years include the transition to paperless statements, more efficient use of electricity, and a waste recycling programme for paper, cans, glass and general waste.

We have continued to raise awareness of important environmental issues in collaboration with our partner Emirates Wildlife Society in association with World Wildlife Fund (EWS-WWF) and have facilitated raising significant donations for related causes through our ATM and Internet banking platforms. ADCB has supported Earth Hour since its inception, and in 2015 we expanded our support by turning off the lights at each of our four main office locations. We also conducted internal campaigns to promote the recycling of paper, cardboard, plastics and electronic waste.

ADCB continues to encourage environmental and social responsibility throughout our supply chain through our procurement management system. During the registration process, a vendor is required to answer questions about its commitment to sustainability. This process was initiated in 2014, and by the end of 2015, vendors representing over 90% of our spend had registered on our system. ADCB will require all vendors to register on our procurement system by end of 2016 and will use the results to assess vendors' compliance with sustainability and assign weightings to their sustainability performance.

### FULFILLING CUSTOMER SERVICE EXPECTATIONS

Delivering excellent customer service, with solutions that anticipate and satisfy our customers' evolving needs, is a keystone of our responsible business practices.

In 2015, such service and product innovations included paperless personal loans, the simplylife Service Centre that is revolutionising access to banking in the mass-market segment, and our Apple Watch banking app. These are just some examples of the way we listened and responded to ADCB customers last year.

For further details on our customer service initiatives, please refer to the Business Review section of this annual report.

## We Invest in Our Communities

Investing in the wellbeing of our communities is a fundamental pillar of our approach to delivering sustainable economic growth. We have continued to contribute to our communities through measures that promote UAE culture and heritage, encourage health and wellness, and provide financial support for worthy organisations.

### PROMOTING UAE CULTURE, HERITAGE AND PEOPLE

ADCB supports a range of activities that celebrate the culture, heritage and values of the UAE, and we promote positive social and economic outcomes for the people in our communities. ADCB was among the first private-sector organisations to provide employment opportunities for UAE national talent in collaboration with the Abu Dhabi Tawteen Council. With at least 40% of our staff consistently represented by UAE nationals, ADCB's Emiratisation strategy has been recognised with "Best Emiratisation" awards for the past four years. To support our commitment to UAE nationalisation, ADCB's Emirati Committee has held several forums within the past year to expand the lines of

### ESTIMATED SAVINGS FROM e-STATEMENTS

| | | |
|---|---|---|
| 2013 | AED 3.3 mn | Sheets 4.871 mn |
| 2014 | AED 4.1 mn | Sheets 6.186 mn |
| 2015 | AED 6.7 mn | Sheets 10.037 mn |

### CUSTOMER SERVICE RESPONSE

**100%** customer complaints resolved

**92%** complaints resolved within three days

### EMIRATI MILLIONAIRE SAVINGS (AED mn)

| | |
|---|---|
| 2013 | 824 |
| 2014 | 1,023 |
| 2015 | 1,192 |

communication between UAE nationals, committee members, and the Bank's senior management.

ADCB also has sponsored the Sheikh Zayed Heritage Festival each year for the past three years. The festival pays homage to the late Sheikh Zayed bin Sultan Al Nahyan, the founding father of the UAE, and honours the rulers of the seven Emirates. Located at the Al Wathba Desert Camp, the festival celebrates UAE culture through folklore dances, traditional shopping, horse and camel riding, regional cuisine and many other activities.

### POSITIVELY IMPACTING OUR COMMUNITY

ADCB aims to contribute positively to our communities through vital health and wellness partnerships and programmes, as well as by providing and facilitating financial support to non-profit organisations.

#### Breast Cancer Awareness (BCA)

An important way that we contribute to the wellbeing of our communities is through our dedication to breast cancer awareness. ADCB's flagship BCA programme seeks to help reduce the incidence of breast cancer — one of the most significant health issues facing our society — through many initiatives aimed at increasing understanding of the disease, promoting medical screening, helping to fund research and offering hope.

In 2015, for example, ADCB partnered with the Al Jalila Foundation to support breast cancer research. AED 239,913 was raised for the Foundation through the ADCB BCA campaign.

In order to maximise visibility, many of our initiatives are concentrated during the month of October, known as **ADCB Pink Month**. Initiatives undertaken in 2015 included the following:

- ADCB's *Think Pink* breast cancer magazine, an informative booklet, was distributed at all ADCB Pink events and also was distributed with *Emirates Woman* magazine to various commercial outlets.
- **Wellness-on-Wheels Mobile Mammogram Unit** is a partnership between ADCB and Medeor 24x7 Hospital in Abu Dhabi. The initiative offers free mammogram screenings (and a significant cost savings) to the public through the mobile unit, which appeared at all of ADCB's sponsored Pink Month events. We were able to provide 305 free screenings throughout the month of October 2015.
- **ATM Donations** are an easy way to support breast cancer–related charities. ADCB ATM users had the opportunity to take part in the campaign by donating one dirham to the Al Jalila Foundation at the end of each transaction throughout the month of October.
- **ADCB Pink Polo** is a family-friendly day organised around a charity polo match at Ghantoot Polo Club in support of breast cancer awareness, held in conjunction with the Abu Dhabi Health Authority. In 2015, we marked our sixth consecutive year sponsoring this event, which raises awareness about breast cancer in the UAE.
- **Pink Golf Day** is an event supported by ADCB at the Abu Dhabi Golf Club which raised funds for the Al Jalila Foundation and Breast Cancer Research UK. Around 100 women participated, proudly displaying their commitment to the cause by wearing pink golfing attire.

Over 1,000 people participated in the Pink Run

ADCB's Breast Cancer Awareness programme was recognised by Daman as the best corporate health and wellness initiative in the UAE

- **ADCB Zayed Sport City (ZSC) Pink Run** attracted over 1,000 people to join the popular 5K and 10K runs sponsored by ADCB and organised by Abu Dhabi Striders at Zayed Sport City. The ADCB ZSC Pink Run is more than just a running event, with people of different abilities coming together to show their support for breast cancer research.
- **BCA Seminars** are provided free of charge to ADCB staff to enable them to learn about breast cancer. Through the seminars, organised in Abu Dhabi and Dubai, medical, health and wellbeing experts provided staff with a holistic understanding of breast cancer facts and risks, the importance of early detection, different screening methods, prevention tips and the importance of support groups.

The success of our Pink Month programme was recognised with the prestigious "Daman Award for Corporate Health and Wellness Initiative." Pink Month was also cited as one of the 10 great breast cancer awareness campaigns in the Middle East by Step Feed, a Middle East–focused news site.

### ADCB Bikeshare

ADCB launched the UAE's first public bicycle-sharing system, ADCB Bikeshare, in December 2014. In partnership with Cyacle, a private bike-sharing venture of the Khalifa Fund for Enterprise Development, we introduced the Nation's capital to a cost-effective and energy-saving method of transport for recreational and leisure purposes. ADCB Bikeshare offers both transportation benefits and support for a healthier and more sustainable lifestyle. There are currently 75 bicycles for hire at 11 locations including Yas Island and Al Raha Beach in Abu Dhabi. As at 31 December 2015, over 2.75 million kcal had been burned since launch and more than 17.24 tons of carbon emissions had been avoided through ADCB Bikeshare.

### Health and Wellness

At ADCB, we believe that our commitment to our customers, employees and communities must extend beyond helping to meet financial needs. This leads us to invest in programmes that promote health and wellness. These programmes are carried out in conjunction with our product and service offerings, sending the clear message that a healthy financial position goes hand in hand with a healthy lifestyle. Our Health & Wealth Roadshows, comprehensive insurance proposition and employee wellness initiatives are solid examples of the intersection of good business and good health.

- **Health & Wealth Roadshows.** ADCB promotes good health in the community through our Health & Wealth Roadshows, organised through our Wealth Management Bancassurance department. Select ADCB branches and sales centres throughout the UAE hosted the roadshows in 2015, which provided basic medical testing (blood pressure, BMI and blood sugar, and complimentary cholesterol check-up vouchers) to over 2,000 participants. We also offered free Wealth Check-Ups, during which customers were given the opportunity to meet with dedicated Relationship Managers and have their current financial circumstances, liquidity position, and short-term as well as long-term plans reviewed, and to explore how ADCB might help them address their financial needs.
- **Staff Wellness Event.** We also held an internal staff Health & Wellness event to address some of the key health issues faced in the UAE. The event sought to facilitate healthier lifestyle habits and a better work-life balance for all staff through awareness, testing and special promotions to encourage beneficial changes. Approximately 500 staff participated, receiving basic medical testing and attending seminars by medical experts on stress management, nutrition, dental hygiene, computer vision syndrome and smoking cessation.

11,685 mn

Total community investments and collections (AED)




## CONTRIBUTING FINANCIALLY TO OUR COMMUNITIES

ADCB invests in communities through donations to and sponsorships of organisations that address a range of social, cultural and environmental concerns. In addition to our financial support for the Al Jalila Foundation in the area of breast cancer, other partnerships and charitable contributions include the following:

- Emirates Foundation. ADCB has partnered with the Emirates Foundation for Youth Development to support programmes that improve the welfare of UAE youth. These programmes focus on social inclusion, leadership, empowerment and community involvement. Partnership programmes also address material issues, such as financial literacy, as well as specific cultural and social issues.
- EWS-WWF. To help protect the biodiversity of species and ecosystems across the UAE, we are Pearl Member partners of EWS-WWF. ADCB customers are encouraged to donate to EWS-WWF via our ATM screens and online banking platform to support environmental preservation efforts. In 2015, these channels raised AED 285,348 for EWS-WWF.

# The Difference Is...

# Recognition

ADCB is widely recognised for its outstanding service to customers and the UAE and for its broader standing as a committed corporate citizen.

The awards we received in 2015 are a testimony to ADCB's culture and the hard work and dedication of all our employees. Even more importantly, they are a reminder that we can and must build upon our excellent practices, and that our customers and other stakeholders expect and deserve nothing less than our absolute best.

"UAE Trade Finance Firm of the Year"

*Finance Monthly*'s Global Awards

"Best Trade Finance Offering"

*Banker Middle East*

"Business Leader of the Year" Ala'a Eraiqat, CEO of ADCB Group

Gulf Business Industry Awards 2015

"UAE Domestic Trade Finance Bank of the Year"

*Asian Banking and Finance*'s Wholesale Banking Awards

"Best Corporate Governance Award 2015"

*World Finance* Magazine

"Daman Award for Corporate Health and Wellness Initiative"

Daman Corporate Health Awards

"Trade Finance — Overall Quality of Service in Middle East"

Euromoney Award

"Best Human Capital Development Initiative" to Islamic Banking Academy

Global Islamic Finance Awards, London

"Best Customer Service — Corporate Banking"

*Banker Middle East*

"Best Fund over 3 Years, Equity UAE" for Al Nokhitha Fund

Thomson Reuters Lipper Fund Awards 2015

"Best Bank for Cash Management in the Middle East"

*Global Finance* Magazine

"Best for Cash Management in the UAE"

Euromoney Award

"SME Banking Innovation Award"

Enterprise Agility Awards 2015

"Trade Finance — Overall Quality of Service, Global — 2nd Place"

Euromoney Award

## Awards in 2015

"Sharia Lawyer of the Year" Kamran Sherwani, Head of ADCB Sharia Advisory

Global Islamic Finance Awards, London

"Best Trade Finance Bank in the UAE"

*Global Finance* Magazine

"Best Brand-Building Initiative in the Middle East Award"

*The Asian Banker* Magazine

"Best Affinity Credit Card in the Middle East & Asia/Oceania 2015"

Annual Freddie Awards

"Best Trade Finance Provider in the UAE"

Euromoney Award

"Best Islamic Banking Window in the UAE"

*International Finance* Magazine, London

"Best Trade Finance Bank in MENA"

GTR Leaders in Trade Awards

"Best Islamic Retail Bank in the UAE and Islamic Bank of the Year in the UAE"

The Asset — Hong Kong

"Best Supply Chain Finance Provider Award — Middle East"

*Global Finance* Magazine

"Best Local Bank in the UAE"

GTR MENA's Leaders in Trade Awards

"Bank of the Year"

Gulf Business Industry Awards 2015

"Best Cash Management"

*Banker Middle East*

"Most Innovative Product (Salam Personal Finance)"

*International Finance* Magazine, London

"Best Islamic Trade Finance Bank" and "Best Trade Finance Bank in the UAE"

GTR Leaders in Trade Awards

# Board of Directors Profiles

## Eissa Mohamed Al Suwaidi
*Chairman*
*Non-Executive Director*

Eissa Mohamed Al Suwaidi was appointed by the Government of Abu Dhabi to join the ADCB Board of Directors and was elected as Chairman of ADCB in September 2008. Eissa Mohamed Al Suwaidi has more than 20 years of experience in asset management and banking.

Bachelor of Economics
(Northeastern University, USA)

**ADCB Committee Memberships:**
*Chairman* – Risk & Credit Committee

*Member* – Nomination, Compensation & HR Committee

**External Appointments:**
*Chairman* – Emirates Telecommunications Group Company PJSC (Etisalat Group)

*Vice Chairman* – Maroc Telecom

*Managing Director* – Abu Dhabi Investment Council

*Board Member* – Abu Dhabi National Oil Company for Distribution, International Petroleum Investment Company, Abu Dhabi Fund for Development, Emirates Investment Authority

## Mohamed Sultan Ghannoum Al Hameli
*Vice Chairman*
*Non-Executive Director*

Prior to joining the Department of Finance – Emirate of Abu Dhabi, Mohamed Sultan Ghannoum Al Hameli was the Assistant Director of the European Equities Department of Abu Dhabi Investment Authority (ADIA). He was appointed by ADIA to join the ADCB Board of Directors in October 2004.

Bachelor of Finance
(Boston University, USA)

General Manager Program, Strategic IQ: Creating Smarter Corporations
(Harvard Business School)

Chartered Financial Analyst
(CFA Institute)

**ADCB Committee Memberships:**
*Chairman* – Nomination, Compensation & HR Committee

*Member* – Risk & Credit Committee

**External Appointments:**
*Director General* – Abu Dhabi Finance Department

*Chairman* – National Health Insurance Company (DAMAN)

*Board Member* – Abu Dhabi Public Service Co. (Musanada), Social Welfare & Minor Affairs Foundation, Emirates Telecommunications Corporation (Etisalat Group)

## Ala'a Eraiqat
*Group Chief Executive Officer*
*Executive Director*

Ala'a Eraiqat joined ADCB in January 2004 and held various senior posts before taking over as Chief Executive Officer and also becoming a member of ADCB's Board of Directors in February 2009. He has been a banker since 1991 and previously held senior positions at Citibank and Standard Chartered Bank, among others.

His responsibilities extend to chairing the following subsidiaries and committees of ADCB, among others: Abu Dhabi Commercial Properties, Abu Dhabi Commercial Engineering Services, ADCB Securities, Itmam Services, the ADCB Management Executive Committee, and the ADCB Management Risk & Credit Committee.

**External Appointments:**
*Board Member* – Abu Dhabi National Hotels PJSC (ADNH); MasterCard Asia/Pacific, Middle East & Africa Regional Advisory Board; and Mubadala Infrastructure Partners Advisory Board

**Personal Awards:**
Named in 2015 as the Banking Business Leader of the Year by Gulf Business Industry Awards; named in 2011 as the No. 1 CEO among the Top 50 CEOs from 300 companies in Saudi Arabia and the UAE by *Trends*, an international magazine on Arab affairs; received *The Asian Banker* "Promising Young Banker Award" for the Gulf region in 2007; and in 2009, chosen by *Arabian Business* as one of the GCC's "Most Admired Executives."

## Mohamed Darwish Al Khoori
*Non-Executive Director*

Mohamed Darwish Al Khoori has 27 years of experience in asset management and its related disciplines. Mr. Al Khoori is Executive Director of the Operations Department of the Abu Dhabi Investment Authority (ADIA) since 31st May 2015. Since 2008, he has been the Executive Director of the Internal Equities Department at Abu Dhabi Investment Authority.

In May 2004, Mohamed Darwish Al Khoori was nominated by the Government of Abu Dhabi to join the ADCB Board of Directors, and in April 2006, he was elected by the ADCB shareholders to be an ADCB Director. He was subsequently nominated to be an ADCB Director by the Government of Abu Dhabi in March 2009, and in March 2015, he was again nominated and elected to be an ADCB Director.

Bachelor of Business Administration
(Siena Heights University, Michigan, USA)

General Manager Program
(Harvard Business School)

### ADCB Committee Memberships:
*Chairman* – Audit & Compliance Committee

*Member* – Nomination, Compensation & HR Committee

### External Appointments:
*Vice Chairman* – Oman & Emirates Investment Holding Company

*Member* – The Financial Corporation (FINCORP) Board

*Member* – The Financial Corporation (FINCORP) – Audit Committee

*Member* – Abu Dhabi Global Market Board

*Executive Director* – Abu Dhabi Investment Authority (ADIA) – Operations Department

*Member* – ADIA's Investment, Alpha and Management Committees

## Khalid Deemas Al Suwaidi
*Non-Executive Director*

Khalid Deemas Al Suwaidi was appointed by the Abu Dhabi Investment Council to join the ADCB Board of Directors in March 2009. In 2012, he was nominated and elected by ADCB shareholders to act as a Director, and in March 2015, he was again nominated and elected by the ADIC to act as a Director.

Khalid Deemas Al Suwaidi has approximately 15 years of banking experience, having held senior management positions with National Bank of Abu Dhabi and First Gulf Bank.

Master of Business Administration, minor in Management Information Systems and Strategic Planning (Widener University, USA)

Bachelor of Science/Computer Information Systems (Bethune Cookman College, USA)

### ADCB Committee Memberships:
*Member* – Corporate Governance Committee

*Member* – Audit & Compliance Committee

### External Appointments:
*Chairman* – Emirates & Morocco Trading & General Investment, United Tina

*Vice Chairman* – Manazel Real Estate Company and Abu Dhabi National Takaful Company

*Chief Executive Officer* – Das Holding

*Board Member* – Citiscape Group Company

## Mohamed Ali Al Dhaheri
*Non-Executive Director*

Mohamed Ali Al Dhaheri was appointed by the Abu Dhabi Investment Council (ADIC) to join the ADCB Board of Directors in May 2007. Prior to joining ADIC, Mohamed Ali Al Dhaheri was the Chief Operating Officer of the Treasury Department in Abu Dhabi Investment Authority.

Bachelor of Business Administration
(International University of America)

### ADCB Committee Memberships:
*Chairman* – Corporate Governance Committee

*Member* – Audit & Compliance Committee

### External Appointments:
*Deputy Chairman* – Al Hilal Bank

*Chairman* – Al Hilal Takaful

*Chairman* – Abu Dhabi Investment Company

### Abdulla Khalil Al Mutawa
*Non-Executive Director*

Abdulla Khalil Al Mutawa is a skilled and dedicated investment professional with more than 30 years of experience and a comprehensive background in finance and administration. He was nominated by ADCB shareholders to join the ADCB Board of Directors in March 1997.

Bachelor of Business Administration (University of North Carolina, USA)

**ADCB Committee Memberships:**
*Member* – Nomination, Compensation & HR Committee

*Member* – Risk & Credit Committee

**External Appointments:**
*General Manager* – Office of Sheikh Suroor bin Mohammed Al Nahyan

*Board Member* – Alfalah Exchange Company, Abu Dhabi, UAE; UAE Banks Federation; Wateen Telecom Limited, Pakistan; Al Falah Limited; Makhazen Investment Company (Chairman)

Bank Alfalah:
*Chairman* – Board Strategy & Finance Committee
*Chairman* – Board Human Resources & Nomination Committee
*Member* – Board Audit Committee
*Member* – Board Risk Management Committee
*Member* – Board Compensation Committee

*Former Director* – Warid Telecom (Pvt) Limited

### Sheikh Sultan bin Suroor Al Dhahiri
*Non-Executive Director*

Sheikh Sultan bin Suroor Al Dhahiri was elected by ADCB shareholders to join the ADCB Board of Directors in March 2009.

Master of Business Administration (Abertay Dundee University, UK)

Bachelor in Business & Marketing (Middlesex University, London, UK)

**ADCB Committee Memberships:**
*Member* – Corporate Governance Committee

**External Appointments:**
*Chairman* – SSD Group, Abu Dhabi Maritime & Mercantile International Co.

*Chairman* – Al Dhaana Holding

### Omar Liaqat
*Non-Executive Director*

Omar Liaqat is the Chief Operating Officer at Abu Dhabi Investment Council (ADIC). He is an experienced professional with more than 30 years of experience in a wide range of industries in the financial, auditing and management areas. He was a member of the founding team of the ADIC, prior to which he worked at Abu Dhabi Investment Authority for 19 years. At the onset of his career, he worked in the auditing profession with a host of high-profile clients in the UK and US. Omar Liaqat was elected by the ADIC to join the ADCB Board of Directors in April 2013.

Chartered Accountant (Fellow) from England & Wales Institute

**ADCB Committee Memberships:**
*Member* – Audit & Compliance Committee

*Member* – Corporate Governance Committee

**External Appointments:**
*Chief Operating Officer* – Abu Dhabi Investment Council

*Member* – Audit Committee – Abu Dhabi National Insurance Company

*Member* – Audit Committee – Abu Dhabi Fund for Development

## Aysha Al Hallami

*Non-Executive Director*

Aysha Al Hallami is currently a Research Manager in the Strategy Unit of H.H. the Managing Director's Office at Abu Dhabi Investment Authority (ADIA). She is part of the Strategic Research team that is responsible for ADIA's portfolio construction, as well as strategic and tactical asset-allocation decisions. Aysha Al Hallami was elected by Abu Dhabi Investment Council to join the ADCB Board of Directors in April 2013.

Chartered Financial Analyst, CFA Institute

Master of Sciences in Finance & Banking, British University in Dubai in association with Cass Business School, City University, London

Bachelor of Science in Business Sciences: major in Finance, Zayed University, Abu Dhabi

**ADCB Committee Memberships:**
*Member* – Audit & Compliance Committee

*Member* – Risk & Credit Committee

## Khaled H Al Khoori

*Non-Executive Director*

Khaled H Al Khoori was elected by ADCB shareholders to join ADCB's Board of Directors in April 2012. Since January 2006, he has been the Chairman of Orient House for Development & Construction.

Bachelor of Civil Engineering
(Northeastern University, USA)

Master of Civil Engineering
(Northeastern University, USA)

**ADCB Committee Memberships:**
*Member* – Risk & Credit Committee

*Member* – Corporate Governance Committee

**External Appointments:**
*Chairman* – Orient House for Development & Construction

*Board Member & Chairman* – Capital Expenditure Committee – Abu Dhabi National Hotels (ADNH)

## Sir Gerry Grimstone

*Adviser*

ADCB appointed Sir Gerry Grimstone as Adviser to its Board of Directors in January 2013. He brings significant international expertise and experience in investment banking and the financial services industry, and serves on the boards of several high-profile public- and private-sector companies.

Sir Grimstone was previously Chairman of TheCityUK, a senior investment banker at Schroders, and an official in the UK's HM Treasury. He was responsible for privatisation and policy for state-owned enterprises and helped oversee HM Treasury's Operational Efficiency Programme. He has also served as one of the UK's business ambassadors.

**External Appointments:**
*Chairman* – Standard Life

*Deputy Chairman* – Barclays PLC

*Lead Non-Executive Director* – UK Ministry of Defence

*Independent Non-Executive Director* – Deloitte LLP

*Board Member* – UK Government's The Shareholder Executive

# Executive Management Profiles*

*(left to right)*

**Ali Darwish**
*Group Head of Human Resources*

Ali Darwish is the Head of Human Resources for ADCB and is an experienced banking professional who has worked at senior executive levels since 1998. A combination of interests in operational excellence, talent engagement and business strategy has accelerated Ali's career through diverse positions in top financial institutions such as Tamweel, Dubai Islamic Bank and ABN AMRO. His particular focus on human capital strategy enables Ali to transform talent into tangible assets for organisations. His in-depth understanding of strategy, performance objectives and drivers enables him to optimise capacity and capability across all business areas of the Bank. Ali's achievements have been recognised through various awards, particularly within the area of Emiratisation.

**Arup Mukhopadhyay**
*Group Head of Consumer Banking*

Arup joined ADCB in 2005 and is Head of the Consumer Banking Group. He had previously spent seven years with Citibank, becoming Head of Wealth Management products and Marketing Director for its UAE Consumer business. Before that, he worked with Unilever in India in several sales and marketing roles. Arup is a mechanical engineering graduate and holds an MBA from the Indian Institute of Management, Lucknow.

**Simon Copleston**
*Group General Counsel and Board Secretary*

Simon has been General Counsel and Board Secretary at ADCB since 2008. After graduating from Durham University in the UK, he practised corporate law in the City of London for eight years. He joined Abu Dhabi Investment Authority in 2006, acting as a lawyer to the Emerging Markets department and the Strategic Investment and Infrastructure teams. He has more than 18 years of experience in banking, finance and corporate law. Simon is a UK-qualified solicitor and has been highly instrumental in the Bank's recent recognition as a regional leader in corporate governance.

**Abdirizak Mohamed**
*Group Chief Internal Auditor*

Abdirizak has been the Group Chief Internal Auditor at ADCB since 2006, having previously worked at the NASDAQ Stock Market, NASD (FINRA) and OFHEO (FHFA). He has more than 20 years of financial industry experience that spans capital markets management, accounting policy/applications, examinations and auditing, risk management, regulatory oversight, and corporate governance. Currently, he serves as an Audit Committee member of various Abu Dhabi–based companies. Abdirizak is a Certified Public Accountant and holds a Bachelor's degree from the University of Washington in Seattle and a Master's degree from The George Washington University in Washington, DC.

**Deepak Khullar**
*Group Chief Financial Officer*

Deepak was appointed Group Chief Financial Officer in 2008 and is responsible for Group finance, investor relations and strategic sourcing. He previously spent 15 years with Standard Chartered Bank in the Middle East and in Korea. Before joining Standard Chartered, he worked for 12 years with Ernst & Young and Price Waterhouse & Co. (now PricewaterhouseCoopers) in the Middle East and India. Deepak is an Associate of the Institute of Chartered Accountants of India and an Associate Member of the Association of Corporate Treasurers (UK).

## Ala'a Eraiqat
*Group Chief Executive Officer, Executive Director*

Ala'a Eraiqat joined ADCB in January 2004 and since then has held various senior posts before taking over as Chief Executive Officer and also becoming a member of ADCB's Board of Directors in February 2009. He previously held senior positions at Citibank and Standard Chartered Bank, amongst others. His responsibilities extend to chairing the following subsidiaries and committees of ADCB, amongst others: Abu Dhabi Commercial Properties, Abu Dhabi Commercial Engineering Services, ADCB Securities, Itmam Services, the ADCB Management Executive Committee and the ADCB Management Risk & Credit Committee.

## Kevin Taylor
*Group Treasurer*

Kevin joined ADCB in 2009 as Head of the Treasury & Investments Group. He has held significant treasury and risk positions in global organisations such as ALICO, Citigroup, Westpac Bank and Merrill Lynch. At ADCB, he is responsible for a front office staff of 40, including FX trading and sales, derivative trading and sales, and fixed income and investments personnel, along with money market and balance sheet analytics teams. Kevin is the Chairman of the UAE Banks Federation Financial Markets Committee and is a member of the Board of Directors of Gulf Capital. He holds an MBA from Macquarie University in Australia.

## Jerry Möllenkramer
*Group Chief Operating Officer*

Jerry was appointed Group Chief Operating Officer following ADCB's acquisition of the Royal Bank of Scotland's retail banking business in the UAE in 2010. He was previously Chief Operating Officer for Royal Bank of Scotland's Middle East and Africa franchise, a position he held from 2008. He also served as an Executive Director for ABN AMRO's Group Services Division, and before that fulfilled various directorships within ABN AMRO's Wholesale Banking Division. Jerry holds a BA from the University of California and an MBA and a Master's degree in Business Informatics from the Rotterdam School of Management.

## Colin Fraser
*Group Head of Wholesale Banking*

Colin completed his Master of Arts in Financial Economics at the University of Dundee, receiving the Bowie Memorial Prize for top economics graduate. He is an Associate of the Chartered Institute of Bankers and a Fellow of the Royal Society for the Arts. Colin joined Barclays Bank in 1992 and undertook various roles as an international banker. In 2007, he was appointed Barclays' Corporate Banking Director, GCC, joining ADCB a year later as Head of the Wholesale Banking Group.

## Kishore Rao Naimpally
*Group Chief Risk Officer*

Kishore took over as ADCB's Group Chief Risk Officer in July 2009. He has more than 35 years of experience across various international and regional banks, spanning multiple geographies and a variety of roles across the business, credit and risk spectrum. He commenced his banking career with State Bank of India, where he spent over 12 years in diverse roles domestically as well as internationally. He also spent over 13 years at ABN AMRO, handling various assignments across Asia, Europe and North America. His last assignment prior to ADCB was as Group Chief Credit & Risk Officer at Arab Banking Corporation BSC. As the Bank's first CRO, Kishore has steered the Bank's implementation of an Enterprise-Wide Risk Framework and has played a key role in shaping the Bank's risk strategy. He is a qualified Cost Accountant and Corporate Secretary and additionally holds a degree in physics.

*The titles above were changed in 2014 to include the "Group" designation.



# Corporate Governance Report

ADCB adheres to the highest standards of corporate governance. In many respects, we are pioneers in our geographic region: We have voluntarily adopted practices above and beyond those mandated by law. We continuously enhance and improve our governance principles and framework, emphasising transparency, integrity, accountability and fairness.

We believe high standards of corporate governance will contribute to our long-term success, encourage trust and engagement with our stakeholders, and reinforce our risk management culture. To that end, the Bank and all of its business units have clear, well-understood governance policies, procedures and practices. We regularly review and adjust our governance framework to reflect changes in the Bank's businesses, best practices and the external environment.

## The Board

### Membership, Committees and Meetings

The Board, which consists of 11 experienced professionals, met eight times in 2015. Directors received information between meetings about the activities of Board and management committees and developments in the Bank's business. In addition, the Board held an off-site meeting in October to debate, refine and reiterate the Bank's strategy. Members of senior management were invited to all these meetings to enhance the Board's engagement with management and understanding of the business. In addition, Board members regularly visited divisions and branches of the Bank to enrich their knowledge of our operations.

The Board has four standing Committees: Audit & Compliance; Corporate Governance; Risk & Credit; and Nomination, Compensation & Human Resources. Each member of the Board, with the exception of Ala'a Eraiqat, the Group Chief Executive Officer, serves on at least one standing Committee. The Board Committees held a total of 51 meetings in 2015. Memberships and chairmanships of the Board Committees are reviewed on a regular basis to ensure suitability and are rotated as needed.

The table below gives details of each Director's attendance at meetings of the Board and standing Board Committees in 2015.

| Name | Status | Year of appointment | Expiration of current term of office | Board | | Audit & Compliance Committee | | Corporate Governance Committee | | Risk & Credit Committee | | Nomination, Compensation & HR Committee | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Meetings: 8 | | Meetings: 11 | | Meetings: 6 | | Meetings: 28 | | Meetings: 6 | |
| Eissa Mohamed Al Suwaidi | Non-Executive Director[1] | 2008 | 2017 | C | 6 | | | | | C | 21 | M | 4 |
| Mohamed Sultan Ghannoum Al Hameli[2] | Non-Executive Director[1] | 2004 | 2016 | M | 8 | | | | | M | 23 | C | 6 |
| Ala'a Eraiqat | Executive Director | 2009 | N/A | M | 8 | | | | | | | | |
| Mohamed Darwish Al Khoori[2] | Non-Executive Director | 2004 | 2018 | M | 7 | C | 11 | | | | | M[4] | 4 |
| Khalid Deemas Al Suwaidi[2] | Non-Executive Director[1] | 2009 | 2018 | M | 6 | M[4] | 6 | M | 5 | | | | |
| Mohamed Ali Al Dhaheri | Non-Executive Director[1] | 2007 | 2016 | M | 8 | M[4] | 5 | C | 6 | | | M[3] | 2 |
| Abdulla Khalil Al Mutawa[2] | Non-Executive Director | 1997 | 2018 | M | 6 | M[3] | 3 | | | M[4] | 20 | M | 6 |
| Sheikh Sultan bin Suroor Al Dhahiri[2] | Non-Executive Director | 2009 | 2018 | M | 6 | | | M | 3 | | | | |
| Omar Liaqat | Non-Executive Director[1] | 2013 | 2017 | M | 7 | M | 10 | M | 6 | | | | |
| Aysha Al Hallami[2] | Non-Executive Director[1] | 2013 | 2016 | M | 7 | M | 10 | | | M | 22 | | |
| Khaled H Al Khoori[2] | Non-Executive Director | 2012 | 2018 | M | 6 | | | M[4] | 3 | M | 24 | | |

*C Chairman M Member 1 Elected by Abu Dhabi Investment Council. 2 Independent (assessed as per Bank policies).*
*3 Ceased to be a Member of the Committee effective 21 March 2015. 4 Started to be a Member of the Committee effective 21 March 2015.*

### Directors' Independence

During 2015, more than one-third of the Directors were considered independent. In addition, a majority of the members of the Audit & Compliance Committee were independent. On the management side, the Group Chief Internal Auditor reports to the Board's Audit & Compliance Committee and the Group Chief Risk Officer reports to the Board's Risk & Credit Committee.

To ensure that the Board has the benefit of a range of independent thinking, the Bank appointed Sir Gerry Grimstone as an independent Board Adviser in January 2013. In 2015, Sir Grimstone attended five Board meetings, three Board Committee meetings (NCHR), and the Board strategy sessions. His background and lengthy experience enriches the Board's deliberations, particularly in the areas of strategy; Board reporting and effectiveness; performance assessments for senior management; and assessments of risk appetite and rewards.

### The Board's Agenda in 2015

The Board of Directors regularly discusses certain items that are fundamental to the direction of the Bank, such as business performance, long-term planning, strategy, risk appetite and management, succession planning, and human resources. In 2015, the Board paid particular attention to the following:

- developing strategies for pursuing sustainable growth and profitability;
- enforcing conservative underwriting principles to ensure the Bank maintains a strong risk position;
- integrating an internal audit mindset into all of the Bank's business groups to facilitate regular monitoring of systems and risks and proactive information-sharing and problem-solving;
- monitoring regulatory developments and best practices, both in the UAE and elsewhere;
- monitoring the results of the Bank's focus on customer service;
- monitoring the Bank's initiatives to control costs and improve efficiencies;
- monitoring the Bank's digitisation initiatives;
- understanding market trends and developments and studying new business opportunities;
- assessing each Bank division, its strategic initiatives and its performance against strategic targets; and
- improving governance structures and processes, and maintaining a governance framework that adds value to the business and reinforces our culture of governance and prudent risk management.

## Reporting Principles

This Corporate Governance Report outlines some key aspects of the Bank's corporate governance framework. We focus here only on the information we think is most important to our shareholders. If you are interested in more detail, you can find the following documents on the Bank's website (http://www.adcb.com):

- Articles of Association
- Code of Corporate Governance
- Codes of Conduct for our employees and our Directors
- Board Performance Evaluation policy
- Procedures for selecting and appointing the Bank's Directors
- Conflicts of Interest policy for Directors
- Dividend policy

The website also contains information about the following subjects:

- Our disclosure standards, communication with shareholders, and investor relations
- Our strategy-setting process
- The structure and composition of our Board
- Board oversight of risk management
- Our process for initiating new Directors and ensuring the professional development of all Board Members
- Matters reserved for the Board
- How we ensure Board Members have continuous access to critical information
- Retirement and re-election of Directors
- Remuneration of Directors for service on the Board and Board Committees
- The Board's Adviser
- Directors' independence
- Management committees
- Internal controls
- Audit arrangements
- Internal audits, regulation and supervision
- Diversity
- Succession planning
- Codes, standards and communications
- Our variable pay framework

### Board Oversight of Risk Management

Risk management is a key part of ADCB's corporate governance framework.

The Board of Directors has overall responsibility for setting our risk appetite and for ensuring risk is effectively managed. The Board Risk & Credit Committee (BRCC) oversees risk monitoring and management, and works with management to refine practices as appropriate for particular sectors, geographic regions and customer types. The BRCC also reviews the suitability and effectiveness of the Bank's management systems and controls, reviews stress tests and the Bank's stress-testing methodology, oversees the management risk committees, and ensures that our risk governance supports prudent risk-taking at all levels in the Bank. Please see further details in the Risk Management section of this annual report.

The Board and management also foster a compliant culture. They have created an environment where employees at all levels are empowered to confront improper behaviour, raise grievances and suggest better ways to pursue the Bank's strategic goals.

### Performance Evaluations

The Board undergoes a rigorous in-house performance evaluation annually, and, in line with global standards, regularly engages an independent external consultant to conduct a performance evaluation. The next independent performance evaluation will take place in 2016.

The process and goals for the Bank's in-house evaluations can be found in the Board Performance Evaluation policy on our website. When the most recent evaluation was completed in early 2015, the Board Corporate Governance Committee recommended certain actions, which were implemented during 2015. Specifically, we enhanced the Board's strategy-setting and oversight process, and we enhanced the Board's discussions on changing consumer behaviour and the evolution of technology.

### Appointment, Retirement and Re-Election

All Directors are required to seek re-election by shareholders every three years, and one-third of the Board must seek re-election each year. The Abu Dhabi Investment Council has the right to elect a percentage of the Board that is proportionate to its holdings of the Bank's share capital. As of year-end 2015, the ADIC held 58.08% of the Bank's stock and had the right to elect six Directors.

## Other Practices and Policies

### Management Committees

Management has established the following committees:

| Committee name | Number of meetings held in 2015 | Responsibilities of the committee |
|---|---|---|
| Management Executive (MEC) | 43 | Most senior management committee; oversees all Bank businesses and operations |
| Senior Management (SMC) | 4 | Responsible for administration, governance, change management, strategy, and project updates and dissemination of other information; pre-screens certain matters before MEC review |
| Assets & Liabilities (ALCO) | 4 | Formulates the Bank's overall assets and liabilities strategy. Makes investments and executes asset/liability transactions within delegated limits; guides the MEC and the Board on investments and asset/liability transactions above those limits |
| Management Risk & Credit (MRCC) | 52<br>(48 regular MRCCs and 4 Strategic MRCCs) | Approves credits within delegated limits; considers risk appetite and strategy issues; sets and recommends risk policies; guides the Board Risk & Credit Committee and the Board on credits above delegated limits and on general risk and risk policy issues |
| Management Recoveries (MRC) | 5 | Approves recoveries within delegated limits, and guides the MEC and the Board on recoveries above those limits |
| Capital Expenditure (CEC) | 10 | Reviews and approves project capital expenditures within delegated limits, and guides and advises the MEC and the Board on project capital expenditures above those limits |
| Liabilities & Initiatives (LICO) | 7 | Formulates the Bank's tactical liabilities initiatives at the business/product levels with ongoing monitoring of achievements of different product groups; responsible for cross-selling initiatives, monitoring product performance, and approving pricing and marketing of products to ensure a focused approach to the market on initiating liabilities |
| Management HR (MHRC) | 3 | Acts as a forum for prior screening, discussion and recommendation of all human resources–related matters that ultimately appear before the MEC |
| Financial Performance Management (FPMC) | 7 | Monitors financial performance of the Bank's business lines |
| International Operations & Alliances (IO&AC) | 5 | Supports the MEC in its responsibility to oversee and manage the Bank's international operations and alliances (excluding the Bank's Jersey branch), including the India branch, the UK representative office, the Singapore representative office, and alliances in place from time to time |

In addition, management has established several working groups that cover, amongst other things, customer experience and compliance.

## Internal Controls

In 2015, the Board Audit & Compliance Committee reviewed the effectiveness of the Bank's systems of internal control, including financial, operational and compliance controls and risk-management systems. The Board has received confirmation from the Bank's Internal Audit Group that the internal controls have been assessed to be effective and operating as designed, and that management has taken or is taking the necessary action to remedy any failings or weaknesses identified.

## Audit Arrangements

Deloitte & Touche, the external auditors, were appointed at the 2015 Annual General Meeting (AGM). Bank policy restricts the external auditors' tenure to no more than three consecutive years and also restricts the tenure of any individual audit partner to no more than three consecutive years, unless approved by the Board Audit & Compliance Committee.

Deloitte & Touche is paid on a fixed annual fee basis, as approved by the shareholders at the AGM. In 2015, the audit fees for the Bank and its subsidiaries excluding India operations amounted to AED 917,500, and fees for non-audit work amounted to AED 45,810. During the period from 1 January to 3 March 2015, PricewaterhouseCoopers were the Bank's external auditors. The fees paid to PricewaterhouseCoopers for their audit work for the 2014 year was AED 1,496,080 and fees for non-audit work for the period 1 January–3 March 2015 amounted to AED 308,388.

## The Bank's Approach to Disclosure

The Bank is committed to high standards of transparency and to enhancing our disclosures regularly to reflect local and international best practice. In this year's annual report, we have focused on giving readers a clearer picture of our performance, business model and strategy. In addition, we have refined and streamlined our risk disclosures.

In keeping with our leadership role on governance matters, we are confident the Bank is one of the most transparent institutions in the region. We publicly communicate relevant financial and non-financial information in a timely manner through this annual report, our quarterly market updates, our press releases, the Bank's website and the Abu Dhabi Securities Market (ADX). The Bank has an Investor Relations department whose role is to ensure strong communication with our investors and potential investors. Finally, we take internal communications extremely seriously: Staff are kept aware of all new developments — including the Bank's strategic direction, objectives, ethics, risk policies, general policies and procedures, new regulations, and other relevant information — via numerous internal channels.

## Diversity

In 2013, Aysha Al Hallami became the first woman on the Bank's Board of Directors. This is in line with international trends and the Bank's efforts to promote greater diversity at the Board level, and it also corresponds with the Government's efforts to empower Emirati women.

The Bank's Board is aware of the advantages of all types of diversity. A diverse Board is likely to make better decisions.

## Reports of the Board Committee Chairmen

01

### Audit & Compliance Committee

*Composition as at 31 December 2015:*

Mohamed Darwish Al Khoori (Chairman), Aysha Al Hallami, Omar Liaqat, Khalid Deemas Al Suwaidi, Mohamed Ali Al Dhaheri

*Secretary:* Rami Raslan

### Statement from the Chairman of the Audit & Compliance Committee

Dear Shareholders,

During 2015, the Audit & Compliance Committee focused, as always, on ensuring the integrity and transparency of the Bank's financial statements and the effectiveness of the Bank's internal audit activities and Internal Controls and Compliance functions. We also reviewed the work carried out by the Bank's statutory auditors, Deloitte & Touche. The Committee held 11 meetings in 2015, during which the Committee discussed, reviewed and worked on a number of matters, including the following:

- the tendering process for the Bank's external audit;
- the transition between the previous and newly selected auditors;
- the continuous assessment of the effectiveness of the financial reporting and disclosure process;
- the continuous assessment of the effectiveness of the external audit process;
- the activities of the Bank's Compliance function; and
- the performance and activities of the Bank's Internal Audit function, including the Internal Audit function's budgeting, staffing and training activities and delivery against the approved plan.

In addition, the Audit & Compliance Committee was actively involved in:

- coordinating its activities with those of the Board Risk & Credit Committee and other Board Committees;
- monitoring the choice of accounting policies, principles and judgments;
- reviewing and ensuring the existence of an effective overall system of internal controls;
- discussing the annual audited financial statements with management and the external auditors, and, in particular, considering the soundness of the Bank's specific and general provisions;
- reviewing audit observations raised by the internal and external auditors, the Central Bank, the Abu Dhabi Accountability Authority and other regulators, and management's responses to such observations;
- ensuring that the Internal Audit function is providing independent assurance to the Board in promoting effective governance processes;
- evaluating the external auditors' qualifications, performance and independence, including overseeing all of the external auditors' non-audit activities to ensure independence is not compromised, and reviewing the scope of work proposed by the external auditors for the year;
- reviewing the Committee's terms of reference and other policies sponsored by the Committee, such as the Bank's audit rotation policy and external auditor selection policy;
- discussing risk management policies and practices with management; and
- reporting regularly to the Bank's Board of Directors.

The Committee regularly met with the external auditors and internal auditors without the presence of the Bank's management. In addition, the Committee members attended joint meetings with the members of the Risk & Credit Committee to discuss risk-related issues.

The Audit & Compliance Committee has received confirmation from management that the Bank's internal controls have been assessed to be effective and are operating as designed, and the Committee is confident that management has taken or is taking the necessary action to remedy any failings or weaknesses identified. The Committee considered, among other things, the correct approach to specific and collective impairment provisions. The Board approved the 2015 annual accounts at the Committee's recommendation based on the external auditors' report and the Committee's view that these accounts are fair and balanced and provide the information required by shareholders to assess the Bank's performance.

The Committee considers that it made positive progress during 2015 towards meeting its responsibilities.

### Looking at 2016

Late in 2015, the Committee approved its schedule for 2016. The 2016 schedule envisages continued focus on the activities of the Internal Audit and Compliance functions and ensuring the adequacy of the Bank's internal controls and compliance activities. In particular, amongst other things, the Committee will oversee the adoption of IFRS9 and assess its implications for the Bank's financials. The Committee will continue to coordinate its activities with those of the Board Risk & Credit Committee.

**Mohamed Darwish Al Khoori**
*Chairman of the Board's Audit & Compliance Committee*

02

## Corporate Governance Committee

*Composition as at 31 December 2015:*

Mohamed Ali Al Dhaheri (Chairman), Sheikh Sultan bin Suroor Al Dhahiri, Khalid Deemas Al Suwaidi, Khaled H Al Khoori, Omar Liaqat

*Secretary:* Rami Raslan

## Statement from the Chairman of the Corporate Governance Committee

Dear Shareholders,

During 2015, the Corporate Governance Committee continued to oversee the development of the Bank's governance framework. In particular, the Committee reviewed the Bank's governance framework against the Basel Committee's Guidelines on Corporate Governance (the **"Basel Guidelines"**). We are pleased to report that the Bank's governance framework is substantially in line with the Basel Guidelines. The Committee initiated several actions to address areas in which our governance practices are not consistent with the Basel Guidelines and will continue to address these inconsistencies in the future. The Committee believes the Bank has developed a robust governance framework, appropriate for its size and status, but there remains room for improvement.

The Committee also continued to assess the Bank's development in certain key governance areas, such as subsidiary governance, ethics and compliance, strategy governance and risk strategy, complaints-handling processes, and sustainability and corporate social responsibility. As a result of that evaluation, we oversaw the Board's implementation of necessary policy adjustments.

The Committee held six meetings over the course of 2015. Among other things, in 2015 the Corporate Governance Committee worked on the following matters:

- reviewing the Bank's governance framework against the Basel Guidelines and implementing policy adjustments resulting from that review;
- reviewing the results of the 2014 Board evaluation and the adoption and monitoring of the action plan arising from it;
- preparing for the Board's evaluation for 2015;
- reviewing and recommending amendments to Board and management committees' terms of reference;
- reviewing and recommending amendments to the Bank's governance policies;
- engaging the Bank's divisions and various businesses on the governance framework and providing guidance on enhancing governance practices, with particular focus on subsidiary governance, ethics and compliance, complaints-handling processes, retail investment advice, and strategy governance and risk strategy;
- reviewing the Bank's sustainability activities;
- outlining the Directors' professional development programmes for 2015;
- considering corporate governance sponsorships;
- publishing corporate governance information, including information included in the Bank's annual reports and on the Bank's website;
- monitoring for conflicts of interest; and
- monitoring best practices in corporate governance and making recommendations to the Board and Board Committees on governance matters.

The Committee considers that positive progress was made during 2015 in the implementation of the Bank's corporate governance initiatives. The Bank's ongoing achievements in corporate governance earned us the "Corporate Governance Award – UAE" from *World Finance* magazine in 2015. The Committee believes that all levels of the Bank, including the Chairman, Board Members, Group Chief Executive Officer, senior management and staff, remain committed to continuous improvement of the Bank's governance framework.

### Looking at 2016

The Committee's agenda for 2016 reflects our ongoing commitment to raising governance standards across the Bank. The Committee will continue to focus on key governance areas, such as subsidiary governance, and will manage the Bank's evaluation for 2015, review the results, and initiate any remedial actions that seem warranted. We also will continue to assess the Bank's framework against the Basel Guidelines and take steps to ensure that any necessary policy adjustments are implemented.

**Mohamed Ali Al Dhaheri**
*Chairman of the Board's Corporate Governance Committee*

## Reports of the Board Committee Chairmen

### 03 Nomination, Compensation & HR Committee

*Composition as at 31 December 2015:*
Mohamed Sultan Ghannoum Al Hameli (Chairman), Eissa Mohamed Al Suwaidi, Abdulla Khalil Al Mutawa, Mohamed Darwish Al Khoori
*Joint Secretaries:* Ali Darwish, Rami Raslan

## Statement from the Chairman of the Nomination, Compensation & HR Committee

Dear Shareholders,

During 2015, the Nomination, Compensation & HR Committee continued to focus on the Bank's Human Resources strategy and policies, remuneration schemes, Board retirements and re-appointments, Emiratisation and succession planning. The Committee met six times during 2015. Among other things, the Committee considered the following:

- regular updates from the Bank's Human Resources team;
- the Bank's Human Resources strategy;
- the Board's composition, including nomination and appointment of Directors, review of the Board election process and a review of Directors' independence;
- benchmarking of Directors' remuneration and fees;
- CEO performance evaluation and remuneration;
- the Bank's remuneration framework, including fixed and variable pay, retention awards and performance recognition awards;
- succession planning;
- an overview of the Bank's key Human Resources policies;
- the Bank's Emiratisation strategies, including case studies and presentations and meetings with emerging UAE national staff; and
- contributions of the Board Adviser.

The Bank's Emiratisation strategy and variable remuneration remained key focus areas.

The Committee spent considerable time on the matter of management remuneration. In particular, the Committee considered external benchmarking, reviewed variable pay schemes for effectiveness and risk, reviewed the Bank's public reporting on remuneration practices, provided guidance for pay reviews, and reviewed awards under the Bank's performance recognition and retention schemes. In addition, the Committee commissioned a consultant to review the Bank's remuneration policies in light of emerging global trends. As a result of that review, the Committee believes the Bank's remuneration policies remain appropriate for the Bank's current size and status, and that our remuneration governance adheres to global best practices. In particular, the Committee continues to believe the remuneration framework has been effective in attracting and retaining talent; is effectively linked (in both design and scale) to the Bank's long-term performance, KPIs and strategy; and is likely to continue to be effective. Although management has some limited discretion to distribute variable pay, this is exercised only within and following the Committee's oversight of allocations amongst business groups, staff grades, risk-takers and control staff. Overall, the Committee aspires to ensure that payments reward Bank-wide and Group-wide performance, and do not reward under-performance.

The Committee also considered:

- policies to ensure full support of Government-sponsored initiatives, such as National Service;
- improvements to the Bank's talent-acquisition model; and
- the development of the Bank's learning and development programmes, including Ambition University and the Emirati Graduate Development Programme.

The Committee was fully supportive of the steps taken to guarantee the performance ratings and benefits of employees who are enlisted for National Service.

The Committee considers that it made positive progress during 2015 towards meeting its responsibilities.

### Looking at 2016

In 2016, the Committee shall continue to fulfil its governance responsibilities. Among other things, we will continue to focus on the Bank's Emiratisation strategy, the design and effectiveness of the Bank's remuneration schemes, and HR policies and activities.

**Mohamed Sultan Ghannoum Al Hameli**
*Chairman of the Board's Nomination, Compensation & HR Committee*

## 04 Risk & Credit Committee

*Composition as at 31 December 2015:*
Eissa Mohamed Al Suwaidi (Chairman), Mohamed Sultan Ghannoum Al Hameli, Khaled H Al Khoori, Aysha Al Hallami, Abdulla Khalil Al Mutawa
*Secretary:* Rami Raslan

### Statement from the Chairman of the Risk & Credit Committee

Dear Shareholders,

During 2015 the Risk & Credit Committee had a slightly different focus than in 2014. We spent more time considering risk strategy, risk appetite and risk analysis, and less time reviewing credit decisions. In particular, the Committee discussed risk strategies on both an aggregated level and by type of risk; considered credit concentrations, liquidity, asset quality and the Bank's performance against its risk appetite; and reviewed risk-related policies, procedures and tolerances. The Committee continued to play a role in evaluating high-level credit decisions, but spent less time making credit decisions overall because the Board extended management's authority to make such decisions. Whilst focusing on the Bank's current and future risk appetite and overseeing senior management's implementation of the risk strategy, the Committee recognises that it will need to retain some involvement with credit decisions on an ongoing basis.

The Committee held 28 meetings in 2015, during which it:

- reviewed risks in the Bank's asset portfolios;
- considered various risk policies, including policies relating to Islamic lending, real estate lending, mortgages, credit ratings, syndications, liquidity, leveraged investments, compliance risk, fraud risk and market risks;
- considered the Bank's operational risks and operational risk reporting;
- considered the outcome of stress tests conducted on various key portfolios, and ensured that those outcomes are incorporated into risk-appetite reviews, capital adequacy assessments, budgets, and capital and liquidity planning;
- examined the actual risks and control deficiencies in the Bank;
- analysed the formulas, inputs and assumptions used for various risk metrics;
- considered the Bank's appetite for risk, concentration limits and tolerances in various sectors (such as GREs in Abu Dhabi, Dubai and the region) and countries, and in foreign exchange and derivative transactions;
- assisted the Board in defining the Bank's risk appetite and risk strategy, and monitored the independence and effectiveness of the Bank's risk management functions;
- ensured that management has implemented processes to promote the Bank's adherence to the approved risk policies;
- monitored the Bank's liquidity;
- ensured the adequacy of infrastructure, resources and systems to maintain a satisfactory level of risk-management discipline;
- considered the Bank's capital adequacy assessment process, including its ICAAP methodology; and
- considered its agenda for 2016.

The Committee considers that it made positive progress during 2015 towards meeting its responsibilities.

### Looking at 2016

The Committee's schedule in 2016 contemplates a continuing focus on risk strategy, appetite and analysis to take into account prevailing economic, financial and political circumstances. The 2016 schedule contemplates nine meetings focused exclusively on risk strategy and policy issues. As noted above, the Committee expects to retain some involvement in credit decision making in view of the nature of the local market as well as certain regulatory requirements. However, the primary focus in 2016 will continue to be on oversight of the Bank's risk governance framework, risk appetite and strategy, and review of the Bank's risk policies and practices.

**Eissa Mohamed Al Suwaidi**
*Chairman of the Board's Risk & Credit Committee*

## Directors' Shareholdings as at 31 December 2015

| | Shareholding in ADCB | | |
|---|---|---|---|
| | As at 31 December 2014 | As at 31 December 2015 | Change in shareholding |
| Abdulla Khalil Al Mutawa | 2,347,277 | 2,347,277 | 0 |
| Ala'a Eraiqat* | 2,200,000 | 2,624,871 | 424,871 |
| Aysha Al Hallami | 0 | 0 | 0 |
| Eissa Mohamed Al Suwaidi | 0 | 0 | 0 |
| Khalid Deemas Al Suwaidi | 0 | 0 | 0 |
| Khaled H Al Khoori | 0 | 0 | 0 |
| Mohamed Ali Al Dhaheri | 0 | 0 | 0 |
| Mohamed Darwish Al Khoori | 91,892 | 91,892 | 0 |
| Mohamed Sultan Ghannoum Al Hameli | 0 | 0 | 0 |
| Omar Liaqat | 0 | 0 | 0 |
| Sheikh Sultan bin Suroor Al Dhahiri | 2,835,147 | 2,835,147 | 0 |

**Excluding: 740,975 restricted units in the Bank's LTIP scheme of which (1) 241,556 vested on 31 December 2015, (2) 150,320 will vest on 31 December 2016 subject to early vesting, and (3) 349,099 will vest on 31 December 2017 subject to early vesting.*

## Board Remuneration

Directors' remuneration is set annually by the Bank's shareholders. Any proposals for changes are considered by the Nomination, Compensation & Human Resources Committee prior to obtaining Board and shareholder approvals. According to federal laws and the Bank's articles of association, Directors may not receive any remuneration in years when the Bank does not achieve net profits.

As at 31 December 2015, the Bank's Directors were not eligible for any bonus, long-term or other incentive schemes. Directors do not receive any pension benefits from the Bank.

The following table shows the amounts paid to the Directors for their service on the Board and its Committees in 2015.

| | Nomination, Compensation & HR Committee | | Board Risk & Credit Committee | | Audit & Compliance Committee | | Corporate Governance Committee | | Board Committee meeting fees (2015, AED) | Board Member remuneration (AED, paid in 2015 for the year 2014) | Total (AED) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Members** | Sessions attended | Amount (AED) | Sessions attended | Amount (AED) | Sessions attended | Amount (AED) | Sessions attended | Amount (AED) | | | |
| Eissa Mohamed Al Suwaidi | 4 | 16,000 | 21 | 105,000 | | | | | **121,000** | **1,000,000** | **1,121,000** |
| Mohamed Sultan Ghannoum Al Hameli | 6 | 30,000 | 23 | 92,000 | | | | | **122,000** | **750,000** | **872,000** |
| Khaled H Al Khoori | | | 24 | 96,000 | | | 3** | 12,000 | **108,000** | **600,000** | **708,000** |
| Mohamed Darwish Al Khoori | 4** | 16,000 | | | 11 | 82,500 | | | **98,500** | **600,000** | **698,500** |
| Abdulla Khalil Al Mutawa | 6 | 24,000 | 20** | 80,000 | 3* | 18,000 | | | **122,000** | **600,000** | **722,000** |
| Mohamed Ali Al Dhaheri | 2* | 8,000 | | | 5** | 30,000 | 6 | 30,000 | **68,000** | **600,000** | **668,000** |
| Sheikh Sultan bin Suroor Al Dhahiri | | | | | | | 3 | 12,000 | **12,000** | **600,000** | **612,000** |
| Khalid Deemas Al Suwaidi | | | | | 6** | 36,000 | 5 | 20,000 | **56,000** | **600,000** | **656,000** |
| Aysha Al Hallami | | | 22 | 88,000 | 10 | 60,000 | | | **148,000** | **600,000** | **748,000** |
| Omar Liaqat | | | | | 10 | 60,000 | 6 | 24,000 | **84,000** | **600,000** | **684,000** |
| Total | | 94,000 | | 461,000 | | 286,500 | | 98,000 | **939,500** | **6,550,000** | **7,489,500** |

*1. (*) Ceased to be a Member of the Committee effective 21 March 2015.*

*2. (**) Started to be a Member of the Committee effective 21 March 2015.*

*3. Board Member remuneration paid during 2015 (for the year 2014): (i) Chairman of Board: AED 1,000,000, (ii) Vice-Chairman: AED 750,000, and (iii) Director: AED 600,000.*

*4. Board Committee meeting fees paid during 2015 (per meeting): (i) Fees for attendance at Committee meetings (NCHR, BRCC and CGC): Chairman: AED 5,000, Member: AED 4,000); and (ii) Fees for attendance at BACC: Chairman: AED 7,500, Member: AED 6,000.*

*5. In addition to the remuneration set out above, in 2015, the Bank provided a gift to each Board Member to a value of approximately AED 30,000–40,000.*

*Note: Ala'a Eraiqat (Board Member and Group Chief Executive Officer) has waived his right to receive Board fees.*

## Remuneration and Reward

### Guiding Principles

ADCB supports levels of remuneration necessary to attract, retain and motivate employees capable of leading, managing and delivering quality service in a competitive environment. However, our remuneration structure is conservative, and we have practices and policies that promote effective risk management. To that end, ADCB structures remuneration packages so they reflect duties and responsibilities, are fair and equitable, and incorporate clear and measurable rewards linked to corporate and individual performance. Rewards are based only on the results of a rigorous performance appraisal system with a robust management decision-making, review and approvals process.

As far as possible, bearing in mind market trends and constraints, our remuneration programme incorporates both short- and long-term incentives that align the interests of ADCB's employees with the interests of shareholders and other stakeholders. Performance-related elements are designed to minimise employee turnover and to inspire employees to perform at the highest levels, consistent with effective risk management.

### Total Reward — Key Components

As shown in the following table, employees potentially can receive three types of reward at ADCB: fixed pay, variable pay and retention scheme.

| | | |
|---|---|---|
| **Fixed Pay**<br>Fixed pay is based on the market rate for each role and is impacted by the employee's contributions over time. Fixed-pay reviews depend on whether the employee achieved specific and measurable objectives and delivered a prescribed performance level. | **Components**<br>*Basic Salary*<br>*Allowances*<br>• Social allowance (UAE nationals)<br>• Job-specific allowances (such as a teller allowance, remote-area allowance or shift allowance)<br>*Benefits based on band,* such as:<br>• Leave fare<br>• Private medical insurance<br>• Life insurance coverage<br>• Education allowance<br>• Annual leave | **2015 Key Management Fixed Pay**<br>In 2015, Key Management (defined as the Group CEO and his direct reports) received fixed pay and cash benefits in an aggregate amount of AED 25.536 mn. |
| **Variable Pay**<br>Employees may receive variable pay based on their performance over the year. Because it is performance-based, variable pay is at risk, and the amount received, if any, may change each year. | **Performance Criteria**<br>Individual award amounts are dependent on three things:<br>• Individual performance<br>• Business function performance<br>• Bank overall performance<br>For more information, see "ADCB's Variable Pay Framework & Governance — Key Facts," on page 100. | **2014/15 Variable Pay Awards**<br>For performance in 2014, awards to employees in 2015 consisted of cash variable pay awards of AED 150.081 mn and deferred compensation plan awards of AED 57.981 mn.<br>Key Management received AED 30.375 mn in cash and AED 27.625 mn in deferred compensation from the amounts set forth above. |
| **Retention Scheme**<br>In 2014, ADCB introduced a share-based Retention Scheme for incumbents in key positions deemed 'mission critical' and for UAE nationals deemed to have exceptional growth potential. The Retention Scheme, which is independent of variable pay awards, is designed to ensure business continuity by mitigating turnover risk and the related operational risk. Invitations to join the Retention Scheme are at the sole discretion of the NCHR Committee; members of the Management Executive Committee are not eligible to participate. Retention Scheme awards vest after four years of service for employees with continued service. | **Selection Criteria**<br>• Incumbents in 'mission critical' positions<br>• UAE nationals with exceptional growth potential | **2015 Retention Scheme Awards**<br>In 2015, we awarded 1,795,000 shares with an aggregate value of AED 12.619 mn. Awards were made to 55 employees, of whom 71% are UAE nationals. |

### ADCB's Bank-Wide Variable Pay Framework

The NCHR Committee oversees the allocation of variable pay awards and retention awards, including overall amounts, distribution amongst business groups and actual awards to senior management (including senior material risk-takers and senior members of the Bank's control functions). The Bank's Finance & Risk groups are involved in setting and reviewing the criteria used to measure performance. Formula-based awards rely on adjusted revenues and may be fine-tuned based on risk assessments as well as the source, quality and sustainability of revenues generated.

### ADCB's Variable Pay Framework & Governance — Key Facts

| | |
|---|---|
| Reflects individual, business function and Bank-wide performance | *Yes* |
| Distinguishes amongst different functions of the Bank to ensure alignment to the relevant market | *Yes* |
| Includes a deferred compensation plan | *Yes* |
| Currency of deferred compensation | *Cash and shares* |
| Duration of deferred compensation plan | *3 years* |
| Awards subject to thresholds, caps, clawback rules, malus clause, and deferral and retention provisions | *Yes* |
| Managed by remuneration professionals experienced in the governance of all types of compensation and benefits | *Yes* |
| Designed in conjunction with, and reviewed by, independent external advisors reporting directly to the Nomination, Compensation & Human Resources Committee | *Yes* |
| Relies on regular external benchmarking to ensure alignment with evolving global best practices | *Yes* |
| Incorporates constant monitoring of developments in remuneration governance to ensure all variable pay plans evolve in line with the Bank's needs and external developments | *Yes* |
| Designed to avoid excessive risk-taking | *Yes* |
| Actively monitored by the Board's Risk & Credit Committee | *Yes* |
| Includes a minimum shareholding rule for Key Management | *Yes* |
| Aligns employee interests with the long-term interests of the Bank's shareholders | *Yes* |

### Islamic Banking Governance

ADCB Islamic Banking is the brand under which we offer retail and corporate Shari'ah-compliant financial solutions to our Consumer, Wholesale and Treasury clients.

Abu Dhabi Commercial Islamic Finance PJSC (ADCIF) is a wholly owned subsidiary of ADCB that complements ADCB Islamic Banking by providing Islamic banking products and services.

Both ADCB and ADCIF are regulated by the Central Bank of the UAE, and their Islamic banking activities are supervised by an independent Fatwa & Shari'ah Supervisory Board (FSSB). The FSSB operates in accordance with the standards and guidelines issued by the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI) and Islamic Financial Services Board (IFSB), and is the final authority within ADCB regarding all Shari'ah-related matters. ADCB Islamic Banking's Shari'ah governance is implemented and overseen by the Head of Shari'ah Advisory, Compliance and Quality Control.

Fatwas (pronouncements and approvals) are issued by the FSSB to certify compliance with principles of Shari'ah for all products and services as well as for bespoke structured deals. The FSSB's comprehensive review covers the product structure, the underlying Shari'ah contract, legal documentation, operational process flow and all associated product literature. Fatwas issued by the FSSB are published on the Bank's website and are available at all branches.

ADCB Islamic Banking maintains a separate set of financial records to ensure that the accounts for the Islamic business are completely segregated from ADCB's conventional funds. The Bank's consolidated accounts include the results of ADCB Islamic Banking along with ADCIF, and these items are separately disclosed in the notes.

The respected Shari'ah scholars in Islamic banking and finance introduced below make up the FSSB of ADCB Islamic Banking.

**Professor Jassem Ali Al Shamsi, Chairman**

Professor Jassem is the first Emirati Shari'ah scholar to lead the FSSB of ADCB Islamic Banking. He previously served as Dean of the College of Shari'ah and Law, UAE University. In addition, he chairs or is a member of many other FSSBs for Islamic banks/windows and financial institutions (FIs).

**Sheikh Dr. Nizam Yaqubi, Executive Member**

Sheikh Dr. Nizam is one of the most prominent Shari'ah scholars in the world, and is recognised globally since he chairs or is a member of the FSSB at several regional and global Islamic banks and FIs. He is known for his profound knowledge of banking and Shari'ah coupled with a progressive approach towards modern banking solutions.

**Dr. Humayon Dar, Member**

Dr. Dar holds a PhD in Economics from the University of Cambridge, UK, and is an expert in the field of Islamic banking and finance. He is a member of the FSSB at several Islamic banks and FIs.

**Mr. Kamran Khalid Sherwani, Secretary**

Mr. Kamran is Head of Shari'ah Advisory, Compliance and Quality Control at ADCB Islamic Banking. He provides Shari'ah guidance on all day-to-day Shari'ah-related matters and obtains FSSB guidance and approvals in respect of each product, service, process and transaction and other Shari'ah-related matters. Mr. Kamran received a degree in Shari'ah and Law from the International Islamic University, and he has served as Shari'ah advisor to several major Islamic banks and FIs.

# Risk Management

## Risk Performance Overview 2015

ADCB's investment in risk infrastructure and focus on disciplined risk management continued to pay off and impact ongoing results in 2015.

2015 was a challenging year in terms of market conditions: the year was characterised by sustained low oil prices, increased geopolitical tensions, weakening credit performance in certain parts of the market, well-publicised problems in SMEs' credit quality accompanied by tightening liquidity, and pressures on funding costs. However, ADCB's balance sheet and P&L continued to demonstrate resilience. Some 31 December 2015 highlights include:

- NPL rate of 3%; lower than last year's
- Provision coverage of 128.5% remained conservatively cushioned
- Average portfolio quality has remained stable, notwithstanding a negative trend in credit conditions
- Capital adequacy ratio of 19.76%, which is robust by international and regional standards
- LCR is well above BCBS standard requirements at this time
- Concentration reduction by name and sector

With a continued focus on risk management practices alongside enhanced monitoring, ADCB has managed to improve credit quality whilst also maintaining balance sheet growth.

We continue to invest in our risk management capabilities through expanded portfolio-exposure reporting and analytics techniques, standardised stress tests, assessments of ratings migration, lessons-learned coaching, technical training, model-development capabilities, and tuning/calibration. Strict enforcement of discipline is also applied on the business side using tools such as RAROC (Risk Adjusted Return on Capital), economic capital computation, cross-selling, and portfolio-level returns.

We continue to monitor the impact of international developments and domestic challenges on our portfolio and to make changes as appropriate to our underwriting and policy measures. Continued work on automation and information management will improve both the quality and speed of risk reporting to help ADCB prepare for the anticipated Basel III requirements that the Central Bank of the UAE may implement in the future. ADCB is also continually upgrading its risk infrastructure and recently embarked on projects such as the digitisation of credit approvals and the rollout of a fraud management system to ensure that our risk management practices remain best-in-class.

We track emerging risks closely and have augmented our related IT risk infrastructure accordingly. We also hired a Chief Economist to help ADCB stay attuned to and on top of ever-changing macroeconomic conditions.

## Emerging Risk Scenarios

As part of our risk management strategy, we regularly identify and monitor "emerging risks." These are events that could lead to a significant unexpected negative outcome that could cause the Bank or one of its divisions to fail to meet a strategic objective. When we assess the potential impact of an emerging risk, we consider both financial and reputational implications.

This section describes the categories of emerging risks that could materially affect the UAE banking system and ADCB: macroeconomic conditions, geopolitical risks, the additional rigours imposed by enhanced regulatory requirements, risks related to information technology and data security, and concentration risks.

**Emerging risk:** Macroeconomic conditions in the operating markets.

**Definition and potential impact:**
Prolonged low oil prices will have an impact on the UAE economy and the GCC countries' economies. Most analyst reports forecast a slowdown in the GDP growth rates and an associated period of lower credit growth and tighter liquidity conditions.

**Mitigation strategy:** The UAE economy in general and the Dubai economy in particular are well-diversified away from oil into non-oil sectors, and this will help partially mitigate the impact of lower oil prices across the banking system. ADCB has over 90% of loans in the UAE and therefore expects to be a key beneficiary of this natural mitigant compared to peer banks with more geographically diverse asset books within the MENA region. ADCB's portfolio diversification in terms of investment in non-GCC bonds, lending to diversified industry groups, and focus on granular and well-structured lending is expected to help soften the impact of macroeconomic conditions.

ADCB is well-capitalised in terms of capital adequacy and regularly runs stress tests to ensure sufficient capital coverage at all times. ADCB also has a proactive approach to liquidity risk, which includes monitoring of positions, regular stress testing, and buffers in excess of the Basel requirements.

**Emerging risk:** Geopolitical risk

**Definition and potential impact:** This risk could stem from one of many sources unrelated to the Bank and its business. Geopolitical tension has been a persistent issue in the region.

**Mitigation strategy:** The Bank regularly monitors geopolitical and economic situations around the world. In particular, ADCB's Chief Economist centrally assesses the economic impact of changing geopolitical risks and provides key inputs to drive the Bank's strategy. Where necessary, we adjust our country limits and exposures to reflect our appetite and to mitigate these risks.

**Emerging risk:** Regulatory and legal risks to our business model.

**Definition and potential impact:** Governments and regulators often develop policies that impose new requirements, including in the areas of capital and liquidity management, operational risk, central counterparty exposures, and business structure. These developments may affect our business model and profitability. Should a regulatory change reduce the Bank's ability to respond to all of our customers' needs or to achieve fair customer outcomes, we may experience increased costs and reputational damage. Moreover, inability to satisfy our customers would cause the Bank to fall short of strategic objectives, which could have an adverse effect on earnings, liquidity, capital and shareholder confidence. The risk of failure due to emerging unanticipated regulatory and legal changes affects all of our businesses.

**Mitigation strategy:** ADCB strives to ensure that the Bank's views are considered when UAE regulatory policy is developed. ADCB either chairs or is a key member of several UAE Banks Federation forums. Internally, we analyse all new pipeline requirements, regulatory consultation, and draft regulations or circulars to measure their impact qualitatively and quantitatively as well as to ensure they can be implemented effectively. We also confirm that our capital and liquidity plans anticipate the potential effects of any changes. We constantly monitor and expand our capital allocation and liquidity management disciplines to incorporate future increased capital and liquidity requirements and to drive appropriate risk management and mitigating actions.

In the past few years, the Bank has launched several initiatives to reduce risk to our business model. For example, our Customer Experience Committee ensures that customers enjoy a superior and consistent experience. We have well-developed policies and procedures to deal with customer complaints, and all front office staff and officers are trained to deal with customer concerns in a timely manner.

**Emerging risk:** Risks related to information technology and data security.

**Definition and potential impact:** Cyberattacks are increasing in frequency and severity across the globe. This risk affects all of our businesses. A successful cyberattack could lead to fraudulent activity or the loss of customer data, leading to adverse business, financial and reputational consequences. The Bank could experience significant losses as a result of the need to reimburse customers, pay fines or both. Furthermore, a successful cyberattack could cause significant damage to the Bank's reputation.

**Mitigation strategy:** The Bank has in place a constantly evolving and expanding large-scale programme to improve controls over user access security as well as hardware and data integrity and protection. In addition, we have implemented additional anti-virus protection and engage in regular penetration testing and unusual-activity detection, mitigation and elimination. We are insured against data-security risk and consequential risks and conduct ongoing user and customer education on information protection.

## Principal Risks Affecting ADCB and Risk Coverage

The principal risks faced by ADCB are presented in the following pages, together with a summary of the key areas of focus and how the Bank managed these risks in 2015.

### Credit Risk

| | |
|---|---|
| Definition | Credit risk reflects the risk of loss if one or more counterparties fails to meet all or part of their obligations to the Bank. Credit risk also includes concentration risk.<br><br>Concentration risk derives from increased exposure to large client groups. |
| Sources | Deteriorating macroeconomic conditions can affect ADCB's performance and credit risk profile.<br><br>ADCB's credit portfolio can worsen due to quality of bookings and increased exposure to particular economic sectors or large client groups. |
| Character and impact on ADCB | Losses can vary materially across portfolios. Problems may include the risk of loss due to the concentration of credit risk related to a specific product, asset class, sector or counterparty. Credit risk has the potential to damage ADCB's financial performance and capital. |
| How we fared in 2015 | During 2015, our collective loan-impairment allowance balance was AED 2.97 bn and 1.89% of credit-risk-weighted assets, in excess of the Central Bank of the UAE's mandated collective impairment allowance of 1.50%. Credit quality continued to improve during most of 2015, as the overall financial condition of businesses and consumers strengthened and the economic sectors affected by the economic downturn improved. The non-performing loan ratio dropped to 3.0% (compared with 3.1% in 2014), and provision coverage remained at a healthy 128.5% (from 137.1% in 2014). Total impairment charges were 27.65% lower year on year in 2015.<br><br>In 2015, the 20 largest customer exposures constituted 35.26% of gross loans (compared to 37.04% in 2014). |
| Specific risk-management process | **Measurement —** We measure the amount that could be lost if a customer or counterparty fails to make repayments.<br><br>**Monitoring —** The Bank monitors concentrations on a continuous basis by customer group, by industry, by geography and by credit risk profile. We strictly enforce Risk Adjusted Return on Capital when screening proposed new business to ensure that all facilities are appropriately structured and that the expected income justifies the expected risk weight of assets to be booked.<br><br>**Management —** ADCB attempts to mitigate this risk by diversifying our portfolio, managing concentrations and adhering to disciplined credit review and underwriting guidelines. ADCB's risk strategy focuses on growth of granular exposures, and risk parameters are set to encourage granular growth with an improvement in average portfolio quality. ADCB's underwriting guidelines and minimum credit acceptance criteria ensure that new bookings improve portfolio quality. Our disciplined credit process caused the portfolio rating to improve by one notch in 2015.<br><br>*Refer to Note 43 of the audited financial statements and the Pillar 3 report for further details.* |

## Market Risk

| | |
|---|---|
| Definition | Market risk is the risk that the Bank's income or the valuation of financial instruments will fluctuate because of changes in external market factors that affect pricing. |
| Sources | Changes in interest rates, credit spreads, exchange rates, commodity prices and equity prices |
| Character and impact on ADCB | The traded market risk exposure arises in transactions in financial instruments such as debt securities, loans, deposits and equities, as well as in transactions in securities financing and derivatives.<br><br>The majority of the non-traded market risk exposure arises from retail and commercial banking activities in all franchises from assets and liabilities that are not classified as held-for-trading. |
| How we fared in 2015 | During 2015, average trading value-at-risk (VaR) remained fairly stable from December 2014. |

| Metrics | 31/12/2015 (AED) |
|---|---|
| VaR 1d 99% Confidence Level | (3,227,787) |
| SVaR 1d 99% Confidence Level | (15,132,604) |
| Expected Shortfall (1d) | (11,044,831) |
| Credit Value Adjustment (CVA) | (36,666,187) |
| Earnings at Risk (EaR) | (367,676,528) |
| Economic Value of Equity (EVE) | (1,989,961,044) |

| | |
|---|---|
| Specific risk-management process | **Measurement —** Our Market Risk function implements valuation and risk policies for all Level 1 and Level 2 financial instruments in the trading book. All valuation models are independently vetted and approved for mathematical integrity and suitability. We use these models to measure market risk within a 99% confidence level through value at risk (VaR), stressed value at risk (SVaR), Expected Shortfall, and First Order Greeks (Delta and Vega). VaR and SVaR are used to estimate potential valuation losses on risk positions due to movements in market rates and prices over a specified time horizon and to a given level of confidence, augmented with stress/sensitivity testing to evaluate the potential impact on valuations of more extreme, though plausible, events or movements in a set of financial variables (non-statistical measures).<br><br>**Monitoring —** We apply the sensitivity of net interest income and the sensitivity of structural foreign exchange to the market risk positions within each risk type using measures including the valuation of interest rate, foreign exchange rate, fixed income and commodity derivatives.<br><br>**Management —** Using risk limits approved by the MRCC, all limit breaches are reported according to their materiality to appropriate levels of authorities.<br><br>*Refer to Note 47 of the audited financial statements for further details.* |



## Liquidity and Funding Risk

| | |
|---|---|
| Definition | Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when financial liabilities fall due or unable to replace funds when they are withdrawn. Funding risk is the risk that the Bank will be unable to achieve its business plans due to its capital position, liquidity position or structural position. |
| Sources | Liquidity risk arises from mismatches in the timing of cash flows such as when the cash needed to fund lending commitments exceeds deposits and other available liquid assets.<br><br>Funding risk arises when the Bank cannot obtain the funds needed to meet current and future cash flow and collateral requirements at the expected terms and when required. |
| Character and impact on ADCB | Liquidity and funding risk varies based on company-specific factors such as maturity profile, the composition of sources and uses of funding, and the quality and size of the liquid asset buffer. Broader market factors, such as wholesale market conditions and depositor and investor behaviour, also play a role. This type of risk can cause the Bank to fail to meet regulatory liquidity requirements, become unable to support normal banking activity or, at worst, cease to be a going concern. |
| How we fared in 2015 | Survival horizons under stressed conditions and further drawdown of liquidity facilities was at 11 months at the end of December 2015. The Bank manages its LCR at levels higher than mandated by the Basel Committee. |
| Specific risk-management process | **Measurement —** This risk is measured using metrics related to Basel III liquidity ratios and survival horizons under liquidity stress tests and contingency funding plans. Liquidity stress tests are carried out using contractual, behavioural and stressed conditions coupled with contingency funding facilities.<br><br>**Monitoring —** The Asset and Liability Management Committee (ALCO) and the MRCC oversee the Bank's liquidity and funding risk, stress-test-management process and corrective actions.<br><br>**Management —** Funding is diversified and raised through both retail and wholesale operations. In addition, businesses are required to self-fund all new operations. We strive to maintain a large portion of our funding as sticky deposits. Our Treasury department ensures access to diverse sources of funding, ranging from local customer deposits (from both retail and corporate customers) to long-term funding, such as debt securities and subordinated liabilities. Further, the Bank has borrowing facilities from the Central Bank of the UAE to manage liquidity risk during critical times.<br><br>*Refer to Note 45 of the audited financial statements for further details.* |

## Capital Risk

| | |
|---|---|
| **Definition** | Capital risk is the risk that the Bank will have inadequate resources to meet regulatory capital requirements, to safeguard the Bank's ability to continue as a going concern and increase returns for shareholders, or to maintain a strong capital base to support the development of the business. |
| **Sources** | Inefficient management of capital resources |
| **Character and impact on ADCB** | Capital risk can disrupt the business if there is insufficient capital to support business activities. It also has the potential to cause the Bank to fail to meet regulatory requirements. Bank capital and earnings may be affected, impairing the activities of all divisions. |
| **How we fared in 2015** | The quality of capital remained stable in 2015. Our capital adequacy ratio was 19.76% at 31 December 2015 in spite of an increase in risk-weighted assets by AED 22.6 bn due to increase in loan volumes in 2015. |
| **Specific risk-management process** | **Measurement —** Capital adequacy is measured using core Tier 1 and total capital adequacy ratios following the standardised approach (Basel II). Market and operational risk are measured by calculating capital requirements using the standardised approach (Basel II).<br><br>**Monitoring —** The Bank regularly conducts a process of forecasting capital to ensure our capital position is controlled within the agreed parameters. If the projected position might deteriorate beyond acceptable levels, the Bank would issue further capital, revise business plans or do both.<br><br>**Management —** We manage capital adequacy and the use of regulatory capital on a regular basis, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of the UAE. Prescribed information is filed with regulators as required under Basel II standards. The Bank also prepares an annual comprehensive ICAAP document, which is a detailed assessment of the Bank's risk profile, approaches to assessing and measuring various material risks, and capital planning under regular and stress scenarios.<br><br>*Refer to the Capital Risk Management section within this section, Note 52 of the audited financial statements and the Pillar 3 disclosures for further details.* |

## Operational Risk

| | |
|---|---|
| **Definition** | Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. Operational risks have many possible repercussions, including damage to the Bank's reputation, legal or regulatory implications, and financial losses. |
| **Sources** | Day-to-day operations, potentially in any aspect of the Bank's business |
| **Character and impact on ADCB** | Losses may be financial in nature (characterised by either frequent small losses or infrequent material losses), or may lead to direct customer or reputational impact (for example, a major breach of customer data leading to use of information for fraudulent activity). Operational risk has the potential to affect the Bank's profitability and capital requirements directly and to impair stakeholder confidence. |
| **How we fared in 2015** | There were no material operational losses in 2015. |
| **Specific risk-management process** | **Identification & Assessment —** Operational risk is identified using both the top risk analysis process and the risk and control assessment process. These tests/reviews/measures assess the level of exposure to risk and the effectiveness of controls.<br><br>**Measurement —** Operational risk is measured using the standardised approach prescribed by the Central Bank of the UAE (CBUAE). Reports are submitted to the CBUAE per its reporting timelines.<br><br>**Monitoring —** The Bank uses key indicators, risk thresholds, expected loss and other internal control activities to monitor operational risk.<br><br>**Management —** ADCB's operational risk-management process prescribes the escalation of issues and events, leading to greater risk transparency across the organisation. All employees are responsible for identifying and assessing risks, implementing controls to manage them, and monitoring the effectiveness of those controls using the operational risk-management framework.<br><br>*Refer to the Pillar 3 disclosures for further details.* |

## Regulatory Risk

| | |
|---|---|
| **Definition** | Regulatory risk refers to risk the Bank will be exposed to regulatory sanctions or fines due to a failure to comply with regulatory guidelines or with laws. |
| **Sources** | Changes in the regulatory environment in which ADCB functions and our response to new requirements |
| **Character and impact on ADCB** | Regulatory defaults or non-compliance can have an adverse effect on the Bank's customers, strategy, business, financial condition or reputation, primarily due to the threat of regulatory enforcement or other interventions. |
| **How we fared in 2015** | There were no material incidents of regulatory non-compliance in 2015. |
| **Specific risk-management process** | **Monitoring —** We closely watch and actively try to influence key regulatory developments. In particular, ADCB participates in regulatory consultative meetings and is an active member of various forums, such as the UAE Banks Federation. Regulatory compliance is closely monitored by the Risk and Audit areas under the oversight of the Board-level Committees.<br><br>**Management —** We allocate capital to cover any unforeseen sanctions or fines that may arise from changes in the Bank's internal and external regulatory environment. Based on the peer group experience, and taking into account our own complexity, the Bank sets aside capital commensurate with regulatory risk as part of its ICAAP process. |

## Information Security Risk

| | |
|---|---|
| **Definition** | Information security risk is the risk of loss of confidential information or the disruption of processes because IT systems are not available for normal operations, and the risk that this loss or disruption may cause financial damage. |
| **Sources** | Information security risk arises from information leakage, loss or theft. |
| **Character and impact on ADCB** | Information security risk gives rise to potential financial loss and reputational damage, which could adversely affect customer and investor confidence. Loss of customer data also constitutes a regulatory violation that could result in the imposition of fines and penalties. |
| **How we fared in 2015** | No material loss of confidential data or disruption of processes due to unavailability of our IT system was reported in 2015. |
| **Specific risk-management process** | **Identification & Assessment —** ADCB proactively identifies top organisational information security risks by continuously evaluating threats and by benchmarking information security controls against leading industry standards.<br><br>**Monitoring —** We maintain and continually update an information-risk heat map that plots the Bank's protection mechanisms against ever-evolving cyberthreats. We use knowledge from a variety of sources, such as published research, security forums and regional events, to keep these mechanisms relevant.<br><br>**Management —** The Bank's comprehensive technology-risk-management programme covers classification of assets, identification of vulnerabilities and assessment of the risks of all internal assets, which enables management to prioritise and mitigate internal risks. All internal systems and applications undergo regular security testing to ensure effectiveness. |

## Reputational Risk

| | |
|---|---|
| **Definition** | Reputational risk refers to the potential adverse effects that can arise if the Bank's reputation is sullied due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints, or adverse publicity. |
| **Sources** | Reputational risk could arise from the failure of the Bank to effectively mitigate the risks described above in any of our businesses. |
| **Character and impact on ADCB** | Damage to ADCB's reputation could cause existing clients to reduce or eliminate their business with us and discourage prospective clients from forming business relationships with ADCB. |
| **How we fared in 2015** | There were no material reported incidents in 2015 that could lead to reputational risk to ADCB. |
| **Specific risk-management process** | **Identification & Assessment —** All employees are responsible for identifying and managing reputational risk in their daily activities. These responsibilities form part of ADCB's Code of Conduct and are further embedded through values-based performance assessments.<br><br>**Monitoring —** Reputational risk management is aligned with our focus on creating the most valuable bank in the UAE, our strategic objectives and our risk-appetite goal of maintaining shareholder confidence.<br><br>**Management —** ADCB's Risk Management function addresses the reputational risk associated with the clients with which the Bank chooses to do business. It sets policy and provides guidance to avoid reputational risk relating to business engagements with, and lending to, clients in sensitive industry sectors. |

## Capital Position as at 31 December 2015

The Bank's capital position applying prevailing rules as at 31 December 2015 is set out in Note 52 of the audited financial statements.

## Leverage Ratio

The Basel III reforms include the introduction of a leverage ratio framework designed to reinforce risk-based capital requirements with a simple, transparent, non-risk-based 'backstop' measure. The leverage ratio is defined as Tier 1 capital divided by the exposure measure. The BCBS will test the proposed 3% minimum requirement for the leverage ratio, and expects that final calibrations and any further adjustments to the definition of the leverage ratio will be completed by 2017. Disclosure of this measure may be required as of 1 January 2018.

## Liquidity Coverage Ratio

During the crisis of 2008, many global banks experienced severe funding difficulties despite maintaining adequate capital levels because they did not manage their liquidity in a prudent manner. Consequently, the BCBS developed two minimum standards for funding liquidity. The proposed Liquidity Coverage Ratio (LCR) will require banks to have sufficient high quality liquid assets to withstand a 30-day stressed funding scenario that is specified by supervisors. The proposed Net Stable Funding Ratio (NSFR) addresses longer-term liquidity mismatches. These ratios cover the entire balance sheet and will provide incentives for banks to use stable sources of funding. In May 2015, the Central Bank of the UAE published "Regulations Relating to Liquidity at Banks." Starting 1 January 2016, the minimum LCR is 60%. This coverage will increase by 10% each year to reach 100% by 1 January 2019. The NSFR requirement to be introduced in January 2018 is 100%. The methodology for estimating the LCR and NSFR is based on an interpretation of the Basel standards and includes a number of assumptions that are subject to change. ADCB monitors its position against the anticipated LCR and NSFR requirements to ensure the Bank's ability to comply with these standards.

# Consolidated Financial Statements

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# INDEPENDENT AUDITOR'S REPORT

The Shareholders
Abu Dhabi Commercial Bank PJSC
Abu Dhabi
United Arab Emirates

**Report on the consolidated financial statements**

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

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and its 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

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

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

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

**Opinion**

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

**Other matter**

The comparative amounts in the consolidated statement of financial position as at 31 December 2014 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and other explanatory notes were audited by another auditor whose report dated 25 January 2015 expressed an unmodified opinion thereon.

**Report on other legal and regulatory requirements**

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

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

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

iii) the Bank has maintained proper books of account;

iv) the financial information included in the Directors' report is consistent with the Bank's books of account;

v) note 41 to the consolidated financial statements of the Bank discloses purchases or investment in shares during the financial year ended 31 December 2015;

vi) note 37 to the consolidated financial statements of the Bank discloses material related party transactions, the terms under which they were conducted and principles of managing conflict of interests;

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

viii) note 54 to the consolidated financial statements of the Bank discloses social contributions made during the year ended 31 December 2015.

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 purpose of our audit.

Deloitte & Touche (M.E.)

Mutasem M. Dajani
Registration No. 726
31 January 2016

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2015*

| | Notes | 2015 AED'000 | 2014 AED'000 | 2015 USD'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with central banks | 5 | 20,180,277 | 15,092,192 | 5,494,222 |
| Deposits and balances due from banks | 6 | 14,954,997 | 13,189,412 | 4,071,603 |
| Reverse-repo placements | 7 | 4,256,277 | 2,830,049 | 1,158,801 |
| Trading securities | 8 | 62,261 | 199,599 | 16,951 |
| Derivative financial instruments | 9 | 4,001,908 | 4,288,506 | 1,089,548 |
| Investment securities | 10 | 20,863,607 | 21,651,838 | 5,680,263 |
| Loans and advances, net | 11 | 153,677,386 | 140,562,498 | 41,839,746 |
| Investment in associate | 12 | 197,156 | 195,854 | 53,677 |
| Investment properties | 13 | 647,647 | 615,778 | 176,326 |
| Other assets | 14 | 8,571,640 | 4,551,844 | 2,333,689 |
| Property and equipment, net | 15 | 835,145 | 806,188 | 227,374 |
| Intangible assets | 16 | 18,800 | 35,705 | 5,119 |
| **Total assets** | | 228,267,101 | 204,019,463 | 62,147,319 |
| **Liabilities** | | | | |
| Due to banks | 17 | 1,691,793 | 4,089,019 | 460,603 |
| Derivative financial instruments | 9 | 4,741,180 | 5,000,067 | 1,290,819 |
| Deposits from customers | 18 | 143,526,296 | 126,011,227 | 39,076,040 |
| Euro commercial paper | 19 | 5,700,064 | 6,375,284 | 1,551,882 |
| Borrowings | 20 | 33,471,731 | 30,320,121 | 9,112,913 |
| Other liabilities | 21 | 10,403,234 | 5,804,912 | 2,832,354 |
| **Total liabilities** | | 199,534,298 | 177,600,630 | 54,324,611 |
| **Equity** | | | | |
| Share capital | 22 | 5,595,597 | 5,595,597 | 1,523,441 |
| Share premium | | 3,848,286 | 3,848,286 | 1,047,723 |
| Other reserves, net of Treasury shares | 23 | 5,656,564 | 5,791,798 | 1,540,040 |
| Retained earnings | | 9,627,315 | 7,172,755 | 2,621,104 |
| Capital notes | 26 | 4,000,000 | 4,000,000 | 1,089,028 |
| **Equity attributable to equity holders of the Bank** | | 28,727,762 | 26,408,436 | 7,821,336 |
| **Non-controlling interests** | | 5,041 | 10,397 | 1,372 |
| **Total equity** | | 28,732,803 | 26,418,833 | 7,822,708 |
| **Total liabilities and equity** | | 228,267,101 | 204,019,463 | 62,147,319 |

These consolidated financial statements were approved by the Board of Directors and authorised for issue on 31 January 2016 and signed on its behalf by:

Eissa Al Suwaidi
*Chairman*

Ala'a Eraiqat
*Group Chief Executive Officer*

Deepak Khullar
*Group Chief Financial Officer*

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

# CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2015*

| | Notes | 2015 AED'000 | 2014 AED'000 | 2015 USD'000 |
|---|---|---|---|---|
| Interest income | 27 | 7,119,968 | 6,367,955 | 1,938,461 |
| Interest expense | 28 | (1,481,601) | (1,288,783) | (403,376) |
| **Net interest income** | | 5,638,367 | 5,079,172 | 1,535,085 |
| Income from Islamic financing | 24 | 677,144 | 617,433 | 184,357 |
| Islamic profit distribution | 24 | (109,712) | (112,096) | (29,870) |
| **Net income from Islamic financing** | | 567,432 | 505,337 | 154,487 |
| **Total net interest and Islamic financing income** | | 6,205,799 | 5,584,509 | 1,689,572 |
| Net fees and commission income | 29 | 1,437,577 | 1,242,948 | 391,390 |
| Net trading income | 30 | 352,012 | 406,988 | 95,838 |
| Revaluation of investment properties | 13 | 192 | 22,330 | 52 |
| Other operating income | 31 | 264,906 | 272,623 | 72,124 |
| **Operating income** | | 8,260,486 | 7,529,398 | 2,248,976 |
| **Operating expenses** | 32 | (2,826,938) | (2,563,060) | (769,654) |
| **Operating profit before impairment allowances** | | 5,433,548 | 4,966,338 | 1,479,322 |
| Impairment allowances | 33 | (501,548) | (762,247) | (136,550) |
| Share in profit of associate | 12 | 1,302 | – | 354 |
| **Profit before taxation** | | 4,933,302 | 4,204,091 | 1,343,126 |
| Overseas income tax expense | | (6,233) | (2,707) | (1,697) |
| **Net profit for the year** | | 4,927,069 | 4,201,384 | 1,341,429 |
| **Attributed to:** | | | | |
| Equity holders of the Bank | | 4,924,244 | 4,049,731 | 1,340,660 |
| Non-controlling interests | | 2,825 | 151,653 | 769 |
| **Net profit for the year** | | 4,927,069 | 4,201,384 | 1,341,429 |
| **Basic earnings per share (AED/USD)** | 34 | 0.93 | 0.74 | 0.25 |
| **Diluted earnings per share (AED/USD)** | 34 | 0.92 | 0.74 | 0.25 |



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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2015*

| | 2015 AED'000 | 2014 AED'000 | 2015 USD'000 |
|---|---|---|---|
| **Net profit for the year** | **4,927,069** | 4,201,384 | **1,341,429** |
| **Items that may be re-classified subsequently to the consolidated income statement** | | | |
| Exchange difference arising on translation of foreign operations (Note 23) | **(9,875)** | (3,699) | **(2,689)** |
| Net movement in cash flow hedge reserve (Note 23) | **14,340** | (52,083) | **3,904** |
| Net movement in fair value of available-for-sale investments (Note 23) | **(351,911)** | (99,466) | **(95,809)** |
| | **(347,446)** | (155,248) | **(94,594)** |
| **Items that may not be re-classified subsequently to the consolidated income statement** | | | |
| Actuarial losses on defined benefit obligation | **(10,141)** | (25,887) | **(2,761)** |
| **Total comprehensive income for the year** | **4,569,482** | 4,020,249 | **1,244,074** |
| **Attributed to:** | | | |
| Equity holders of the Bank | **4,566,657** | 3,868,596 | **1,243,305** |
| Non-controlling interests | **2,825** | 151,653 | **769** |
| **Total comprehensive income for the year** | **4,569,482** | 4,020,249 | **1,244,074** |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2015*

| | Share capital AED'000 | Share premium AED'000 | Other reserves, net of Treasury shares AED'000 | Retained earnings AED'000 | Capital notes AED'000 | Equity attributable to equity holders of the Bank AED'000 | Non-controlling interests AED'000 | Total equity AED'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | **5,595,597** | **3,848,286** | **5,791,798** | **7,172,755** | **4,000,000** | **26,408,436** | **10,397** | **26,418,833** |
| Net profit for the year | **–** | **–** | **–** | **4,924,244** | **–** | **4,924,244** | **2,825** | **4,927,069** |
| Other comprehensive loss for the year | **–** | **–** | **(347,446)** | **(10,141)** | **–** | **(357,587)** | **–** | **(357,587)** |
| Other movements (Note 23) | **–** | **–** | **212,212** | **(251,391)** | **–** | **(39,179)** | **–** | **(39,179)** |
| Dividends paid to equity holders of the Bank | **–** | **–** | **–** | **(2,079,292)** | **–** | **(2,079,292)** | **–** | **(2,079,292)** |
| Dividends paid to non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **(8,181)** | **(8,181)** |
| Capital notes coupon paid (Note 26) | **–** | **–** | **–** | **(128,860)** | **–** | **(128,860)** | **–** | **(128,860)** |
| **Balance at 31 December 2015** | **5,595,597** | **3,848,286** | **5,656,564** | **9,627,315** | **4,000,000** | **28,727,762** | **5,041** | **28,732,803** |
| **Balance at 1 January 2014** | 5,595,597 | 3,848,286 | 5,135,440 | 5,597,275 | 4,000,000 | 24,176,598 | 644,712 | 24,821,310 |
| Net profit for the year | – | – | – | 4,049,731 | – | 4,049,731 | 151,653 | 4,201,384 |
| Other comprehensive loss for the year | – | – | (155,248) | (25,887) | – | (181,135) | – | (181,135) |
| Other movements (Note 23) | – | – | 811,606 | (792,635) | – | 18,971 | – | 18,971 |
| Dividends paid to equity holders of the Bank | – | – | – | (1,560,857) | – | (1,560,857) | – | (1,560,857) |
| Net increase in non-controlling interests | – | – | – | – | – | – | 50,527 | 50,527 |
| Disposal of fund subsidiaries (Note 53) | – | – | – | – | – | – | (836,495) | (836,495) |
| Net gains on Treasury shares arising on disposal of fund subsidiaries (Note 53) | – | – | – | 91,521 | – | 91,521 | – | 91,521 |
| Capital notes coupon paid (Note 26) | – | – | – | (186,393) | – | (186,393) | – | (186,393) |
| **Balance at 31 December 2014** | 5,595,597 | 3,848,286 | 5,791,798 | 7,172,755 | 4,000,000 | 26,408,436 | 10,397 | 26,418,833 |

For the year ended 31 December 2015, the Board of Directors has proposed to pay cash dividends representing 45% of the paid-up capital (Note 22).

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2015*

| | 2015 AED'000 | 2014 AED'000 | 2015 USD'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | 4,933,302 | 4,204,091 | 1,343,126 |
| **Adjustments for:** | | | |
| Depreciation on property and equipment, net (Note 15) | 134,531 | 132,008 | 36,627 |
| Amortisation of intangible assets (Note 16) | 16,905 | 25,990 | 4,603 |
| Revaluation of investment properties (Note 13) | (192) | (22,330) | (52) |
| Impairment allowance on loans and advances, net (Note 43.6) | 752,846 | 1,040,551 | 204,968 |
| Share in profit of associate (Note 12) | (1,302) | – | (354) |
| Discount unwind (Note 43.6) | (126,033) | (160,011) | (34,313) |
| Net gains from disposal of available-for-sale investments (Note 31) | (17,028) | (22,201) | (4,636) |
| Net impairment recoveries on available-for-sale investments and other impairment allowances (Note 33) | 1,268 | (48,952) | 345 |
| Interest income on available-for-sale investments | (459,694) | (502,839) | (125,155) |
| Dividend income on available-for-sale investments | (9,867) | (20,096) | (2,686) |
| Interest expense on borrowings and euro commercial paper | 548,484 | 515,088 | 149,329 |
| Net losses/(gains) from trading securities (Note 30) | 4,237 | (98,071) | 1,154 |
| Ineffective portion of hedges — losses (Note 9) | 13,720 | 4,091 | 3,735 |
| Employees' incentive plan benefit expense (Note 25) | 27,391 | 29,309 | 7,457 |
| **Cash flow from operating activities before changes in operating assets and liabilities** | 5,818,568 | 5,076,628 | 1,584,148 |
| Decrease/(increase) in balances with central banks | 755,800 | (2,050,000) | 205,772 |
| Decrease/(increase) in due from banks | 3,487,864 | (280,855) | 949,595 |
| Decrease/(increase) in reverse-repo placements | 485,337 | (2,518,189) | 132,136 |
| Increase in net trading derivative financial instruments | (20,937) | (19,229) | (5,700) |
| Net proceeds from disposal of trading securities | 133,101 | 20,026 | 36,238 |
| Increase in loans and advances, net | (13,777,926) | (10,018,841) | (3,751,137) |
| Decrease/(increase) in other assets | 222,664 | (436,635) | 60,622 |
| Increase in due to banks | 347,453 | 65,024 | 94,597 |
| Increase in deposits from customers | 17,492,927 | 10,571,899 | 4,762,572 |
| Increase/(decrease) in other liabilities | 308,230 | (76,437) | 83,916 |
| **Net cash from operations** | 15,253,081 | 333,391 | 4,152,759 |
| Overseas tax paid, net | (8,905) | (7,554) | (2,424) |
| **Net cash from operating activities** | 15,244,176 | 325,837 | 4,150,335 |
| **Investing activities** | | | |
| Net impairment recoveries on available-for-sale investments (Note 33) | 10,853 | 48,952 | 2,955 |
| Overseas tax refund, net | – | 3,575 | – |
| Proceeds from redemption/disposal of available-for-sale investments | 10,489,183 | 6,990,331 | 2,855,754 |
| Net purchase of available-for-sale investments | (10,430,894) | (7,927,384) | (2,839,884) |
| Interest received on available-for-sale investments | 656,729 | 674,615 | 178,799 |
| Dividends received on available-for-sale investments | 9,867 | 18,751 | 2,686 |
| Additions to investment properties (Note 13) | – | (12,091) | – |
| Cash received on disposal of fund subsidiaries (Note 53) | – | 95,112 | – |
| Net purchase of property and equipment, net | (163,488) | (132,874) | (44,511) |
| **Net cash from/(used in) investing activities** | 572,250 | (241,013) | 155,799 |
| **Financing activities** | | | |
| Net (decrease)/increase in euro commercial paper | (801,120) | 647,954 | (218,111) |
| Net proceeds from borrowings | 31,882,677 | 27,660,345 | 8,680,282 |
| Repayment of borrowings | (28,360,056) | (20,967,704) | (7,721,224) |
| Interest paid on borrowings | (501,331) | (464,732) | (136,491) |
| Net proceeds from sale of Treasury shares by Fund subsidiaries | – | 1,751 | – |
| Dividends paid to equity holders of the Bank | (2,079,292) | (1,560,857) | (566,102) |
| Share buyback (Note 22) | (17,005) | (11,691) | (4,630) |
| Dividends paid to/net movement in non-controlling interests | (8,181) | 50,527 | (2,227) |
| Purchase of employees' incentive plan shares (Note 23) | (50,195) | (31,459) | (13,666) |
| Capital notes coupon paid (Note 26) | (128,860) | (186,393) | (35,083) |
| **Net cash (used in)/from financing activities** | (63,363) | 5,137,741 | (17,252) |
| **Net increase in cash and cash equivalents** | 15,753,063 | 5,222,565 | 4,288,882 |
| Cash and cash equivalents at the beginning of the year | 15,020,506 | 9,797,941 | 4,089,438 |
| **Cash and cash equivalents at the end of the year (Note 36)** | 30,773,569 | 15,020,506 | 8,378,320 |

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

## 1 ACTIVITIES AND AREAS OF OPERATIONS

Abu Dhabi Commercial Bank PJSC ("ADCB" or "the Bank" or "the Group") is a public joint stock company with limited liability incorporated in the Emirate of Abu Dhabi, United Arab Emirates (UAE). ADCB is principally engaged in the business of retail, commercial and Islamic banking and provision of other financial services through its network of forty nine branches and three pay offices in the UAE, two branches in India, one offshore branch in Jersey, and its subsidiaries and two representative offices located in London and Singapore.

The registered head office of ADCB is at Abu Dhabi Commercial Bank Head Office Building, Sheikh Zayed Bin Sultan Street, Plot C-33, Sector E-11, P. O. Box 939, Abu Dhabi, UAE.

ADCB is registered as a public joint stock company in accordance with the UAE Federal Law No. (8) of 1984 (as amended) ("Companies Law"). The UAE Federal Law No. (2) of 2015 which came into effect on 1 July 2015 replaced the existing Companies Law. The Group is currently assessing the impact of the new law and expects to be fully compliant on or before the end of the grace period on 30 June 2016.

## 2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In the current year, the Group has applied a number of new and revised IFRS issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2015. The application of these new and revised IFRS has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Group's future transactions or arrangements.

- IFRS Annual Improvements cycle 2010–2012 that includes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24.
- IFRS Annual Improvements cycle 2011–2013 that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.
- Amendments to IAS 19 *Employee Benefits* clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.

Other than the above, there are no other significant IFRS and amendments that were effective for the first time for the financial year beginning on or after 1 January 2015.

### STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE

The Group has not early-adopted any new and revised IFRS that have been issued but are not yet effective.

| New standards and significant amendments to standards applicable to the Group: | Effective for annual periods beginning on or after |
|---|---|
| Amendments to IFRS 7 — Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9. | When IFRS 9 is first applied |
| IFRS 7 — Financial Instruments: Disclosures — additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9. | When IFRS 9 is first applied |
| IFRS 9 — Financial Instruments (2009) issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 Financial Instruments (2010) revised in October 2010 includes the requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement.<br><br>IFRS 9 — Financial Instruments (2013) was revised in November 2013 to incorporate a hedge accounting chapter and permit the early application of the requirements for presenting in other comprehensive income the own credit gains or losses on financial liabilities designated under the fair value option without early-applying the other requirements of IFRS 9.<br><br>Finalised version of IFRS 9 (IFRS 9 Financial Instruments [2014]) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition.<br><br>IFRS 9 (2009) and IFRS 9 (2010) were superseded by IFRS 9 (2013), and IFRS 9 (2010) also superseded IFRS 9 (2009). IFRS 9 (2014) supersedes all previous versions of the standard. The various standards also permit various transitional options. Accordingly, entities can effectively choose which parts of IFRS 9 they apply, meaning they can choose to apply: (1) the classification and measurement requirements for financial assets, (2) the classification and measurement requirements for both financial assets and financial liabilities, (3) the classification and measurement requirements and the hedge accounting requirements provided that the relevant date of the initial application is before 1 February 2015. | 1 January 2018 |
| IFRS 15 — Revenue from Contracts with Customers provides a single, principles-based five-step model to be applied to all contracts with customers. | 1 January 2018 |
| IFRS 16 — Leases specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. | 1 January 2019 |
| IFRS Annual Improvements cycle 2012 — 2014 that includes amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34. | 1 January 2016 |
| Amendments to IAS 16 and IAS 38 to clarify the acceptable methods of depreciation and amortisation. | 1 January 2016 |
| Amendments to IFRS 11 to clarify accounting for acquisitions of interests in joint operations. | 1 January 2016 |

| New standards and significant amendments to standards applicable to the Group: | Effective for annual periods beginning on or after |
|---|---|
| Amendments to IFRS 10 and IAS 28 clarify that the recognition of the gain or loss on the sale or contribution of assets between an investor and its associate or joint venture depends on whether the assets sold or contributed constitute a business. | 1 January 2016 |
| Amendments to IAS 27 allow an entity to account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IAS 39/IFRS 9 or using the equity method in an entity's separate financial statements. | 1 January 2016 |
| Amendments to IFRS 10, IFRS 12 and IAS 28 clarifying certain aspects of applying the consolidation exception for investment entities. | 1 January 2016 |
| Amendments to IAS 1 to address perceived impediments to preparers exercising their judgement in presenting their financial reports. | 1 January 2016 |

Management anticipates that these IFRS and amendments will be adopted in the consolidated financial statements in the initial period when they become mandatorily effective. The impact of these standards and amendments is currently being assessed by the management.

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 the 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.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

IFRS comprise accounting standards issued by the IASB as well as Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

As required by the Securities and Commodities Authority of the UAE ("SCA") Notification No. 2624/2008 dated 12 October 2008, the Group's exposure in cash and balances with central banks, deposits and balances due from banks, trading and investment securities outside the UAE have been presented under the respective notes.

Certain disclosure notes have been reclassified and rearranged from the Group's prior-year consolidated financial statements to conform to the current year's presentation.

### 3.2 MEASUREMENT

The consolidated financial statements have been prepared under the historical cost convention except as modified by the revaluation of financial assets and liabilities at fair value through profit and loss, available-for-sale financial assets and investment properties.

### 3.3 FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are prepared and presented in United Arab Emirates dirhams (AED), which is the Group's functional and presentation currency. Except as indicated, financial information presented in AED has been rounded to the nearest thousand.

The United States dollar (USD) amounts in the primary financial statements are presented for the convenience of the reader only by converting the AED balances at the pegged exchange rate of 1 USD = 3.673 AED.

### 3.4 USE OF ESTIMATES AND JUDGEMENTS

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in Note 4.

### 3.5 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of Abu Dhabi Commercial Bank PJSC and its subsidiaries (collectively referred to as the "Group").

**Subsidiaries**

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power 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 a company has less than a majority of 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;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time the decision needs to be made, including voting patterns at 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. Income and expenses of the subsidiary acquired or disposed of during the year are included in the consolidated income statement and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

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

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

All intragroup balances and income, expenses and cash flows resulting from intragroup transactions are eliminated in full on consolidation.

### Changes in the Bank's ownership interests in existing subsidiaries

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 amount of the Bank's interests is adjusted to reflect the changes in its 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 or received is recognised directly in equity and attributed to the shareholders of the Bank.

When the Bank loses control of a subsidiary, a gain or loss is recognised in the consolidated income statement 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), 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 income statement or transferred to another category of equity as specified/permitted by applicable IFRS). 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 IAS 39 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

### Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Bank, the Bank has power over the SPE, is exposed to or has rights to variable returns from its involvement with the SPE and its ability to use its power over the SPE at inception and subsequently to affect the amount of its return, the Bank concludes that it controls the SPE.

The assessment of whether the Bank has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Bank and the SPE, except whenever there is a change in the substance of the relationship between the Bank and the SPE.

### Funds management

The Bank manages and administers assets held in unit trusts on behalf of investors. The financial statements of these entities are not included in the consolidated financial statements except when the Bank controls the entity, as referred to above. Information about the funds managed by the Bank is set out in Note 50.

### Investment in associate

Associates are those entities in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investments includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of investment in an associate, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 — Impairment of Assets as a single asset by comparing the recoverable amount (higher of value in use and fair value less cost of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of the impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued and the fair value of the retained interest and any proceeds from disposing of a partial interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

### Joint arrangements

Joint arrangements are arrangements over which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

Joint operation — When the Group has rights to the assets and obligations for the liabilities relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

Joint venture — When the Group has rights only to the net assets of the arrangements, it accounts for its interest using the equity method, as for associates.

## 3.6 FOREIGN CURRENCIES

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements of the Group are presented in AED, which is the Group's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates 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 statement of financial position date. Any resulting exchange differences are included in the consolidated income statement. Non-monetary assets and liabilities are translated at historical exchange rates or year-end exchange rates if held at fair value, as appropriate. The resulting foreign exchange gains or losses are recognised in either the consolidated income statement or the consolidated other comprehensive income statement, depending upon the nature of the asset or liability.

In the consolidated financial statements, the assets, including related goodwill where applicable, and liabilities of branches and subsidiaries whose functional currency is not AED are translated into the Group's presentation currency at the rate of exchange prevailing at the statement of financial position date. The income and expense items of branches and subsidiaries 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 under 'foreign currency translation reserve' (Note 23).

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 income statement on a proportionate basis, except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, where the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated income statement.

## 3.7 FINANCIAL INSTRUMENTS

**Initial recognition**

All financial assets and liabilities are initially recognised on the date at which the Group becomes a party to the contractual provision of the instrument except for "regular way" purchases and sales of financial assets which are recognised on a settlement-date basis (other than derivative contracts). The settlement date is the date that the Group physically receives or transfers the assets. Regular way purchases or sales are those that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. Any significant change in the fair value of assets which the Group has committed to purchase at the consolidated statement of financial position date is recognised in the consolidated income statement for assets classified as held for trading, in other comprehensive income for assets classified as available-for-sale and no adjustments are recognised for assets carried at cost or amortised cost.

Financial assets are classified into the following categories: financial assets at 'fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'. The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial instruments were acquired or incurred and their characteristics.

All financial instruments are measured initially at their fair value, plus transaction costs directly attributable to the acquisition, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss where transaction costs are recognised immediately in profit or loss.

**Financial assets and liabilities classified as fair value through profit or loss (FVTPL)**

Financial assets and liabilities are classified as at FVTPL when either held for trading or designated as at FVTPL.

A financial asset or liability is classified as held for trading if:

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

A financial asset or liability other than held-for-trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise for measuring assets or liabilities on a different basis; or
- it forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives and IAS 39 — Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets and liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in the consolidated income statement.

**Held-to-maturity**

Investments which have fixed or determinable payments with fixed maturities which the Group has the positive intention and ability to hold to maturity are classified as held-to-maturity investments.

Held-to-maturity investments are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses, with revenue recognised on an effective yield basis.

Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective interest rate method.

If there is objective evidence that an impairment on held-to-maturity investments carried at amortised cost has been incurred, the amount of impairment loss recognised in the consolidated income statement is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the investments' original effective interest rate.

Investments classified as held-to-maturity and not close to their maturity cannot ordinarily be sold or reclassified without impacting the Group's ability to use this classification and cannot be designated as a hedged item with respect to interest rate or prepayment risk, reflecting the longer-term nature of these investments.

**Available-for-sale**

Investments not classified as either "fair value through profit or loss" or "held-to-maturity" are classified as "available-for-sale". Available-for-sale assets are intended to be held for an indefinite period of time and may be sold in response to liquidity requirements or changes in interest rates, commodity prices or equity prices.

Available-for-sale investments are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at fair value. The fair values of quoted financial assets in active markets are based on current prices. If the market for a financial asset is not active, and for unquoted securities, the Group establishes fair value by using valuation techniques (e.g., recent arm's-length transactions, discounted cash flow analysis and other valuation techniques). Only in very rare cases where fair value cannot be measured reliably, investments are carried at cost and tested for impairment, if any.

Gains and losses arising from changes in fair value are recognised in the other comprehensive income statement and recorded in cumulative changes in fair value with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity in the cumulative changes in fair value is included in the consolidated income statement for the year.

If an available-for-sale investment is impaired, the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the consolidated income statement, is removed from equity and recognised in the consolidated income statement.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the consolidated income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised directly in equity. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value.
- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income, accumulating in equity. A subsequent decline in the fair value of the instrument is recognised in the consolidated income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security. Impairment losses recognised on the equity security are not reversed through the consolidated income statement.

### Loans and receivables

Loans and receivables include non-derivative financial assets originated or acquired by the Group with fixed or determinable payments that are not quoted in an active market, and it is expected that substantially all of the initial investments will be recovered other than because of credit deterioration. The Group's loans and receivables include deposits and balances due from banks and loans and advances, net. Placements with banks represent time-bound term deposits.

After initial measurement at fair value plus any directly attributable transaction costs, deposits and balances due from banks and loans and advances, net, are subsequently measured at amortised cost using the effective interest rate, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition fees and costs that are an integral part of the effective interest rate. The losses arising from impairment are recognised in the consolidated income statement.

### Loan impairment

Refer to credit risk management section — Note 43.6.

### Financial liabilities and equity

Debt and equity instruments are classified as either financial liability or equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

A financial instrument is classified as equity if, and only if, both conditions (a) and (b) below are met.

(a) The instrument includes no contractual obligation:
- to deliver cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group.

(b) If the instrument will or may be settled in the Group's own equity instruments, it is:
- a non-derivative that includes no contractual obligation for the Group to deliver a variable number of its own equity instruments; or
- a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

### Debt issued and other borrowed funds

Financial instruments issued by the Group are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation to deliver either cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. These are recognised initially at fair value, net of transaction costs.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component.

### Mandatory convertible securities

The components of mandatory convertible securities issued by the Group are classified separately as equity and financial liability in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the convertible securities as a whole. This is recognised and included as a separate component in the consolidated statement of changes in equity and is not subsequently re-measured.

**Other financial liabilities**
Other financial liabilities 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.

**Reclassification of financial assets**
Reclassifications are recorded at fair value at the date of reclassification, which is recognised as the new amortised cost.

For a financial asset reclassified out of the available–for–sale category, any previous gain or loss on that asset recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the consolidated income statement.

The Group may in rare circumstances reclassify a non-derivative trading asset out of the held-for-trading category into the loans and receivables category if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate from the date of the change in estimate.

Reclassification is at the election of management and is determined on an instrument-by-instrument basis. The Group does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

**Derecognition of financial assets and financial liabilities**
*Financial assets*
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

When the Group has neither transferred its rights to receive cash flows from an asset nor entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset or the maximum amount of consideration that the Group could be required to repay.

*Financial liabilities*
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or extinguishment is treated as a derecognition of the original liability and the recognition of a new liability.

The difference between the carrying value of the original financial liability and the consideration paid is recognised in the consolidated income statement.

**Offsetting**
Financial assets and liabilities are offset and reported net in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts and when the Group intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's 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, the assets and liabilities concerned are presented on a gross basis.

## 3.8 SALE AND REPURCHASE AGREEMENTS

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

## 3.9 SECURITIES BORROWING AND LENDING

Securities borrowing and lending transactions are usually secured by cash or securities advanced by the borrower. Borrowed securities are not recognised in the statement of financial position, nor are lent securities derecognised. Cash collateral received or given is treated as a financial asset or liability. However, where securities borrowed are transferred to third parties, a liability for the obligation to return the securities to the stock-lending counterparty is recorded. The securities borrowing and lending activity arrangements are generally entered into through repos and reverse repos.

## 3.10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, balances held with central banks, deposits and balances due from banks or due to banks, items in the course of collection from or in transmission to other banks and highly liquid assets with original maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

### 3.11 AMORTISED COST MEASUREMENT

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

### 3.12 FAIR VALUE MEASUREMENT

The Group measures its financial assets and liabilities at the market price that it would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or, in its absence, in the most advantageous market for the assets or liabilities. The Group considers principal market as the market with the greatest volume and level of activity for financial assets and liabilities.

The Group measures its non-financial assets at a price that takes into account a market participant's ability to generate economic benefits by using the assets for their highest and best use.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. The fair value of a liability reflects its non-performance risk.

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

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

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

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk and that are managed by the Group on the basis of the net exposure to either the market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

### 3.13 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 instrument, reference rate or index.

Derivative financial instruments are initially measured at fair value at trade date, and are subsequently re-measured at fair value at the end of each reporting period. 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. Derivative assets and liabilities arising from different transactions are offset only if the transactions are with the same counterparty, a legal right of offset exists and the parties intend to settle the cash flows on a net basis.

Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the consolidated income statement under net gain on dealing in derivatives (Note 30).

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.



### 3.14 HEDGE ACCOUNTING

Derivatives designated as hedges are classified as either: (i) hedges of the change in the fair value of recognised assets or liabilities or firm commitments ('fair value hedges'); (ii) hedges of the variability in future cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect future reported net income ('cash flow hedges'); or (iii) a hedge of a net investment in a foreign operation ('net investment hedges'). Hedge accounting is applied to derivatives designated in this way provided certain criteria are met.

At the inception of a hedging relationship, to qualify for hedge accounting, the Group documents the relationship between the hedging instruments and the hedged items as well as its risk management objective and its strategy for undertaking the hedge. The Group also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Interest income and expense on designated qualifying hedge instruments is included in 'Net interest income'.

**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 changes in fair value of both the derivative and the hedged item attributable to hedged risk are recognised in the consolidated income statement and the carrying amount of the hedged item is adjusted accordingly. 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 the carrying value of a hedged item for which the effective interest method is used is amortised in the consolidated income statement as part of the recalculated effective interest rate over the period to maturity or derecognition.

**Cash flow hedges**

The effective portions of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective part is recognised immediately in the consolidated income statement. Amounts accumulated in equity are reclassified from other comprehensive income and transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss, in the same line of the consolidated income statement as the recognised hedged item. 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 non-financial asset or non-financial liability. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting.

Any cumulative gains or losses recognised in equity 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 income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement from other comprehensive income.

**Net investment hedges**

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in other comprehensive income and held in the net investment hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement. Gains and losses accumulated in equity are reclassified from other comprehensive income and included in the consolidated income statement on the disposal of the foreign operation.

**Hedge effectiveness testing**

To qualify for hedge accounting, the Group requires that at the inception of the hedge and through its life, each hedge must be expected to be highly effective (prospective effectiveness) and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Group adopts for assessing hedge effectiveness depends on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80% to 125%. Hedge ineffectiveness is recognised in the consolidated income statement.

**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 income statement in "net gains on dealing in derivatives" under Net trading income (Note 30).

## 3.15 TREASURY SHARES AND CONTRACTS ON OWN SHARES

Own equity instruments of the Group which are acquired by the Group or any of its subsidiaries (Treasury shares) are deducted from other reserves and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity.

No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of own equity instruments.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments, and changes in the fair value are reported in the consolidated income statement.

## 3.16 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 guarantee contracts are initially recognised at their fair value, which is likely to equal 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 or the present value of any expected payments (when a payment under guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

## 3.17 ACCEPTANCES

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

Acceptances have been considered within the scope of IAS 39 — Financial Instruments: Recognition and Measurement and are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

### 3.18 COLLATERAL REPOSSESSED

The Bank acquires collaterals in settlement of certain loans and advances. These collaterals are recognised at net realisable value on the date of acquisition and are classified as investment properties. Subsequently, the fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on these collaterals are included in the consolidated income statement in the period in which these gains or losses arise.

### 3.19 LEASING

The determination of whether an arrangement is a lease or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

**Group as a lessee —** Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term. Contingent rentals payable are recognised as an expense in the period in which they are incurred.

**Group as a lessor —** Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recognised in the consolidated income statement on a straight-line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned.

### 3.20 INVESTMENT PROPERTIES

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services or for administrative purposes. Investment property is reflected at valuation based on fair value at the statement of financial position date. Refer to Note 3.12 for policy on fair valuation.

The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated income statement in the period in which these gains or losses arise.

Properties under development that are being constructed or developed for future use as investment property are measured initially at cost including all direct costs attributable to the design and construction of the property including related staff costs. Subsequent to initial recognition, investment properties under development are measured at fair value. Gains and losses arising from changes in the fair value of investment properties under development are included in the consolidated income statement in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

### 3.21 PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and are treated as changes in accounting estimates.

Depreciation is charged to the consolidated income statement so as to write off the depreciable amount of property and equipment over their estimated useful lives using the straight-line method. The depreciable amount is the cost of an asset less its residual value. Land is not depreciated.

Estimated useful lives are as follows:

| | |
|---|---|
| Freehold properties | 25 years |
| Leasehold and freehold improvements | 7 to 10 years |
| Furniture, equipment and vehicles | 3 to 5 years |
| Computer equipment, software and accessories | 4 to 10 years |

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. 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 income statement.

### 3.22 CAPITAL WORK IN PROGRESS

Capital work in progress is stated at cost. When the asset is ready for use, capital work in progress is transferred to the appropriate property and equipment category and depreciated in accordance with the Group's policies.

### 3.23 INTANGIBLE ASSETS

The Group's intangible assets other than goodwill include intangible assets acquired in business combinations.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. Intangible assets acquired separately are measured on initial recognition at fair value and subsequently at cost less accumulated amortisation and impairment loss.

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.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates and accounted for on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

Estimated useful lives are as follows:

| | |
|---|---|
| Credit card customer relationships | 3 years |
| Wealth Management customer relationships | 4 years |
| Core deposit intangibles | 5 years |

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in the consolidated income statement when the asset is derecognised.

## 3.24 BORROWING COSTS

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

## 3.25 BUSINESS COMBINATIONS AND GOODWILL

The purchase method of accounting is used to account for business acquisitions by the Group. The cost of acquisition is measured at the fair value of the consideration given at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the business acquired, the difference is recognised immediately in the consolidated income statement.

Goodwill acquired on business combination is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, 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 based on the carrying amount of each asset in the unit. Any impairment loss of goodwill is recognised directly in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

## 3.26 IMPAIRMENT OF NON-FINANCIAL ASSETS

At each consolidated statement of financial position date, the Group reviews the carrying amounts of its non-financial assets 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 for which the estimates of future cash flows have not been adjusted.

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 income statement, 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 income statement, 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.

## 3.27 EMPLOYEE BENEFITS

### (i) Employees' end-of-service benefits

#### (a) Defined benefit plan

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

Past-service costs are recognised immediately in income, unless the changes to the gratuity plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in other comprehensive income. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions.

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.

#### (b) Defined contribution plan

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

Pension and national insurance contributions for UAE and GCC citizens are made by the Group to the Abu Dhabi Retirement Pensions and Benefits Fund in accordance with UAE Federal Law No. 7 of 1999.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Employees' incentive plan shares

The cost of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the employees' incentive plan reserve.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding incentive plan shares is reflected in the computation of diluted earnings per share (Note 34).

## 3.28 PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where 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.

Provisions for onerous contracts are recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract or the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

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 only 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, 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, or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

## 3.29 SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in products or services within a particular economic environment (geographical segment) which is subject to risks and rewards that are different from those of other segments. Refer to Note 39 on Business Segment reporting.

## 3.30 TAXATION

Provision is made for taxes at rates enacted or substantively enacted as at statement of financial position date on taxable profits of overseas branches and subsidiaries in accordance with the fiscal regulations of the respective countries in which the Group operates.

## 3.31 REVENUE AND EXPENSE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest income and expense

For all financial instruments measured at amortised cost, interest-bearing financial assets classified as available–for–sale and financial instruments classified as fair value through profit or loss, interest and similar income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Dividend income

Dividend income is recognised on the ex-dividend date when the Group's right to receive the payment is established.

#### (iii) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(a) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

(b) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

### 3.32 ISLAMIC FINANCING

The Group engages in Shari'ah-compliant Islamic banking activities through various Islamic instruments such as Murabaha, Ijara, Salam, Mudaraba, Sukuk and Wakala.

#### Murabaha financing

A sale contract whereby the Group sells to a customer commodities and other assets at an agreed-upon profit markup on cost. The Group purchases the assets based on a promise received from the customer to buy the item purchased according to specific terms and conditions. Profit from Murabaha is quantifiable at the commencement of the transaction. Such income is recognised as it accrues over the period of the contract on an effective profit rate method on the balance outstanding.

#### Ijara financing

Ijara financing is an agreement whereby the Group (lessor) leases or constructs an asset based on the customer's (lessee's) request and promise to lease the assets for a specific period against certain rent instalments. Ijara could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the Group transfers substantially all the risks and rewards related to the ownership of the leased asset to the lessee. Ijara income is recognised on an effective profit rate basis over the lease term.

#### Mudaraba

A contract between the Group and a customer whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity, and any profits generated are distributed between the parties according to the profit shares that were pre-agreed in the contract. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba; otherwise, losses are borne by the Rab Al Mal. Income is recognised based on expected results adjusted for actual results on distribution by the Mudarib, whereas if the Group is the Rab Al Mal the losses are charged to the Group's consolidated income statement when incurred.

#### Salam

Bai Al Salam is a sale contract where the customer (seller) undertakes to deliver/supply a specified tangible asset to the Group (buyer) at mutually agreed future date(s) in exchange for an advance price fully paid on the spot by the buyer.

Revenue on Salam financing is recognised on the effective profit rate basis over the period of the contract, based on the Salam capital outstanding.

#### Wakala

An agreement between the Group and a customer whereby one party (Rab Al Mal) provides a certain sum of money to an agent (Wakil), who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Group may be Wakil or Rab Al Mal depending on the nature of the transaction.

Estimated income from Wakala is recognised on the effective profit rate basis over the period, adjusted by actual income when received. Losses are accounted for when incurred.

#### Sukuk

Certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity. They are asset-backed trust certificates evidencing ownership of an asset or its usufruct (earnings or benefits) and comply with the principle of Shari'ah.

Sukuk forms part of debts issued and other borrowed funds as mentioned in Note 20.

## 4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of these consolidated financial statements. IFRS requires the management, in preparing the Group's consolidated financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the Group's accounting policies that are considered by the Board of Directors to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

### IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Application of the methodology for assessing loan impairment, as set out in Note 43.6, involves considerable judgement and estimation. For individually significant loans, judgement is required in determining, first, whether there are indications that an impairment loss may already have been incurred, and then estimating the amount and timing of expected cash flows, which form the basis of the impairment loss that is recorded.

For collectively assessed loans, judgement is involved in selecting and applying the criteria for grouping together loans with similar credit characteristics, as well as in selecting and applying the statistical and other models used to estimate the losses incurred for each group of loans in the reporting period. The benchmarking of loss rates, the assessment of the extent to which historical losses are representative of current conditions, and the ongoing refinement of modelling methodologies provide a means of identifying changes that may be required, but the process is inherently one of estimation.

### IMPAIRMENT OF AVAILABLE-FOR-SALE INVESTMENTS

The Group exercises judgement to consider impairment on the available-for-sale investments. This includes determination of whether any decline in the fair value below cost of equity instruments is significant or prolonged. In making this judgement, the Group evaluates, among other factors, the normal volatility in market price. In addition, the Group considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, or changes in technology.

### VALUATION OF FINANCIAL INSTRUMENTS

The best evidence of fair value is a quoted price for the instrument being measured in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data, so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that include one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values are discussed in Note 41. The main assumptions and estimates which management consider when applying a model with valuation techniques are:

- the likelihood and expected timing of future cash flows on the instrument. These cash flows are estimated based on the terms of the instrument, and judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. The determination of this rate is based on an assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate; and
- when applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's-length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments are based on some market-observable inputs even when unobservable inputs are significant.

### FAIR VALUATION OF INVESTMENT PROPERTIES

The fair value of investment properties is based on the highest and best use of the properties, which is their current use. The fair valuation of the investment properties is carried out by independent valuers based on models whose inputs are observable in an active market, such as market conditions, market prices and future rental income.

The fair value movements on investment properties are disclosed in more detail in Note 13.

### CONSOLIDATION OF FUNDS

The changes introduced by IFRS 10 — Consolidated Financial Statements require an investor to consolidate an investee when it controls the investee. The investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The new definition of control requires the Group to exercise significant judgement on an ongoing basis to determine which entities are controlled, and therefore are required to be consolidated.

## 5 CASH AND BALANCES WITH CENTRAL BANKS

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Cash on hand | **917,855** | 786,474 |
| Balances with central banks | **2,869,993** | 1,359,247 |
| Reserves maintained with central banks | **9,745,626** | 9,401,659 |
| Certificates of deposit with UAE Central Bank | **6,641,250** | 3,525,000 |
| Reverse-repo with the Central Bank | **5,553** | 19,812 |
| **Total cash and balances with central banks** | **20,180,277** | 15,092,192 |
| The geographical concentration is as follows: | | |
| Within the UAE | **20,145,189** | 15,048,413 |
| Outside the UAE | **35,088** | 43,779 |
| | **20,180,277** | 15,092,192 |

Reserves maintained with central banks represent deposits with the central banks at stipulated percentages of its demand, savings, time and other deposits. These are only available for day-to-day operations under certain specified conditions.



## 6 DEPOSITS AND BALANCES DUE FROM BANKS

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Nostro balances | **398,773** | 769,268 |
| Margin deposits | **524,324** | 179,426 |
| Time deposits | **13,843,958** | 10,681,616 |
| Wakala placements | **187,942** | 1,375,546 |
| Certificates of deposit | **–** | 183,556 |
| **Total deposits and balances due from banks** | **14,954,997** | 13,189,412 |
| The geographical concentration is as follows: | | |
| Within the UAE | **5,602,428** | 7,179,030 |
| Outside the UAE | **9,352,569** | 6,010,382 |
| | **14,954,997** | 13,189,412 |

The Group hedges its foreign currency time deposits for foreign currency exchange rate risk using foreign exchange swap contracts and designates these instruments as cash flow hedges. The net positive fair value of these swaps was AED 479 thousand as at 31 December 2015 (31 December 2014 — net negative fair value of AED 1,153 thousand).

## 7 REVERSE-REPO PLACEMENTS

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Banks and financial institutions | **2,419,776** | 2,830,049 |
| Customers | **1,836,501** | – |
| **Total reverse-repo placements** | **4,256,277** | 2,830,049 |
| The geographical concentration is as follows: | | |
| Within the UAE | **2,762,095** | – |
| Outside the UAE | **1,494,182** | 2,830,049 |
| | **4,256,277** | 2,830,049 |

The Group entered into reverse repurchase and collateral swap agreements under which cash of AED 12,158 thousand and bonds with fair value of AED 4,386,217 thousand (31 December 2014 — AED 2,814,042 thousand) were received as collateral against reverse-repo placements. The risks and rewards relating to these bonds remain with the counterparties. The terms and conditions of these collaterals are governed by Global Master Repurchase Agreements (GMRAs).

## 8 TRADING SECURITIES

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Bonds | **62,261** | 199,599 |
| The geographical concentration is as follows: | | |
| Within the UAE | **48,416** | 176,540 |
| Outside the UAE | **13,845** | 23,059 |
| | **62,261** | 199,599 |

Bonds represent investments mainly in the public sector. The fair value of trading securities is based on quoted market prices.

## 9 DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business the Group enters into various types of derivative transactions that are affected by variables in the underlying instruments.

A derivative is a financial instrument or other contract with all three of the following characteristics:

(a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');

(b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

(c) it is settled at a future date.

Derivative financial instruments which the Group enters into include forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options.

The Group uses the following derivative financial instruments for hedging and trading purposes.

### Forward and futures transactions

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

### Swap transactions

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example: fixed rate for floating rate) or a combination of all these (for example: cross-currency interest rate swaps). No exchange of principal takes place except for certain cross-currency swaps. The Group's credit risk represents the potential loss if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis through market risk limits on exposures and credit risk assessment of counterparties using the same techniques as those of lending activities.

### Option transactions

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

Derivative contracts can be exchange-traded or OTC. The Group values exchange-traded derivatives using inputs at market-clearing levels. OTC derivatives are valued using market-based inputs or broker/dealer quotations. Where models are required, the Group uses a variety of inputs, including contractual terms, market prices, market volatilities, yield curves and other reference-market data.

### Fair value measurement models

For OTC derivatives that trade in liquid markets such as generic forwards, swaps and options, model inputs can generally be verified and model selection conforms to market practice. Certain OTC derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. Subsequent to initial recognition, the Group updates valuation inputs only when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker-dealer quotations or other empirical market data. In the absence of such evidence, management best estimates are used.

### Derivatives held or issued for trading purposes

The Group's trading activities are predominantly related to offering hedging solutions to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks. The Group also manages risk taken as a result of client transactions or initiates positions with the expectation of profiting from favourable movement in prices, rates or indices.

### 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 and interest rates. The Group uses forward foreign exchange contracts, cross-currency swaps and interest rate swaps to hedge exchange rate and interest rate risks. In all such cases, the hedging relationship and objectives including details of the hedged item and hedging instrument are formally documented and the transactions are accounted for based on the type of hedge.

The table below shows the positive (assets) and negative (liabilities) fair values of derivative financial instruments.

| | Fair values | | |
|---|---|---|---|
| | Assets AED'000 | Liabilities AED'000 | Notional AED'000 |
| **31 December 2015** | | | |
| **Derivatives held or issued for trading** | | | |
| Foreign exchange derivatives | **603,776** | **547,656** | **83,468,566** |
| Interest rate and cross-currency swaps | **2,451,771** | **2,510,906** | **126,344,389** |
| Interest rate and commodity options | **188,336** | **178,628** | **16,178,025** |
| Forward rate agreement | **796** | **397** | **1,234,013** |
| Futures (exchange-traded) | **1,335** | **1,045** | **38,970,027** |
| Commodity and energy swaps | **297,824** | **297,369** | **1,322,557** |
| Swaptions | **36,062** | **19,578** | **6,733,713** |
| **Total derivatives held or issued for trading** | **3,579,900** | **3,555,579** | **274,251,290** |
| **Derivatives held as fair value hedges** | | | |
| Interest rate and cross-currency swaps | **365,361** | **1,001,934** | **48,936,487** |
| **Derivatives held as cash flow hedges** | | | |
| Interest rate and cross-currency swaps | **49,271** | **35,463** | **3,700,749** |
| Forward foreign exchange contracts | **7,376** | **148,204** | **15,233,654** |
| **Total derivatives held as cash flow hedges** | **56,647** | **183,667** | **18,934,403** |
| **Total derivative financial instruments** | **4,001,908** | **4,741,180** | **342,122,180** |
| **31 December 2014** | | | |
| **Derivatives held or issued for trading** | | | |
| Foreign exchange derivatives | 824,724 | 846,365 | 91,680,329 |
| Interest rate and cross-currency swaps | 2,712,682 | 2,713,225 | 112,961,746 |
| Interest rate and commodity options | 174,919 | 228,020 | 9,875,480 |
| Forward rate agreement | 447 | – | 1,000,000 |
| Futures (exchange-traded) | 2,536 | 146 | 4,582,095 |
| Commodity and energy swaps | 238,527 | 238,086 | 1,408,841 |
| Swaptions | 91,370 | 15,979 | 5,727,954 |
| **Total derivatives held or issued for trading** | 4,045,205 | 4,041,821 | 227,236,445 |
| **Derivatives held as fair value hedges** | | | |
| Interest rate and cross-currency swaps | 220,978 | 708,262 | 53,594,857 |
| **Derivatives held as cash flow hedges** | | | |
| Interest rate and cross-currency swaps | 19,109 | 29,722 | 4,950,434 |
| Forward foreign exchange contracts | 3,214 | 220,262 | 9,188,243 |
| **Total derivatives held as cash flow hedges** | 22,323 | 249,984 | 14,138,677 |
| **Total derivative financial instruments** | 4,288,506 | 5,000,067 | 294,969,979 |

The notional amounts indicate the volume of transactions and are indicative of neither the market risk nor the credit risk.

The net hedge ineffectiveness losses recognised in the consolidated income statement are as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Gains/(losses) on the hedged items attributable to risk hedged | **136,113** | (28,594) |
| (Losses)/gains on the hedging instruments | **(149,289)** | 25,306 |
| Fair value hedging ineffectiveness | **(13,176)** | (3,288) |
| Cash flow hedging ineffectiveness | **(544)** | (803) |
| | **(13,720)** | (4,091) |

The table below provides the Group's forecast net cash flows in respect of its cash flow hedges and the periods in which these cash flows are expected to impact the consolidated income statement, excluding any hedging adjustment that may be applied.

| Forecast net cash flows | Less than 3 months AED'000 | 3 months to less than 1 year AED'000 | 1 year to less than 2 years AED'000 | 2 years to less than 5 years AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **2015** | **(49,719)** | **(23,394)** | **(9,557)** | **23,131** | **(59,539)** |
| 2014 | (81,344) | (145,603) | (15,914) | (26,659) | (269,520) |

As at 31 December 2015, the Group received cash collateral of AED 76,674 thousand (31 December 2014 — AED 262,370 thousand) against derivative assets from certain counterparties.

As at 31 December 2015, the Group placed cash collateral of AED 600,980 thousand (31 December 2014 — AED 552,202 thousand) and investment securities of AED 1,367,440 thousand (31 December 2014 — AED 1,787,944 thousand) against the negative fair value of derivative liabilities. These collaterals are governed by collateral service agreements under International Swaps and Derivatives Association (ISDA) agreements.

## 10 INVESTMENT SECURITIES

| | UAE AED'000 | Other GCC (*) countries AED'000 | Rest of the world AED'000 | Total AED'000 |
|---|---|---|---|---|
| **31 December 2015** | | | | |
| **Available-for-sale investments** | | | | |
| **Quoted:** | | | | |
| Government securities | **1,032,722** | **736,295** | **3,153,778** | **4,922,795** |
| Bonds — Public sector | **4,654,165** | **102,898** | **1,250,173** | **6,007,236** |
| Bonds — Banks and financial institutions | **2,612,778** | **348,164** | **5,342,028** | **8,302,970** |
| Bonds — Corporate | **528,172** | **–** | **146,130** | **674,302** |
| Equity instruments | **540** | **–** | **448** | **988** |
| Mutual funds | **66,719** | **–** | **76,867** | **143,586** |
| **Total quoted** | **8,895,096** | **1,187,357** | **9,969,424** | **20,051,877** |
| **Unquoted:** | | | | |
| Government securities | **–** | **398,109** | **–** | **398,109** |
| Equity instruments | **349,484** | **–** | **13,248** | **362,732** |
| Mutual funds | **50,889** | **–** | **–** | **50,889** |
| **Total unquoted** | **400,373** | **398,109** | **13,248** | **811,730** |
| **Total available-for-sale investments** | **9,295,469** | **1,585,466** | **9,982,672** | **20,863,607** |
| 31 December 2014 | | | | |
| **Available-for-sale investments** | | | | |
| **Quoted:** | | | | |
| Government securities | 1,528,323 | 1,678,831 | 1,523,242 | 4,730,396 |
| Bonds — Public sector | 4,113,621 | 45,090 | 286,869 | 4,445,580 |
| Bonds — Banks and financial institutions | 2,740,513 | 757,993 | 7,026,279 | 10,524,785 |
| Bonds — Corporate | 409,737 | – | 42,292 | 452,029 |
| Equity instruments | 824 | – | – | 824 |
| Mutual funds | 165,835 | – | – | 165,835 |
| **Total quoted** | 8,958,853 | 2,481,914 | 8,878,682 | 20,319,449 |
| **Unquoted:** | | | | |
| Government securities | – | 895,713 | – | 895,713 |
| Bonds — Public sector | 57,699 | – | – | 57,699 |
| Bonds — Corporate | – | – | 761 | 761 |
| Equity instruments | 314,855 | – | 13,281 | 328,136 |
| Mutual funds | 50,080 | – | – | 50,080 |
| **Total unquoted** | 422,634 | 895,713 | 14,042 | 1,332,389 |
| **Total available-for-sale investments** | 9,381,487 | 3,377,627 | 8,892,724 | 21,651,838 |

(*) Gulf Cooperation Council

The Group hedges interest rate and foreign currency risks on certain fixed rate and floating rate investments through interest rate and currency swaps and designates these as fair value and cash flow hedges, respectively. The net positive fair value of these interest rate swaps at 31 December 2015 was AED 224,564 thousand (31 December 2014 — net negative fair value AED 18,271 thousand). The hedge ineffectiveness gains and losses relating to these hedges were included in the consolidated income statement.

The Group entered into repurchase agreements whereby bonds were pledged and held by counterparties as collateral. The risks and rewards relating to the investments pledged are with the Group. The bonds placed as collateral are governed under Global Master Repurchase Agreements (GMRAs). The following table reflects the carrying value of these bonds and the associated financial liabilities:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Carrying value of pledged securities AED'000** | **Carrying value of associated liabilities AED'000** | Carrying value of pledged securities AED'000 | Carrying value of associated liabilities AED'000 |
| Repurchase financing | **3,304,381** | **3,152,676** | 4,765,545 | 4,589,111 |

Further, the Group pledged investment securities with fair value amounting to AED 1,382,197 thousand (31 December 2014 — AED 1,802,584 thousand) as collateral against margin calls. The risks and rewards on these pledged investments remained with the Group.

## 11 LOANS AND ADVANCES, NET

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Overdrafts (retail and corporate) | **4,487,083** | 3,691,843 |
| Retail loans | **28,400,112** | 23,638,657 |
| Corporate loans | **115,797,708** | 107,223,733 |
| Credit cards | **3,517,946** | 2,865,852 |
| Other facilities | **7,819,424** | 9,920,156 |
| **Gross loans and advances** | **160,022,273** | 147,340,241 |
| Less: Allowance for impairment (Note 43.6) | **(6,344,887)** | (6,777,743) |
| **Total loans and advances, net** | **153,677,386** | 140,562,498 |

For Islamic financing assets included in the above table, refer to Note 24.

The Group hedges certain fixed rate and floating rate loans and advances for interest rate risk using interest rate swaps and designates these instruments as fair value and cash flow hedges, respectively. The net negative fair value of these swaps at 31 December 2015 was AED 481 thousand (31 December 2014 — net positive fair value of AED 4,152 thousand).

The Group entered into structured financing repurchase agreements whereby loans were pledged and held by counterparties as collateral. The risks and rewards relating to the loans pledged are with the Group. The loans placed as collateral are governed under collateral service agreements under International Swaps and Derivatives Association (ISDA) agreements. The following table reflects the carrying value of these loans and the associated financial liabilities:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Carrying value of pledged loans AED'000** | **Carrying value of associated liabilities AED'000** | Carrying value of pledged loans AED'000 | Carrying value of associated liabilities AED'000 |
| Repurchase financing | **2,023,245** | **1,406,541** | – | – |

## 12 INVESTMENT IN ASSOCIATE

Investment in associate includes the Bank's interest in an associate representing 35% equity stake in the entity. The Bank has determined that it exercises significant influence based on the representation in the management of the entity.

The investment in associate has been accounted in the consolidated financial statements using the equity method at the net fair value of the identifiable assets and liabilities of the associate on the date of acquisition.

Details of the investment in associate are as follows:

| Name of associate | Ownership interest | Country of incorporation | Principal activities |
|---|---|---|---|
| Four N Property LLC | 35% | UAE | Operating labour camps |

For balances and transactions with associate, refer to Note 37.

## 13 INVESTMENT PROPERTIES

| | AED'000 |
|---|---|
| **1 January 2014** | 560,690 |
| Additions during the year | 32,758 |
| Revaluation of investment properties | 22,330 |
| **1 January 2015** | **615,778** |
| Additions during the year | **31,677** |
| Revaluation of investment properties | **192** |
| **31 December 2015** | **647,647** |

Included in commitments and contingent liabilities (Note 38) is AED 1,740 thousand (31 December 2014 – AED 1,740 thousand) being future-committed expenditure on investment property.

Additions during the year include AED 31,677 thousand (31 December 2014 – AED 20,667 thousand), being real estate acquired on settlements of certain loans and advances. This being a non-cash transaction has not been reflected in the consolidated statement of cash flows.

As approved by the Central Bank of the UAE, the Bank can hold these real estate assets for a maximum period of three years and can extend the holding period with further approval. The Bank is also allowed to rent these properties and earn rental income.

### FAIR VALUATIONS

Valuations are carried out by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. The properties were valued during the last quarter of the year.

In estimating the fair values of the properties, the highest and best use of the properties is their current use.

The valuation methodologies considered by external valuers include:

- Direct Comparable method: This method seeks to determine the value of the property from transactions of comparable properties in the vicinity applying adjustments to reflect differences to the subject property.
- Investment method: This method is used to assess the value of the property by capitalising the net operating income of the property at an appropriate yield an investor would expect for an investment of the duration of the interest being valued.

All investment properties of the Group are located within the UAE.

Details of rental income and direct operating expenses relating to investment properties during the year are as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Rental income | **41,212** | 39,917 |
| Direct operating expenses | **4,994** | 6,013 |

## 14 OTHER ASSETS

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Interest receivables | **1,079,214** | 1,017,819 |
| Advance tax | **7,241** | 21,959 |
| Prepayments | **55,083** | 65,830 |
| Acceptances (Note 21) | **7,168,716** | 2,906,420 |
| Others | **261,386** | 539,816 |
| **Total other assets** | **8,571,640** | 4,551,844 |

## 15 PROPERTY AND EQUIPMENT, NET

| | Freehold properties and improvements AED'000 | Leasehold improvements AED'000 | Furniture, equipment and vehicles AED'000 | Computer equipment, software and accessories AED'000 | Capital work in progress AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| At 1 January 2014 | 848,982 | 136,628 | 166,742 | 501,223 | 46,643 | 1,700,218 |
| Exchange difference | (61) | – | (88) | – | – | (149) |
| Additions during the year | 410 | 86 | 2,090 | 6,164 | 124,288 | 133,038 |
| Transfers | 5,435 | 7,611 | 8,694 | 109,457 | (131,197) | – |
| Disposals during the year | – | – | (996) | (366) | – | (1,362) |
| **At 1 January 2015** | **854,766** | **144,325** | **176,442** | **616,478** | **39,734** | **1,831,745** |
| Exchange difference | (156) | (1) | (99) | (176) | (37) | (469) |
| Additions during the year | 230 | 534 | 2,472 | 1,884 | 158,854 | 163,974 |
| Transfers | 15,827 | 12,230 | 15,042 | 83,210 | (126,309) | – |
| Disposals during the year | – | – | (3,446) | (4,548) | – | (7,994) |
| **At 31 December 2015** | **870,667** | **157,088** | **190,411** | **696,848** | **72,242** | **1,987,256** |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2014 | 264,312 | 91,609 | 137,802 | 401,173 | – | 894,896 |
| Exchange difference | (17) | – | (24) | (53) | – | (94) |
| Transfers | – | – | (2,539) | 2,539 | – | – |
| Charge for the year | 37,083 | 17,288 | 10,989 | 66,648 | – | 132,008 |
| Disposals during the year | – | – | (920) | (333) | – | (1,253) |
| **At 1 January 2015** | **301,378** | **108,897** | **145,308** | **469,974** | **–** | **1,025,557** |
| Exchange difference | (42) | – | (60) | (137) | – | (239) |
| Charge for the year | 37,530 | 12,494 | 11,870 | 72,637 | – | 134,531 |
| Disposals during the year | – | – | (3,192) | (4,546) | – | (7,738) |
| **At 31 December 2015** | **338,866** | **121,391** | **153,926** | **537,928** | **–** | **1,152,111** |
| **Carrying amount** | | | | | | |
| **At 31 December 2015** | **531,801** | **35,697** | **36,485** | **158,920** | **72,242** | **835,145** |
| At 31 December 2014 | 553,388 | 35,428 | 31,134 | 146,504 | 39,734 | 806,188 |

## 16 INTANGIBLE ASSETS

| | | Other intangible assets | | | |
|---|---|---|---|---|---|
| | Goodwill AED'000 | Credit card customer relationships AED'000 | Wealth Management customer relationships AED'000 | Core deposit intangible AED'000 | Total AED'000 |
| **Cost or valuation** | | | | | |
| As at 1 January 2014 | 18,800 | 12,700 | 18,000 | 112,700 | 162,200 |
| **As at 31 December 2015** | **18,800** | **12,700** | **18,000** | **112,700** | **162,200** |
| **Accumulated amortisation** | | | | | |
| As at 1 January 2014 | – | 12,700 | 14,550 | 73,255 | 100,505 |
| Amortisation during the year | – | – | 3,450 | 22,540 | 25,990 |
| **As at 1 January 2015** | **–** | **12,700** | **18,000** | **95,795** | **126,495** |
| Amortisation during the year | – | – | – | 16,905 | 16,905 |
| **As at 31 December 2015** | **–** | **12,700** | **18,000** | **112,700** | **143,400** |
| **Carrying amount** | | | | | |
| **At 31 December 2015** | **18,800** | **–** | **–** | **–** | **18,800** |
| At 31 December 2014 | 18,800 | – | – | 16,905 | 35,705 |

On 1 October 2010, the Bank acquired the retail banking, wealth management and small and medium enterprise businesses (the "Business") of The Royal Bank of Scotland ("RBS") in the UAE for a consideration of AED 168,900 thousand. Based on the fair valuation and purchase price allocation exercise performed by an external consultant immediately following the acquisition in 2010, the Bank recognised AED 143,400 thousand as intangible assets and AED 18,800 thousand as goodwill.

### GOODWILL

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which goodwill is monitored for internal management purposes, which is not higher than the Group's business segments.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

| | AED'000 |
|---|---|
| **Cash-generating unit (CGU)** | |
| Credit cards | 10,784 |
| Loans | 5,099 |
| Overdrafts | 94 |
| Wealth Management business | 2,823 |
| **Total goodwill** | **18,800** |

### OTHER INTANGIBLE ASSETS

| | |
|---|---|
| Customer relationships | Customer relationship intangible assets represent the value attributable to the business expected to be generated from customers that existed as at the acquisition date. In determining the fair value of customer relationships, credit card and Wealth Management customers were considered separately, given their differing risk profiles, relationships and loyalty. These relationships are expected to generate material recurring income in the form of interest, fees and commission. |
| Core deposit intangibles | The value of core deposit intangible assets arises from the fact that the deposit base of the Group represents a cheaper source of funding than wholesale or money market funding. The spread between the cost of deposit funding and the cost of wholesale/money market funding represents the value of the core deposit intangible. |

### IMPAIRMENT ASSESSMENT OF GOODWILL

No impairment losses on goodwill were recognised during the year ended 31 December 2015 (2014 – AED Nil).

The recoverable amounts for the CGUs have been assessed based on their value in use. Value in use for each unit was determined by discounting the future cash flows expected to be generated from the continuing use of these units. Value in use was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results and the business plan in 2015. Cash flows were extrapolated using a rate expected to be realised by these businesses. The forecast period is based on the Group's current perspective with respect to the operation of these units.
- Appropriate discount rates were applied in determining the recoverable amounts for the CGUs. These discount rates were estimated based on a capital asset pricing model using data from US bond and UAE capital markets.

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonable changes in these assumptions are not expected to cause the recoverable amount of the units to decline below the carrying amount.

## 17 DUE TO BANKS

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Vostro balances | **282,666** | 578,213 |
| Margin deposits | **88,289** | 96,200 |
| Time deposits | **1,320,838** | 3,414,606 |
| **Total due to banks** | **1,691,793** | 4,089,019 |

The Bank hedges certain foreign currency time deposits for foreign currency risk using foreign exchange swap contracts and designates these as cash flow hedges. The net negative fair value of these swaps at 31 December 2015 was AED 1,562 thousand (31 December 2014 – AED Nil).

## 18 DEPOSITS FROM CUSTOMERS

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Time deposits | **62,189,594** | 57,075,373 |
| Current account deposits | **51,713,778** | 46,823,595 |
| Savings deposits | **10,932,983** | 8,895,672 |
| Murabaha deposits | **17,628,523** | 12,114,262 |
| Long-term Government deposits | **418,907** | 425,898 |
| Margin deposits | **642,511** | 676,427 |
| **Total deposits from customers** | **143,526,296** | 126,011,227 |

For Islamic deposits (excluding Murabaha deposits) included in the above table, refer to Note 24.

The Bank hedges certain foreign currency time deposits for foreign currency and floating interest rate risks using foreign exchange and interest rate swaps and designates these swaps as either cash flow or fair value hedges. The net negative fair value of these swaps at 31 December 2015 was AED 32,953 thousand (31 December 2014 – net negative fair value of AED 47,920 thousand).

## 19 EURO COMMERCIAL PAPER

The details of euro commercial paper (ECP) issuances under the Bank's ECP programme are as follows:

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| **Currency** | | |
| Swiss franc (CHF) | **453,223** | 619,295 |
| Euro (EUR) | **2,341,393** | 1,082,659 |
| GB pound (GBP) | **543,636** | 1,441,410 |
| Australian dollar (AUD) | **67,062** | – |
| US dollar (USD) | **2,294,750** | 3,231,920 |
| **Total euro commercial paper** | **5,700,064** | 6,375,284 |

The Bank hedges certain ECP for foreign currency exchange risk through foreign exchange swap contracts and designates these instruments as cash flow hedges. The net negative fair value of these hedge contracts as at 31 December 2015 was AED 82,811 thousand (31 December 2014 – net negative fair value of AED 166,883 thousand).

ECPs are issued at a discount and the discount rate ranges between 0.04% p.a. and 2.17% p.a. and negative discount rate ranges between 0.68% p.a. and 0.85% p.a. (31 December 2014 – 0.08% p.a. to 0.77% p.a.).

For maturity analysis of ECP borrowings, refer to Note 45.

## 20 BORROWINGS

The details of borrowings as at 31 December 2015 are as follows:

| Instrument | Currency | Within 1 year AED'000 | 1–3 years AED'000 | 3–5 years AED'000 | Over 5 years AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| Global Medium-Term Notes | Australian dollar (AUD) | – | – | 679,758 | – | 679,758 |
| | Chinese renminbi (CNH) | – | 167,032 | – | – | 167,032 |
| | Euro (EUR) | – | – | 48,314 | – | 48,314 |
| | Malaysian ringgit (MYR) | – | 598,227 | – | – | 598,227 |
| | Swiss franc (CHF) | – | 388,677 | – | – | 388,677 |
| | Turkish lira (TRY) | 46,821 | – | – | – | 46,821 |
| | UAE dirham (AED) | – | 504,164 | – | – | 504,164 |
| | Japanese yen (JPY) | 130,562 | 45,896 | 46,192 | – | 222,650 |
| | Hong Kong dollar (HKD) | – | – | 151,181 | – | 151,181 |
| | US dollar (USD) | – | 4,586,299 | 7,988,737 | 2,014,940 | 14,589,976 |
| | | 177,383 | 6,290,295 | 8,914,182 | 2,014,940 | 17,396,800 |
| Islamic Sukuk notes | US dollar (USD) | 1,841,406 | – | – | – | 1,841,406 |
| Bilateral loans — floating rate | US dollar (USD) | 550,950 | 2,751,371 | – | – | 3,302,321 |
| Syndicated loans — floating rate | US dollar (USD) | – | 1,465,125 | – | – | 1,465,125 |
| Certificates of deposit issued | Great Britain pound (GBP) | 636,355 | – | – | – | 636,355 |
| | Hong Kong dollar (HKD) | 236,708 | – | – | – | 236,708 |
| Subordinated notes — fixed rate | US dollar (USD) | – | – | – | 3,662,417 | 3,662,417 |
| | Swiss franc (CHF) | – | – | – | 371,382 | 371,382 |
| Borrowings through repurchase agreements | US dollar (USD) | 3,284,750 | 1,274,467 | – | – | 4,559,217 |
| Total borrowings | | 6,727,552 | 11,781,258 | 8,914,182 | 6,048,739 | 33,471,731 |



The Group hedges certain borrowings for foreign currency exchange risk and interest rate risk using either interest rate or cross-currency swaps and designates these swaps as either fair value or cash flow hedges. The net negative fair value of these swaps as at 31 December 2015 was AED 870,826 thousand.

The details of borrowings as at 31 December 2014 are as follows:

| Instrument | Currency | Within 1 year AED'000 | 1–3 years AED'000 | 3–5 years AED'000 | Over 5 years AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| Global Medium-Term Notes | Australian dollar (AUD) | – | – | 758,763 | – | 758,763 |
| | Chinese renminbi (CNH) | – | 172,950 | – | – | 172,950 |
| | Euro (EUR) | – | – | – | 53,905 | 53,905 |
| | Malaysian ringgit (MYR) | 784,575 | 733,731 | – | – | 1,518,306 |
| | Swiss franc (CHF) | 564,468 | 388,677 | – | – | 953,145 |
| | Turkish lira (TRY) | – | 60,127 | – | – | 60,127 |
| | UAE dirham (AED) | – | 513,270 | – | – | 513,270 |
| | Japanese yen (JPY) | – | 176,913 | 46,189 | – | 223,102 |
| | US dollar (USD) | – | 1,889,547 | 7,651,107 | 1,631,530 | 11,172,184 |
| | | 1,349,043 | 3,935,215 | 8,456,059 | 1,685,435 | 15,425,752 |
| Islamic Sukuk notes | US dollar (USD) | – | 1,863,609 | – | – | 1,863,609 |
| Bilateral loans — floating rate | US dollar (USD) | 1,469,200 | 1,831,011 | – | – | 3,300,211 |
| Subordinated notes — floating rate | US dollar (USD) | 1,058,855 | – | – | – | 1,058,855 |
| — fixed rate | US dollar (USD) | – | – | – | 3,709,770 | 3,709,770 |
| | Swiss franc (CHF) | – | – | – | 372,813 | 372,813 |
| Borrowings through repurchase agreements | US dollar (USD) | 4,589,111 | – | – | – | 4,589,111 |
| Total borrowings | | 8,466,209 | 7,629,835 | 8,456,059 | 5,768,018 | 30,320,121 |

The Group hedges certain borrowings for foreign currency exchange risk and interest rate risk using either interest rate or cross-currency swaps and designates these swaps as either fair value or cash flow hedges. The net negative fair value of these swaps as at 31 December 2014 was AED 484,870 thousand.

## GLOBAL MEDIUM-TERM NOTES

Interest on Global Medium-Term Notes is payable in arrears and the contractual coupon rates as at 31 December 2015 are as follows:

| Currency | Within 1 year | 1–3 years | 3–5 years | Over 5 years |
|---|---|---|---|---|
| AUD | – | – | Fixed rate of 4.75% p.a. | – |
| CNH | – | Fixed rate between 3.70% p.a. and 4.125% p.a. | – | – |
| EUR | – | – | Quarterly coupons with 59 basis points over EURIBOR | – |
| MYR | – | Fixed rate between 4.30% p.a. and 5.35% p.a. | – | – |
| CHF | – | Quarterly coupons with 110 basis points over CHF LIBOR | – | – |
| TRY | Fixed rate of 12.75% p.a. | – | – | – |
| AED | – | Fixed rate of 6.00% p.a. | – | – |
| JPY | Fixed rate of 0.41% p.a. and 0.81% p.a. | Fixed rate of 0.48% p.a. | Fixed rate of 0.68% p.a. | – |
| HKD | – | – | Fixed rate between 2.30% p.a. and 2.46%p.a. | – |
| USD(*) | – | Fixed rate of 2.50% p.a. and quarterly coupons between 108 and 130 basis points over LIBOR | Fixed rate between 2.63% p.a. and 3.00% p.a. and quarterly coupons with 73 basis points over LIBOR | Fixed rate between 4.52% p.a. and 5.12% p.a. |

(*) Include AED 1,424,629 thousand 30-year accreting notes with yield ranging from 4.52% p.a. to 5.12% p.a. and are callable at the end of every fifth year from issue date.

## ISLAMIC SUKUK NOTES

The Sukuk carries a profit rate of 4.071% p.a. payable semi-annually (Note 24).

## BILATERAL FLOATING RATE LOANS

Monthly coupons with 60 to 80 basis points over LIBOR.

Quarterly coupons with 70 basis points plus LIBOR .

## SYNDICATED FLOATING RATE LOANS

Monthly coupon with 68 basis points over LIBOR.

Quarterly coupons with 60 basis points over LIBOR.

## CERTIFICATES OF DEPOSIT ISSUED

Fixed rate of 0.43 % p.a. to 0.90 % p.a.

## SUBORDINATED FIXED RATE NOTES

Interest on the subordinated fixed rate notes is payable half-yearly in arrears and the contractual coupon rates as at 31 December 2015 are as follows:

| Currency | Over 5 years |
|---|---|
| USD | Fixed rate 3.125% p.a. to 4.50% p.a. |
| CHF | Fixed rate 1.885% p.a. |

The subordinated fixed rate notes qualify as Tier 2 subordinated loan capital for the first five-year period till 2018 and thereafter are amortised at the rate of 20% per annum until 2023 for capital adequacy calculation (Note 52). This has been approved by the Central Bank of the UAE. Subordinated notes of AED 1,453,412 thousand mature in 2023 but are callable after five years from the issuance date at the option of the Bank.

## BORROWINGS THROUGH REPURCHASE AGREEMENTS

Fixed rate ranging from 0.66% p.a. to 0.92% p.a.

Quarterly coupons between 130 and 145 basis points over LIBOR and include repo against loans of AED 1,406,541 thousand.

## 21 OTHER LIABILITIES

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Interest payable | **506,502** | 368,254 |
| Recognised liability for defined benefit obligations | **384,677** | 334,872 |
| Accounts payable and other creditors | **291,506** | 248,441 |
| Deferred income | **626,360** | 566,150 |
| Acceptances (Note 14) | **7,168,716** | 2,906,420 |
| Others | **1,425,473** | 1,380,775 |
| **Total other liabilities** | **10,403,234** | 5,804,912 |

### DEFINED BENEFIT OBLIGATIONS

The Group provides gratuity benefits to its eligible employees in the UAE. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out in the last quarter of 2015 by a registered actuary in the UAE. The present value of the defined benefit obligation and the related current and past service cost were measured using the Projected Unit Credit Method.

Key assumptions used in the actuarial valuation are as follows:

Discount rate: 4.50% p.a.

Salary increment rate: 4.50% p.a.

Demographic assumptions for mortality and retirement were used in valuing the liabilities and benefits under the plan.

The liability would be higher by AED 5,654 thousand had the discount rate used in the assumption been lower by 0.25%, and the liability would be lower by AED 5,486 thousand had the discount rate used in the assumption been higher by 0.25%. Similarly, the liability would be higher by AED 11,657 thousand had the salary increment rate used in the assumption been higher by 0.50%, and the liability would be lower by AED 9,329 thousand had the salary increment rate used in the assumption been lower by 0.50%.

The movement in defined benefit obligation is as follows:

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Opening balance | **334,872** | 256,102 |
| Net charge during the year (*) | **68,121** | 69,935 |
| Actuarial losses on defined benefit obligation | **10,141** | 25,887 |
| Benefits paid | **(28,457)** | (17,052) |
| **Closing balance** | **384,677** | 334,872 |

(*) Recognised under "staff costs" in the consolidated income statement.

### DEFINED BENEFIT CONTRIBUTION

The Group also pays contributions to the Abu Dhabi Retirement Pensions and Benefits Fund in respect of its UAE and GCC national employees, and these are treated as defined contribution plans. The charge for the year in respect of these contributions is AED 27,763 thousand (2014 — AED 26,611 thousand). As at 31 December 2015, pension payable of AED 5,905 thousand has been classified under other liabilities — others (31 December 2014 — AED 5,023 thousand).

## 22 SHARE CAPITAL

| | | Issued and fully paid | |
|---|---|---|---|
| | **Authorised AED'000** | **2015 AED'000** | 2014 AED'000 |
| Ordinary shares of AED 1.00 each | **5,595,597** | **5,595,597** | 5,595,597 |

As at 31 December 2015, Abu Dhabi Investment Council held 58.083% (31 December 2014 — 58.083%) of the Bank's issued and fully paid-up share capital.

### TREASURY SHARES

During the year, the Bank bought back 2,613,353 (2014 — 2,011,108) ordinary shares from certain shareholders at a total cash consideration of AED 17,005 thousand (2014 — AED 11,691 thousand); these shares are held as Treasury shares as at 31 December 2015 (Note 23) and are expected to be cancelled eventually. The total number of shares bought back by the Bank as at 31 December 2015 was 397,366,172 (31 December 2014 — 394,752,819). This buyback programme of up to 10% of the Bank's shares was approved by the Securities & Commodities Authority, Central Bank of the UAE and the Bank's shareholders.

### DIVIDENDS

For the year ended 31 December 2015, the Board of Directors has proposed to pay cash dividends of AED 2,339,204 thousand, being AED 0.45 dividends per share and representing 45% of the paid-up capital net of shares bought back (31 December 2014 — AED 2,079,292 thousand, being AED 0.40 dividends per share and representing 40% of the paid-up capital net of shares bought back). This is subject to the approval of the shareholders in the Annual General Meeting.

## 23 OTHER RESERVES, NET OF TREASURY SHARES

Reserves movement for the year ended 31 December 2015:

| | Treasury shares AED'000 | Employees' incentive plan shares, net AED'000 | Statutory reserve AED'000 |
|---|---|---|---|
| **Balance at 1 January 2015** | **(1,808,648)** | **(66,099)** | **2,692,154** |
| Exchange difference arising on translation of foreign operations | – | – | – |
| Net fair value changes on cash flow hedges | – | – | – |
| Net fair value changes reclassified to consolidated income statement | – | – | – |
| Net fair value changes on available-for-sale investments | – | – | – |
| Net fair value changes released to consolidated income statement on disposal of available-for-sale investments | – | – | – |
| **Total other comprehensive (loss)/gain for the year** | – | – | – |
| Shares purchased | – | **(50,195)** | – |
| Fair value and other adjustments | – | **(4,056)** | – |
| Shares — vested portion (Note 25) | – | **27,391** | – |
| Share buyback (Note 22) | **(17,005)** | – | – |
| Transfer from retained earnings (Note 52) | – | – | **105,645** |
| **Balance at 31 December 2015** | **(1,825,653)** | **(92,959)** | **2,797,799** |
| **Balance at 1 January 2014** | (1,818,969) | (57,438) | 2,287,181 |
| Exchange difference arising on translation of foreign operations | – | – | – |
| Net fair value changes on cash flow hedges | – | – | – |
| Net fair value changes reclassified to consolidated income statement | – | – | – |
| Net fair value changes on available-for-sale investments | – | – | – |
| Net fair value changes released to consolidated income statement on disposal of available-for-sale investments | – | – | – |
| **Total other comprehensive loss for the year** | – | – | – |
| Shares purchased | – | (31,459) | – |
| Fair value and other adjustments | – | (6,511) | – |
| Shares — vested portion (Note 25) | – | 29,309 | – |
| Share buyback (Note 22) | (11,691) | – | – |
| Net movement in Treasury shares on disposal of Fund subsidiaries (Note 53) | 22,012 | – | – |
| Transfer from retained earnings (Note 52) | – | – | 404,973 |
| **Balance at 31 December 2014** | (1,808,648) | (66,099) | 2,692,154 |

For more information on reserves refer to Note 52.

| Legal reserve AED'000 | General reserve AED'000 | Contingency reserve AED'000 | Foreign currency translation reserve AED'000 | Cash flow hedge reserve AED'000 | Cumulative changes in fair values AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| **2,647,367** | **2,000,000** | **150,000** | **(63,385)** | **(11,283)** | **251,692** | **5,791,798** |
| – | – | – | (9,875) | – | – | (9,875) |
| – | – | – | – | (204,994) | – | (204,994) |
| – | – | – | – | 219,334 | – | 219,334 |
| – | – | – | – | – | (334,883) | (334,883) |
| – | – | – | – | – | (17,028) | (17,028) |
| – | – | – | (9,875) | 14,340 | (351,911) | (347,446) |
| – | – | – | – | – | – | (50,195) |
| – | – | – | – | – | – | (4,056) |
| – | – | – | – | – | – | 27,391 |
| – | – | – | – | – | – | (17,005) |
| 150,432 | – | – | – | – | – | 256,077 |
| **2,797,799** | **2,000,000** | **150,000** | **(73,260)** | **3,057** | **(100,219)** | **5,656,564** |
| 2,242,394 | 2,000,000 | 150,000 | (59,686) | 40,800 | 351,158 | 5,135,440 |
| – | – | – | (3,699) | – | – | (3,699) |
| – | – | – | – | (425,416) | – | (425,416) |
| – | – | – | – | 373,333 | – | 373,333 |
| – | – | – | – | – | (77,265) | (77,265) |
| – | – | – | – | – | (22,201) | (22,201) |
| – | – | – | (3,699) | (52,083) | (99,466) | (155,248) |
| – | – | – | – | – | – | (31,459) |
| – | – | – | – | – | – | (6,511) |
| – | – | – | – | – | – | 29,309 |
| – | – | – | – | – | – | (11,691) |
| – | – | – | – | – | – | 22,012 |
| 404,973 | – | – | – | – | – | 809,946 |
| 2,647,367 | 2,000,000 | 150,000 | (63,385) | (11,283) | 251,692 | 5,791,798 |

## 24 ISLAMIC FINANCING

**Islamic financing assets**

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Murabaha | **2,456,265** | 2,299,930 |
| Ijara financing | **6,749,806** | 4,170,654 |
| Mudaraba | **32,390** | 138,534 |
| Salam | **5,303,398** | 4,420,019 |
| Others | **197,983** | 126,776 |
| **Gross Islamic financing assets** | **14,739,842** | 11,155,913 |
| Less: Allowance for impairment | **(197,885)** | (143,219) |
| **Net Islamic financing assets** | **14,541,957** | 11,012,694 |

**Gross Ijara and related present value of the minimum Ijara payments**

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Less than one year | **483,002** | 539,238 |
| Between one year and five years | **1,853,649** | 2,323,031 |
| More than five years | **6,132,908** | 2,839,809 |
| **Gross Ijara** | **8,469,559** | 5,702,078 |
| Less: Deferred income | **(1,719,753)** | (1,531,424) |
| **Net Ijara** | **6,749,806** | 4,170,654 |
| **Net present value** | | |
| Less than one year | **384,998** | 291,323 |
| Between one year and five years | **1,477,280** | 1,608,619 |
| More than five years | **4,887,528** | 2,270,712 |
| **Total net present value** | **6,749,806** | 4,170,654 |

**Income from Islamic financing**

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Murabaha | **83,625** | 69,744 |
| Ijara financing | **226,074** | 219,694 |
| Mudaraba | **4,433** | 13,753 |
| Salam | **359,588** | 308,424 |
| Others | **3,424** | 5,818 |
| **Total income from Islamic financing** | **677,144** | 617,433 |

**Islamic deposits**

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Current account deposits | **2,646,781** | 2,543,875 |
| Margin deposits | **11,122** | 13,281 |
| Mudaraba savings deposits | **4,919,033** | 4,198,219 |
| Mudaraba term deposits | **1,280,738** | 1,374,575 |
| Wakala deposits | **1,363,893** | 1,249,479 |
| **Total Islamic deposits** | **10,221,567** | 9,379,429 |

**Islamic profit distribution**

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Mudaraba savings and term deposits | **41,505** | 44,042 |
| Wakala deposits | **17,410** | 14,780 |
| Sukuk | **50,797** | 53,274 |
| **Total Islamic profit distribution** | **109,712** | 112,096 |

In November 2011, ADCB, through its subsidiary ADCB Islamic Finance (Cayman) Limited (Sukuk company), issued a Shari'ah-compliant financing arrangement – a Sukuk amounting to USD 500,000 thousand (AED 1,836,500 thousand). The Sukuk carries an expected profit rate of 4.071% p.a. payable semi-annually and is due to mature in November 2016. The Sukuk is listed on the London Stock Exchange.

## 25 EMPLOYEES' INCENTIVE PLAN SHARES, NET

The Group operates a Deferred Compensation Plan (the "Plan") to recognise and retain high-performing employees. Under the Plan, the employees are granted shares of the Bank when they meet the vesting conditions at a price prevailing at the grant date. These shares are acquired and held by a subsidiary of the Bank until vesting conditions are met. The Group's Nomination, Compensation and HR Committee determines and approves the shares to be granted to employees based on the Group's key performance indicators.

For the year ended 31 December 2015, the Group had four incentive plans in force as described below:

| | 1 January 2015 | 1 January 2015 | 1 January 2014 | 1 January 2014 |
|---|---|---|---|---|
| Number of shares granted | 1,795,000 | 3,840,968 | 1,665,000 | 3,562,631 |
| Fair value of the granted shares at the grant date in AED thousand | 12,619 | 27,002 | 10,823 | 23,157 |
| Vesting date | 31 December 2018 | 31 December 2017 | 31 December 2017 | 31 December 2016 |

Vesting conditions – Three/four years' service from the grant date or meeting special conditions during the vesting period (death, disability, retirement, termination or achieving the budgeted performance).

The movement of plan shares is as follows:

| | 2015 | 2014 |
|---|---|---|
| Opening balance | **6,097,905** | 9,055,462 |
| Shares granted during the year | **5,635,968** | 5,227,631 |
| Exercised during the year | **(4,455,263)** | (7,852,213) |
| Forfeited during the year | **(551,206)** | (332,975) |
| Closing balance | **6,727,404** | 6,097,905 |
| Amount of "Plan" cost recognised under "staff costs" in the consolidated statement of income (AED'000) | **27,391** | 29,309 |

Total number of un-allotted shares under the Plan as at 31 December 2015 were 7,337,530 shares (31 December 2014 — 5,980,963 shares). These un-allotted shares include forfeited shares and shares purchased for future plans. The Group's Nomination, Compensation and HR Committee's intention is to include these shares in the next incentive plan scheme.

## 26 CAPITAL NOTES

In February 2009, the Department of Finance, Government of Abu Dhabi, subscribed to ADCB's Tier 1 regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "Notes").

The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date. Redemption is only at the option of the Bank. The Notes are direct, unsecured, subordinated obligations of the Bank and rank *pari passu* without any preference among themselves, and the rights and claims of the Note holders will be subordinated to the claims of Senior Creditors. The Notes bore interest at the rate of 6% per annum payable semi-annually until February 2014, and bear a floating interest rate of six-month EIBOR plus 2.3% per annum thereafter. However, the Bank may at its sole discretion elect not to make a coupon payment. The Note holders do not have a right to claim the coupon, and an election by the Bank not to service the coupon is not considered an event of default. In addition, there are certain circumstances ("non-payment event") under which the Bank is prohibited from making a coupon payment on a relevant coupon payment date.

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

## 27 INTEREST INCOME

| | 2015<br>AED'000 | 2014<br>AED'000 |
|---|---|---|
| Loans and advances to banks | **198,537** | 205,025 |
| Loans and advances to customers | **6,451,734** | 5,655,249 |
| Available-for-sale investments | **459,260** | 502,991 |
| Trading securities | **10,437** | 4,690 |
| **Total interest income** | **7,119,968** | 6,367,955 |

## 28 INTEREST EXPENSE

| | 2015<br>AED'000 | 2014<br>AED'000 |
|---|---|---|
| Deposits from banks | **7,212** | 7,595 |
| Deposits from customers | **919,506** | 764,315 |
| Euro commercial paper | **36,003** | 30,977 |
| Borrowings | **518,880** | 485,896 |
| **Total interest expense** | **1,481,601** | 1,288,783 |

## 29 NET FEES AND COMMISSION INCOME

| | 2015<br>AED'000 | 2014<br>AED'000 |
|---|---|---|
| **Fees and commission income** | | |
| Retail banking fees | **1,014,470** | 858,126 |
| Corporate banking fees | **559,501** | 502,584 |
| Fees from trust and other fiduciary activities | **178,418** | 119,792 |
| Brokerage fees | **14,018** | 40,328 |
| Other fees | **41,775** | 47,942 |
| **Total fees and commission income** | **1,808,182** | 1,568,772 |
| Fees and commission expenses | **(370,605)** | (325,824) |
| **Net fees and commission income** | **1,437,577** | 1,242,948 |

## 30 NET TRADING INCOME

| | 2015<br>AED'000 | 2014<br>AED'000 |
|---|---|---|
| Net gains from dealing in derivatives | **64,145** | 23,958 |
| Net gains from dealing in foreign currencies | **292,104** | 284,959 |
| Net (losses)/gains from trading securities | **(4,237)** | 98,071 |
| **Net trading income** | **352,012** | 406,988 |

## 31 OTHER OPERATING INCOME

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Net gains from disposal of available-for-sale investments | **17,028** | 22,201 |
| Property management income | **151,464** | 138,791 |
| Rental income | **53,220** | 65,971 |
| Dividend income | **9,867** | 26,513 |
| Losses arising from retirement of hedges | **(3,887)** | – |
| Other income | **37,214** | 19,147 |
| **Total other operating income** | **264,906** | 272,623 |

## 32 OPERATING EXPENSES

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Staff expenses | **1,689,427** | 1,464,359 |
| Depreciation (Note 15) | **134,531** | 132,008 |
| Amortisation of intangible assets (Note 16) | **16,905** | 25,990 |
| Others | **986,075** | 940,703 |
| **Total operating expenses** | **2,826,938** | 2,563,060 |

## 33 IMPAIRMENT ALLOWANCES

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Charge for the year | **752,846** | 1,040,551 |
| Recoveries during the year | **(252,566)** | (229,352) |
| Impairment allowance on loans and advances, net (Note 43.6) | **500,280** | 811,199 |
| Net impairment recoveries on available-for-sale investments | **(10,853)** | (48,952) |
| Impairment allowance — others | **12,121** | – |
| **Total impairment allowances** | **501,548** | 762,247 |

## 34 EARNINGS PER SHARE

### BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Bank and the weighted average number of equity shares outstanding. Diluted earnings per share is calculated by adjusting the weighted average number of equity shares outstanding for the dilutive effects of potential equity shares held on account of employees' incentive plan and Treasury shares arising on consolidation of fund subsidiaries.

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Net profit for the year attributable to the equity holders of the Bank | **4,924,244** | 4,049,731 |
| Less: Coupon paid on capital notes | **(128,860)** | (186,393) |
| **Net adjusted profit for the year attributable to the equity holders of the Bank (a)** | **4,795,384** | 3,863,338 |
| | **Number of shares in thousands** | |
| Weighted average number of shares in issue throughout the year | **5,595,597** | 5,595,597 |
| Less: Weighted average number of Treasury shares arising on buyback | **(397,330)** | (392,797) |
| Less: Weighted average number of Treasury shares arising on consolidation of funds | **–** | (1,849) |
| Less: Weighted average number of shares resulting from employees' incentive plan shares | **(14,607)** | (14,030) |
| **Weighted average number of equity shares in issue during the year for basic earnings per share (b)** | **5,183,660** | 5,186,921 |
| Add: Weighted average number of Treasury shares arising on consolidation of funds | **–** | 1,849 |
| Add: Weighted average number of shares resulting from employees' incentive plan shares | **14,607** | 14,030 |
| **Weighted average number of equity shares in issue during the year for diluted earnings per share (c)** | **5,198,267** | 5,202,800 |
| **Basic earnings per share (AED) (a)/(b)** | **0.93** | 0.74 |
| **Diluted earnings per share (AED) (a)/(c)** | **0.92** | 0.74 |

## 35 OPERATING LEASE

### GROUP AS LESSEE

Operating leases relate to leases of branch premises, offices and ATMs of the Group with lease terms mainly between one and three years. The Group has the option to renew the lease agreements but not the option to purchase the leased premises at the expiry of the lease periods.

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| **Payments recognised as an expense** | | |
| Minimum lease payments | **68,472** | 64,080 |
| **Non-cancellable operating lease commitments** | | |
| Not later than one year | **31,345** | 54,051 |
| Later than one year but not later than five years | **15,642** | 37,909 |
| Later than five years | **225** | 242 |
| **Total non-cancellable operating lease commitments** | **47,212** | 92,202 |

### GROUP AS LESSOR

Operating leases relate to the investment properties owned by the Group with varied lease terms, with an option to extend the lease term. All operating lease contracts contain a market-review clause in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Rental incomes earned by the Group from its investment properties and direct operating expenses arising on the investment properties for the year are set out in Note 13.

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| **Non-cancellable operating lease receivables:** | | |
| Not later than one year | **33,290** | 25,943 |
| Later than one year but not later than five years | **42,793** | 11,702 |
| Later than five years | **41,318** | 32,250 |
| **Total non-cancellable operating lease receivables** | **117,401** | 69,895 |

## 36 CASH AND CASH EQUIVALENTS

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

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Cash and balances with central banks | **20,180,277** | 15,092,192 |
| Deposits and balances due from banks | **14,954,997** | 13,189,412 |
| Reverse-repo placements | **4,256,277** | 2,830,049 |
| Due to banks | **(1,691,793)** | (4,089,019) |
| | **37,699,758** | 27,022,634 |
| Less: Cash and balances with central banks, deposits and balances due from banks and reverse-repo placements — with original maturity of more than three months | **(7,364,126)** | (12,095,955) |
| Add: Due to banks — with original maturity of more than three months | **437,937** | 93,827 |
| **Total cash and cash equivalents** | **30,773,569** | 15,020,506 |

## 37 RELATED-PARTY TRANSACTIONS

The Group enters into transactions with its parent and its related entities, associate, funds under management, Directors, senior management and their related entities and the Government of Abu Dhabi (ultimate controlling party and its related entities) in the ordinary course of business at commercial interest and commission rates.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the Directors, Chief Executive Officer and his direct reports.

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

Details of all transactions in which a Director and/or related parties might have actual or potential conflicts of interest are provided to the Board of Directors (the "Board") for its review and approval. Where a Director is interested, that Director neither participates in the discussions nor votes on such matters. The Bank's policy is, as far as possible, to engage in transactions with related parties only on arm's-length terms and in accordance with relevant laws and regulations. The Board Secretariat maintains a conflicts register which is regularly reviewed by the Board Corporate Governance Committee. In addition, the Board maintains awareness of other commitments of its Directors and senior management. The Bank has implemented a Directors' conflict of interest policy and, for senior management, a Code of Conduct. As a result of written declarations submitted by each of the Board Members, the Board satisfies itself that the other commitments of the Directors do not conflict with their duties or that, where conflicts arise, the Board is sufficiently aware and policies are in place to minimise the risks.

## PARENT AND ULTIMATE CONTROLLING PARTY

Abu Dhabi Investment Council holds 58.083% (31 December 2014 — 58.083%) of the Bank's issued and fully paid-up share capital (Note 22). Abu Dhabi Investment Council was established by the Government of Abu Dhabi pursuant to law No. 16 of 2006, and so the ultimate controlling party is the Government of Abu Dhabi.

Related-party balances and transactions included in the consolidated statement of financial position and consolidated income statement are as follows:

| | Ultimate controlling party and its related parties AED'000 | Directors and related parties AED'000 | Key managers AED'000 | Associate AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **31 December 2015** | | | | | |
| **Balances** | | | | | |
| Deposits and balances due from banks | **3,335,134** | **–** | **–** | **–** | **3,335,134** |
| Reverse-repo placements | **2,762,095** | **–** | **–** | **–** | **2,762,095** |
| Trading securities | **44,699** | **–** | **–** | **–** | **44,699** |
| Derivative financial instruments — assets | **1,709,379** | **–** | **–** | **–** | **1,709,379** |
| Investment securities | **3,651,862** | **–** | **–** | **–** | **3,651,862** |
| Loans and advances, net | **21,027,485** | **287,425** | **38,603** | **348,444** | **21,701,957** |
| Other assets | **191,378** | **2,266** | **352** | **94** | **194,090** |
| Derivative financial instruments — liabilities | **719,449** | **–** | **–** | **–** | **719,449** |
| Due to banks | **47,676** | **–** | **–** | **–** | **47,676** |
| Deposits from customers | **28,551,301** | **177,902** | **20,698** | **46,830** | **28,796,731** |
| Other liabilities | **37,574** | **426** | **–** | **–** | **38,000** |
| Capital notes | **4,000,000** | **–** | **–** | **–** | **4,000,000** |
| Commitments and contingent liabilities | **3,813,431** | **148,806** | **2,026** | **919** | **3,965,182** |
| **Transactions** | | | | | |
| Interest, fees and other income | **336,568** | **9,954** | **1,088** | **17,336** | **364,946** |
| Interest expense | **234,481** | **210** | **155** | **–** | **234,846** |
| Derivative income | **142,663** | **–** | **–** | **–** | **142,663** |
| Share in profit of associate | **–** | **–** | **–** | **1,302** | **1,302** |
| Coupon paid on capital notes | **128,860** | **–** | **–** | **–** | **128,860** |
| **31 December 2014** | | | | | |
| **Balances** | | | | | |
| Deposits and balances due from banks | 3,885,550 | – | – | – | 3,885,550 |
| Trading securities | 37,393 | – | – | – | 37,393 |
| Derivative financial instruments — assets | 1,699,305 | – | – | – | 1,699,305 |
| Investment securities | 3,537,875 | – | – | – | 3,537,875 |
| Loans and advances, net | 18,175,112 | 160,825 | 35,335 | 397,644 | 18,768,916 |
| Other assets | 481,349 | 1,413 | 191 | 104 | 483,057 |
| Derivative financial instruments — liabilities | 896,649 | – | – | – | 896,649 |
| Deposits from customers | 25,118,497 | 121,837 | 35,249 | 37,106 | 25,312,689 |
| Other liabilities | 23,976 | 540 | – | – | 24,516 |
| Capital notes | 4,000,000 | – | – | – | 4,000,000 |
| Commitments and contingent liabilities | 6,895,317 | 121,637 | 300 | 919 | 7,018,173 |
| **Transactions** | | | | | |
| Interest, fees and other income | 397,223 | 9,091 | 1,192 | 28,540 | 436,046 |
| Interest expense | 269,554 | 90 | 111 | – | 269,755 |
| Derivative income | 528,562 | – | – | – | 528,562 |
| Coupon paid on capital notes | 186,393 | – | – | – | 186,393 |

As at 31 December 2015, funds under management held 6,743,997 shares (31 December 2014 — 5,469,873 shares) of the Bank. During the year, the Bank paid dividend of AED 1,937 thousand (2014 — AED 2,270 thousand) to these funds.

Remuneration of Key Management employees and Board of Directors fees and expenses during the year are as follows:

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Short-term benefits | **25,536** | 25,995 |
| Termination benefits | **2,636** | 2,657 |
| Variable pay benefits | **30,375** | 30,450 |
| | **58,547** | 59,102 |
| Board of Directors fees and expenses | **7,909** | 7,556 |

In addition to the above, the Key Management personnel were granted long-term deferred compensation including share-based payments of AED 27,625 thousand (2014 — AED 25,425 thousand).

## 38 COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following commitments and contingent liabilities at December 31:

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Letters of credit | **7,397,227** | 6,411,361 |
| Guarantees | **20,688,203** | 17,418,872 |
| Commitments to extend credit — revocable (*) | **10,140,076** | 10,809,547 |
| Commitments to extend credit — irrevocable | **13,436,760** | 12,687,831 |
| **Total commitments on behalf of customers** | **51,662,266** | 47,327,611 |
| Commitments for future capital expenditure | **364,985** | 137,736 |
| Commitments to invest in investment securities | **89,182** | 71,750 |
| **Total commitments and contingent liabilities** | **52,116,433** | 47,537,097 |

(*) Includes AED 6,860,860 thousand (31 December 2014 — AED 6,276,388 thousand) for undrawn credit card limits.

### CREDIT-RELATED COMMITMENTS

Credit-related commitments include commitments to extend credit, standby letters of credit and guarantees which are designed to meet the requirements of the Bank's customers. Irrevocable commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. Revocable commitments to extend credit represent commitments to make loan and advances and revolving credits which can be cancelled by the Bank unconditionally without any contractual obligations. 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 Bank 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 be exposed to market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at floating rates.

Commitments and contingent liabilities which have been entered into on behalf of customers and for which there are corresponding obligations from customers are not included in assets and liabilities. The Bank's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to the Bank's normal credit approval processes.

## 39 OPERATING SEGMENTS

The Group has four reportable segments as described below. These segments offer different products and services and are managed separately based on the Group's management and internal reporting structure. The Group's Management Executive Committee (the Chief Operating Decision Maker "CODM") is responsible for allocation of resources to these segments, whereas the Performance Management Committee, based on delegation from CODM, reviews the performance of these segments on a regular basis.

The following summary describes the operations in each of the Group's reportable segments:

| | |
|---|---|
| **Consumer Banking** | comprises retail, Wealth Management and Islamic financing. It includes loans, deposits and other transactions and balances with retail customers, and corporate and private accounts of high-net-worth individuals and funds management activities. |
| **Wholesale Banking** | comprises business banking, cash management, trade finance, corporate finance, small and medium-size enterprise financing, investment banking, Indian operations, Islamic financing, infrastructure and asset finance, Government and public enterprises. It includes loans, deposits and other transactions and balances with corporate customers. |
| **Investments & Treasury** | comprises central Treasury operations, management of the Group's investment portfolio and interest rate, the currency and commodity derivative portfolio, and Islamic financing. Investments & Treasury undertakes the Group's funding and centralised risk management activities through borrowings, issue of debt securities and use of derivatives for risk management. It also undertakes trading and corporate finance activities and investing in liquid assets such as short-term placements, corporate and government debt securities. |
| **Property Management** | comprises real estate management and engineering service operations of subsidiaries — Abu Dhabi Commercial Properties LLC, Abu Dhabi Commercial Engineering Services LLC, and rental income of ADCB. |

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Performance Management Committee. Segment profit is used to measure performance, as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's-length basis.

The following is an analysis of the Group's revenue and results by operating segment for the year ended:

| | Consumer Banking AED'000 | Wholesale Banking AED'000 | Investments & Treasury AED'000 | Property Management AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **2015** | | | | | |
| Net interest income | 2,493,272 | 1,656,724 | 1,393,896 | 94,475 | 5,638,367 |
| Net income from Islamic financing | 362,122 | 162,771 | 40,059 | 2,480 | 567,432 |
| Total net interest and Islamic financing income | 2,855,394 | 1,819,495 | 1,433,955 | 96,955 | 6,205,799 |
| Non-interest income | 893,219 | 676,495 | 261,898 | 223,075 | 2,054,687 |
| Operating expenses | (1,730,726) | (765,803) | (218,433) | (111,976) | (2,826,938) |
| **Operating profit before impairment allowances** | 2,017,887 | 1,730,187 | 1,477,420 | 208,054 | 5,433,548 |
| Impairment (allowances)/recoveries | (684,406) | 172,005 | 10,853 | – | (501,548) |
| Share in profit of associate | 1,302 | – | – | – | 1,302 |
| **Profit before taxation** | 1,334,783 | 1,902,192 | 1,488,273 | 208,054 | 4,933,302 |
| Overseas income tax expense | – | (6,233) | – | – | (6,233) |
| **Net profit for the year** | 1,334,783 | 1,895,959 | 1,488,273 | 208,054 | 4,927,069 |
| Capital expenditure | | | | | 163,488 |
| **31 December 2015** | | | | | |
| Segment assets | 69,845,328 | 94,301,998 | 63,465,784 | 653,991 | 228,267,101 |
| Segment liabilities | 43,486,000 | 67,541,312 | 88,484,442 | 22,544 | 199,534,298 |

| | Consumer Banking AED'000 | Wholesale Banking AED'000 | Investments & Treasury AED'000 | Property Management AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **2014** | | | | | |
| Net interest income | 1,982,181 | 1,243,355 | 1,744,875 | 108,761 | 5,079,172 |
| Net income from Islamic financing | 314,458 | 146,852 | 44,027 | – | 505,337 |
| Net interest and Islamic financing income | 2,296,639 | 1,390,207 | 1,788,902 | 108,761 | 5,584,509 |
| Non-interest income | 921,817 | 596,609 | 181,989 | 244,474 | 1,944,889 |
| Operating expenses | (1,577,370) | (685,952) | (198,366) | (101,372) | (2,563,060) |
| **Operating profit before impairment allowances** | 1,641,086 | 1,300,864 | 1,772,525 | 251,863 | 4,966,338 |
| Impairment (allowances)/recoveries | (663,024) | (148,175) | 48,952 | – | (762,247) |
| **Profit before taxation** | 978,062 | 1,152,689 | 1,821,477 | 251,863 | 4,204,091 |
| Overseas income tax expense | – | (2,707) | – | – | (2,707) |
| **Net profit for the year** | 978,062 | 1,149,982 | 1,821,477 | 251,863 | 4,201,384 |
| Capital expenditure | | | | | 144,965 |
| **31 December 2014** | | | | | |
| Segment assets | 63,216,688 | 83,717,761 | 56,460,659 | 624,355 | 204,019,463 |
| Segment liabilities | 37,316,795 | 51,210,978 | 89,055,962 | 16,895 | 177,600,630 |

## OTHER DISCLOSURES

The following is the analysis of the total operating income of each segment between income from external parties and inter-segment.

| | External | | Inter-segment | |
|---|---|---|---|---|
| | **2015 AED'000** | 2014 AED'000 | **2015 AED'000** | 2014 AED'000 |
| Consumer Banking | **4,795,767** | 4,333,210 | **(1,047,154)** | (1,114,754) |
| Wholesale Banking | **3,373,491** | 3,029,740 | **(877,501)** | (1,042,924) |
| Investments & Treasury | **(117,309)** | (78,026) | **1,813,162** | 2,048,917 |
| Property Management | **208,537** | 244,474 | **111,493** | 108,761 |
| Total | **8,260,486** | 7,529,398 | **–** | – |

## GEOGRAPHICAL INFORMATION

The Group operates in two principal geographic areas, i.e. Domestic and International. The United Arab Emirates is designated as the domestic area which represents the operations of the Bank that originate from the UAE branches and subsidiaries, and the international area represents the operations of the Bank that originate from its branches in India and Jersey and through its subsidiaries outside the UAE. The Group's revenue and information about its non-current assets by geographical location are detailed as follows:

| | Domestic | | International | |
|---|---|---|---|---|
| | **2015 AED'000** | 2014 AED'000 | **2015 AED'000** | 2014 AED'000 |
| **Income** | | | | |
| Net interest and Islamic financing income | **6,137,848** | 5,533,625 | **67,951** | 50,884 |
| Non-interest income | **2,025,515** | 1,767,640 | **29,172** | 177,249 |
| **Non-current assets** | | | | |
| Investment in associate | **197,156** | 195,854 | **–** | – |
| Investment properties | **647,647** | 615,778 | **–** | – |
| Property and equipment, net | **830,136** | 801,746 | **5,009** | 4,442 |
| Intangible assets | **18,800** | 35,705 | **–** | – |

## 40 FINANCIAL INSTRUMENTS

### CATEGORIES OF FINANCIAL INSTRUMENTS

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IAS 39.

| | Held-for-trading AED'000 | Hedging derivatives AED'000 | Available-for-sale AED'000 | Amortised cost AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **31 December 2015** | | | | | |
| **Assets** | | | | | |
| Cash and balances with central banks | – | – | – | 20,180,277 | 20,180,277 |
| Deposits and balances due from banks | – | – | – | 14,954,997 | 14,954,997 |
| Reverse-repo placements | – | – | – | 4,256,277 | 4,256,277 |
| Trading securities | 62,261 | – | – | – | 62,261 |
| Derivative financial instruments | 3,579,900 | 422,008 | – | – | 4,001,908 |
| Investment securities | – | – | 20,863,607 | – | 20,863,607 |
| Loans and advances, net | – | – | – | 153,677,386 | 153,677,386 |
| Other assets | – | – | – | 8,516,557 | 8,516,557 |
| **Total financial assets** | 3,642,161 | 422,008 | 20,863,607 | 201,585,494 | 226,513,270 |
| **Liabilities** | | | | | |
| Due to banks | – | – | – | 1,691,793 | 1,691,793 |
| Derivative financial instruments | 3,555,579 | 1,185,601 | – | – | 4,741,180 |
| Deposits from customers | – | – | – | 143,526,296 | 143,526,296 |
| Euro commercial paper | – | – | – | 5,700,064 | 5,700,064 |
| Borrowings | – | – | – | 33,471,731 | 33,471,731 |
| Other liabilities | – | – | – | 9,386,292 | 9,386,292 |
| **Total financial liabilities** | 3,555,579 | 1,185,601 | – | 193,776,176 | 198,517,356 |
| **31 December 2014** | | | | | |
| **Assets** | | | | | |
| Cash and balances with central banks | – | – | – | 15,092,192 | 15,092,192 |
| Deposits and balances due from banks | – | – | – | 13,189,412 | 13,189,412 |
| Reverse-repo placements | – | – | – | 2,830,049 | 2,830,049 |
| Trading securities | 199,599 | – | – | – | 199,599 |
| Derivative financial instruments | 4,045,205 | 243,301 | – | – | 4,288,506 |
| Investment securities | – | – | 21,651,838 | – | 21,651,838 |
| Loans and advances, net | – | – | – | 140,562,498 | 140,562,498 |
| Other assets | – | – | – | 4,486,014 | 4,486,014 |
| **Total financial assets** | 4,244,804 | 243,301 | 21,651,838 | 176,160,165 | 202,300,108 |
| **Liabilities** | | | | | |
| Due to banks | – | – | – | 4,089,019 | 4,089,019 |
| Derivative financial instruments | 4,041,821 | 958,246 | – | – | 5,000,067 |
| Deposits from customers | – | – | – | 126,011,227 | 126,011,227 |
| Euro commercial paper | – | – | – | 6,375,284 | 6,375,284 |
| Borrowings | – | – | – | 30,320,121 | 30,320,121 |
| Other liabilities | – | – | – | 4,898,867 | 4,898,867 |
| **Total financial liabilities** | 4,041,821 | 958,246 | – | 171,694,518 | 176,694,585 |

## 41 FAIR VALUE HIERARCHY

### FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

### QUOTED MARKET PRICES — LEVEL 1

Financial instruments are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions.

### VALUATION TECHNIQUES USING OBSERVABLE INPUTS — LEVEL 2

Financial instruments and investment properties classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs includes financial instruments such as swaps and forwards which are valued using market standard pricing techniques and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

The category includes derivative financial instruments such as certain OTC derivatives, commodity derivatives, and foreign exchange spot and forward contracts.

These instruments are valued using the inputs observable in an active market. Valuation of the derivative financial instruments is made through a discounted cash flow method using the applicable yield curve for the duration of the instruments for non-optional derivatives and standard option pricing models such as Black-Scholes and other valuation models for optional derivatives.

### VALUATION TECHNIQUES USING SIGNIFICANT UNOBSERVABLE INPUTS — LEVEL 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

This category mainly includes private equity instruments and private funds. The carrying values of these investments are adjusted as follows:

a) Private equity instruments — using the latest available net book value; and

b) Private funds — based on the net asset value provided by the fund manager.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

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

| | Notes | Level 1<br>Quoted market prices AED'000 | Level 2<br>Observable inputs AED'000 | Level 3<br>Significant unobservable inputs AED'000 | Total fair value AED'000 | Carrying value AED'000 |
|---|---|---|---|---|---|---|
| **31 December 2015** | | | | | | |
| **Assets at fair value** | | | | | | |
| Trading securities | 8 | 62,261 | – | – | 62,261 | 62,261 |
| Derivative financial instruments | 9 | 1,335 | 4,000,573 | – | 4,001,908 | 4,001,908 |
| Investment securities | 10 | | | | | |
| Quoted | | 19,298,541 | 753,336 | – | 20,051,877 | 20,051,877 |
| Unquoted | | – | 398,109 | 413,621 | 811,730 | 811,730 |
| Investment properties | 13 | – | – | 647,647 | 647,647 | 647,647 |
| **Total assets at fair value** | | 19,362,137 | 5,152,018 | 1,061,268 | 25,575,423 | 25,575,423 |
| **Liabilities at fair value** | | | | | | |
| Derivative financial instruments | 9 | 1,045 | 4,740,135 | – | 4,741,180 | 4,741,180 |
| **Liabilities at amortised cost** | | | | | | |
| Borrowings | 20 | 18,965,637 | 14,585,679 | – | 33,551,316 | 33,471,731 |
| **Total liabilities** | | 18,966,682 | 19,325,814 | – | 38,292,496 | 38,212,911 |
| **31 December 2014** | | | | | | |
| **Assets at fair value** | | | | | | |
| Trading securities | 8 | 199,599 | – | – | 199,599 | 199,599 |
| Derivative financial instruments | 9 | 2,536 | 4,285,970 | – | 4,288,506 | 4,288,506 |
| Investment securities | 10 | | | | | |
| Quoted | | 19,384,244 | 935,205 | – | 20,319,449 | 20,319,449 |
| Unquoted | | – | 954,173 | 378,216 | 1,332,389 | 1,332,389 |
| Investment properties | 13 | – | 615,778 | – | 615,778 | 615,778 |
| **Total assets at fair value** | | 19,586,379 | 6,791,126 | 378,216 | 26,755,721 | 26,755,721 |
| **Liabilities at fair value** | | | | | | |
| Derivative financial instruments | 9 | 146 | 4,999,921 | – | 5,000,067 | 5,000,067 |
| **Liabilities at amortised cost** | | | | | | |
| Borrowings | 20 | 19,335,562 | 11,222,753 | – | 30,558,315 | 30,320,121 |
| **Total liabilities** | | 19,335,708 | 16,222,674 | – | 35,558,382 | 35,320,188 |

### UNCONSOLIDATED STRUCTURED ENTITY

Level 1 and Level 3 financial instruments include the Bank's investments in certain Funds. The total carrying value of investments in these Funds as at 31 December 2015 was AED 194,504 thousand (31 December 2014 — AED 165,835 thousand). The Bank has also extended revocable overdraft facilities to these Funds amounting to AED 28,365 thousand (31 December 2014 — AED 50,030 thousand), out of which AED 244 thousand was utilised and outstanding as at 31 December 2015 (31 December 2014 — AED 35,632 thousand). The maximum exposure to loss in these Funds is equal to the carrying value of the investments and credit risk carried in the facilities extended.

The Group's OTC derivatives in the trading book are classified as Level 2 as they are valued using inputs that can be observed in the market.

Reconciliation showing the movement in fair values of Level 3 available-for-sale investments is as follows:

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Opening balance | **378,216** | 316,588 |
| Purchases, net | **14,520** | 60,494 |
| Disposals including capital refunds | **(5,304)** | (24,950) |
| Adjustment through comprehensive income | **26,189** | 26,845 |
| Transfer out | **–** | (761) |
| **Closing balance** | **413,621** | 378,216 |

The purchases under the Level 3 category represent capital contributions made during the year into private equity funds under existing capital commitments.

No gains/losses were realised on disposal of Level 3 investments during 2015 (2014 — net gain of AED 20,429 thousand was included under other operating income [Note 31] in the consolidated income statement).

There were no transfers between Level 1 and Level 2 during 2015, and there was no change in valuation techniques during the year.

During the year, the Management has transferred investment properties from Level 2 to Level 3 classification. The reclassification is done due to slowdown in the real estate market and reduction in transaction volumes in the UAE. Therefore, whilst arriving at the estimated market values, the valuers have used their market knowledge and professional judgement and have not only relied on historical comparable transactions. In these circumstances, there is a greater degree of uncertainty than that which exists in a more active market in estimating market values of investment properties. Refer to Note 13 in respect of the valuation methodology used.

The significant unobservable inputs used in the fair value measurement of the Group's investment properties are rental income and capitalisation rates. Significant decrease in rental income, or increase in capitalisation rates, in isolation would result in a significantly lower fair value measurement. Generally, a change in the assumption used for rental income should be accompanied by a change in the assumption for capitalisation rates, in the same way that increase in rental income increases the expectations of the seller to earn from the investment property. Therefore, the effects of these changes partially offset each other.

## 42 RISK MANAGEMENT

Risk governance structure emphasises and balances strong central oversight and control of risk with clear accountability for and ownership of risk within each business unit. Under the Group's approach to risk governance, the business primarily owns the risk that it generates and is equally responsible for assessing risk, designing and implementing controls, and monitoring and reporting their ongoing effectiveness to safeguard the Group from exceeding its risk appetite.

Ultimate responsibility for setting out risk appetite and effective management of risk rests with the Board. This is managed through various Board-level committees, namely the Board Risk & Credit Committee (BRCC) and the Board Audit & Compliance Committee (BACC), which ensure that risk-taking authority and policies are cascaded down from the Board to the appropriate business units.

Acting within the authority delegated by the Board, the BRCC has overall responsibility for oversight and review of credit, market, operational, liquidity, fraud and reputational risks. It periodically reviews and monitors compliance with the Group's overall risk appetite and makes recommendations thereon to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Group's risk management systems and controls, overseeing the risk management committees and ensuring that the Group's risk governance is supportive of prudent risk-taking at all levels in the Group.

The BRCC receives, on a regular basis, portfolio-level briefings from the Group Chief Risk Officer along with regular reports on risk management, including our portfolio trends, policy parameters, key risk indicators, results of stress testing and changes to the assumptions, liquidity measures, capital adequacy and planning, and also is authorised to investigate or seek any information relating to any activity within its terms of reference. The BRCC also conducts 'deep dive' reviews on a rolling basis of different sections of the consolidated group risk information report.



The Management Executive Committee (MEC) has primary responsibility for implementing, overseeing and taking ownership of the enforcement of risk strategy and internal control directives laid down by the Board and Board Committees.

The management-level committees also actively manage risk, particularly the Assets and Liabilities Management Committee (ALCO), Management Risk & Credit Committee (MRCC) and Management Recoveries Committee (MRC). The Risk Management function headed by the Group's Chief Risk Officer reports independently to the BRCC. The Risk function is independent of the Origination, Trading and Sales function to ensure that balance in risk-reward decisions is not compromised and to ensure transparency of decisions in accordance with laid-down standards and policies. The Risk function exercises control over credit, market, short-term liquidity, operational and compliance risk.

The BACC provides assistance to the Board to fulfil its duties to ensure and oversee the Group's financial statements, independence and performance of the Group's external and internal auditors, compliance with legal and regulatory requirements, and internal policies and internal control over financial reporting.

The Internal Audit Division (IAD) aims to apply a systematic and disciplined approach to evaluating and improving the effectiveness of the Group's risk management, control and governance processes. The IAD reports directly to the BACC. The IAG consists of a team of auditors, whose tasks are, among other things, to evaluate the quality of the Group's lending portfolio, controls in operational processes and the integrity of the Group's information systems and databases. The IAD auditors, alongside the Compliance department, also ensure that transactions undertaken by the Group are conducted in compliance with applicable legal and regulatory requirements, and in accordance with the Group's internal procedures, thereby minimising the risk of fraudulent, improper or illegal practices.

## 43 CREDIT RISK MANAGEMENT

Credit risk is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation.

The Group's Risk function follows the approaches listed below for credit risk management, depending on the type of customer.

Individual account management — These accounts are managed by a relationship manager and a credit manager. This category includes customers of wholesale banking and financial institutions. Risk management is conducted through expert analysis backed up by tools to support decision-making based on internal models of risk assessment.

Portfolio management — This category generally includes individuals, sole proprietorships and partnerships, and certain smaller SMEs. Management of these risks is based on internal models of assessment and scorecard-based decisions complemented by internal portfolio analytics.

The Group controls credit risk by aggregating and monitoring credit exposures (both direct and indirect exposures) on loans and advances, investment securities, non-funded exposures and due from banks. The Group sets transaction limits for specific counterparties and continually assesses the creditworthiness of counterparties. The Group sets and monitors country, industry, product and tenor risks and uses its own internal rating models for assigning customer ratings which measure the degree of risk of a customer. Each rating corresponds to a certain probability of default. The Group has various internal rating models for different customer segments.

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 counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

The Group-wide credit policies and standards are approved by the BRCC. These govern all delegated lending authorities and include policies, standards, metrics, strategies and procedures specific to each of the different business segments, and are decided based on macroeconomic conditions, the risk appetite of the Group, market data and internal skill sets and capabilities. They are regularly reviewed and modified to ensure that they stay current and relevant and protect the Group's interest in changing operating conditions. In addition to Group-wide policies, there are underwriting standards set for each portfolio segment.

### 43.1 ANALYSIS OF MAXIMUM EXPOSURE TO CREDIT RISK

The following table presents the maximum exposure of credit risk for on- and off-balance-sheet financial instruments as at 31 December 2015 and 2014, after allowance for impairment and netting where appropriate and after taking into account any collateral held or other credit risk mitigants (CRMs).

The gross exposure to credit risk for on-balance-sheet items is their carrying value. For financial guarantees recorded off-balance-sheet, the gross exposure to credit risk is the maximum amount that the Group would have to pay if the guarantees were to be called upon. For loans and other credit-related commitments that are irrevocable over the life of the respective facilities, the gross exposure to credit risk is the full amount of the committed facilities.

The analysis of credit risk under this section includes only financial instruments subject to credit risk. Other financial assets such as trading portfolio which are exposed to market risk have been excluded. Where financial instruments are recorded at fair value, the amounts shown below represent the current credit exposure but not the maximum risk exposure that could arise in the future as a result of changes in fair values.

| | On-balance-sheet AED'000 | Off-balance-sheet AED'000 | Gross credit risk exposure AED'000 | CRMs AED'000 | Maximum credit risk exposure AED'000 |
|---|---|---|---|---|---|
| **31 December 2015** | | | | | |
| Deposits and balances due from banks | **14,954,997** | **–** | **14,954,997** | **–** | **14,954,997** |
| Reverse-repo placements | **4,256,277** | **–** | **4,256,277** | **4,256,277** | **–** |
| Derivative financial instruments | **4,001,908** | **–** | **4,001,908** | **3,559,661** | **442,247** |
| Investment securities | **20,863,607** | **25,228** | **20,888,835** | **–** | **20,330,640** |
| Loans and advances, net | **153,677,386** | **41,522,190** | **195,199,576** | **87,724,110** | **107,475,466** |
| Other assets | **8,571,640** | **–** | **8,571,640** | **–** | **8,509,316** |
| **Total** | **206,325,815** | **41,547,418** | **247,873,233** | **95,540,048** | **151,712,666** |
| **31 December 2014** | | | | | |
| Deposits and balances due from banks | 13,189,412 | – | 13,189,412 | – | 13,189,412 |
| Reverse-repo placements | 2,830,049 | – | 2,830,049 | 2,814,042 | 16,007 |
| Derivative financial instruments | 4,288,506 | – | 4,288,506 | 3,569,466 | 719,040 |
| Investment securities | 21,651,838 | – | 21,651,838 | – | 21,106,963 |
| Loans and advances, net | 140,562,498 | 36,518,064 | 177,080,562 | 80,186,990 | 96,893,572 |
| Other assets | 4,551,844 | – | 4,551,844 | – | 4,464,055 |
| **Total** | 187,074,147 | 36,518,064 | 223,592,211 | 86,570,498 | 136,389,049 |

## 43.2 CONCENTRATION OF CREDIT RISK

Concentration of credit risk arises when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities or operate in the same geographical areas or economic sectors that would impact their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The analysis of credit risk concentrations presented below is based on the location of the counterparty or customer or the economic activity in which it is engaged.

### (a) Credit risk concentration by geographical sector

| | Domestic (UAE) AED'000 | Other GCC countries AED'000 | Other Arab countries AED'000 | Asia AED'000 | Europe AED'000 | USA AED'000 | Rest of the world AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|---|
| **31 December 2015** | | | | | | | | |
| **Assets** | | | | | | | | |
| Deposits and balances due from banks | **5,602,428** | **7,031,123** | **3,794** | **79,905** | **2,166,817** | **51,096** | **19,834** | **14,954,997** |
| Reverse-repo placements | **2,762,095** | **–** | **–** | **–** | **1,494,182** | **–** | **–** | **4,256,277** |
| Derivative financial instruments | **2,148,499** | **6,446** | **18,137** | **60,774** | **1,748,708** | **–** | **19,344** | **4,001,908** |
| Investment securities | **8,827,837** | **1,585,466** | **1,232,926** | **4,134,947** | **2,570,783** | **1,219,978** | **733,475** | **20,305,412** |
| Loans and advances, net | **139,597,722** | **4,382,908** | **273,934** | **6,045,061** | **1,597,899** | **6,006** | **1,773,856** | **153,677,386** |
| Other assets | **5,903,786** | **220,182** | **674** | **63,391** | **62,832** | **2,142,083** | **116,368** | **8,509,316** |
| **Total assets** | **164,842,367** | **13,226,125** | **1,529,465** | **10,384,078** | **9,641,221** | **3,419,163** | **2,662,877** | **205,705,296** |
| **Commitment and contingent liabilities** | **33,670,414** | **1,510,973** | **219,349** | **2,854,262** | **2,218,901** | **885,465** | **188,054** | **41,547,418** |
| **31 December 2014** | | | | | | | | |
| **Assets** | | | | | | | | |
| Deposits and balances due from banks | 7,179,030 | 3,125,209 | 254 | 1,223,719 | 1,357,472 | 272,029 | 31,699 | 13,189,412 |
| Reverse-repo placements | – | – | – | – | 2,830,049 | – | – | 2,830,049 |
| Derivative financial instruments | 2,389,700 | 945 | – | 67,324 | 1,810,587 | 98 | 19,852 | 4,288,506 |
| Investment securities | 8,849,893 | 3,377,627 | 282,309 | 2,515,361 | 2,591,767 | 2,819,635 | 670,371 | 21,106,963 |
| Loans and advances, net | 126,196,706 | 3,637,006 | 234,954 | 8,144,498 | 1,377,743 | 191,650 | 779,941 | 140,562,498 |
| Other assets | 3,909,232 | 352,151 | 4,416 | 99,063 | 51,041 | 31,238 | 16,914 | 4,464,055 |
| **Total assets** | 148,524,561 | 10,492,938 | 521,933 | 12,049,965 | 10,018,659 | 3,314,650 | 1,518,777 | 186,441,483 |
| **Commitment and contingent liabilities** | 29,972,847 | 1,828,170 | 219 | 2,259,062 | 1,998,724 | 311,217 | 147,825 | 36,518,064 |

### (b) Credit risk concentration by economic/industry sector

The economic activity sector composition of the loans and advances portfolio is as follows:

| | **31 December 2015** | | | 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | **Within the UAE AED'000** | **Outside the UAE AED'000** | **Total AED'000** | Within the UAE AED'000 | Outside the UAE AED'000 | Total AED'000 |
| **Economic activity sector** | | | | | | |
| Agriculture | **216,646** | **–** | **216,646** | 208,394 | – | 208,394 |
| Energy | **78,005** | **215,698** | **293,703** | 1,470,512 | 1,910,712 | 3,381,224 |
| Trading | **3,854,238** | **1,071,780** | **4,926,018** | 3,142,931 | 332,680 | 3,475,611 |
| Real estate investment & hospitality | **53,293,920** | **1,088,985** | **54,382,905** | 48,234,134 | 594,872 | 48,829,006 |
| Transport | **1,417,433** | **962,756** | **2,380,189** | 1,373,193 | 815,998 | 2,189,191 |
| Personal | **39,077,248** | **235,132** | **39,312,380** | 33,951,440 | 269,626 | 34,221,066 |
| Government & public sector entities | **32,822,161** | **258,258** | **33,080,419** | 30,468,754 | 241,041 | 30,709,795 |
| Financial institutions (*) | **10,468,266** | **9,449,013** | **19,917,279** | 10,212,055 | 9,873,561 | 20,085,616 |
| Manufacturing | **1,774,395** | **1,508,795** | **3,283,190** | 1,466,266 | 1,007,843 | 2,474,109 |
| Services | **1,591,190** | **187,590** | **1,778,780** | 1,090,550 | 130,530 | 1,221,080 |
| Other | **203,714** | **247,050** | **450,764** | 323,302 | 221,847 | 545,149 |
| | **144,797,216** | **15,225,057** | **160,022,273** | 131,941,531 | 15,398,710 | 147,340,241 |
| Less: Allowance for impairment | | | **(6,344,887)** | | | (6,777,743) |
| **Total loans and advances, net** | | | **153,677,386** | | | 140,562,498 |

(*) Includes investment companies.

The industry sector composition of other exposures is as follows:

| | Commercial and business AED'000 | Personal AED'000 | Public sector AED'000 | Government AED'000 | Banks and financial institutions AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| **31 December 2015** | | | | | | |
| **Assets** | | | | | | |
| Deposits and balances due from banks | **–** | **–** | **–** | **–** | **14,954,997** | **14,954,997** |
| Reverse-repo placements | **–** | **–** | **–** | **1,836,501** | **2,419,776** | **4,256,277** |
| Derivative financial instruments | **1,068,352** | **1,469** | **640,607** | **15,505** | **2,275,975** | **4,001,908** |
| Investment securities | **674,302** | **–** | **6,007,236** | **5,320,904** | **8,302,970** | **20,305,412** |
| Other assets | **7,481,474** | **326,789** | **300,665** | **157,592** | **242,796** | **8,509,316** |
| **Total assets** | **9,224,128** | **328,258** | **6,948,508** | **7,330,502** | **28,196,514** | **52,027,910** |
| **Commitment and contingent liabilities** | **27,948,884** | **1,815,765** | **3,107,636** | **1,225,424** | **7,449,709** | **41,547,418** |
| **31 December 2014** | | | | | | |
| **Assets** | | | | | | |
| Deposits and balances due from banks | – | – | – | – | 13,189,412 | 13,189,412 |
| Reverse-repo placements | – | – | – | – | 2,830,049 | 2,830,049 |
| Derivative financial instruments | 1,268,933 | 8,186 | 768,675 | – | 2,242,712 | 4,288,506 |
| Investment securities | 452,790 | – | 4,503,279 | 5,626,109 | 10,524,785 | 21,106,963 |
| Other assets | 3,449,752 | 254,976 | 130,058 | 425,053 | 204,216 | 4,464,055 |
| **Total assets** | 5,171,475 | 263,162 | 5,402,012 | 6,051,162 | 28,991,174 | 45,878,985 |
| **Commitment and contingent liabilities** | 22,643,864 | 1,025,182 | 5,794,211 | 376,910 | 6,677,897 | 36,518,064 |

As at reporting date, the 20 largest customer loan exposures constitute 35.26% of the gross loans and advances (31 December 2014 — 37.04%).

## 43.3 CREDIT RISK MANAGEMENT OVERVIEW

**Organisational framework**

The risk management structure of the Group is clearly established with well-defined roles and responsibilities as explained in Note 42.

The committees responsible for managing credit risk are the MRCC and the MRC. The Group risk management practices and strategies are an integral part of business planning and the budgeting process. All risk management areas are centralised under the Credit & Risk Division.

The BRCC is responsible for approving high-value credits and is responsible for the approval of credit policies and processes in line with growth, risk management and strategic objectives. In addition, the Group manages credit exposure by obtaining collaterals where appropriate and limiting the duration of exposure. Credit risk in respect of derivative financial instruments is limited to those with positive fair values.

Regular audits of business units and the Group's credit processes are undertaken by the Internal Audit and Compliance divisions.

## 43.4 CREDIT RISK MEASUREMENT AND MITIGATION POLICIES

Loans and advances to customers are the main source of credit risk, although the Group can also be exposed to other forms of credit risk through, for example, loans to banks, loan commitments and debt securities. The Group's risk management policies and processes are designed to identify and analyse risk, to set appropriate risk appetite and to monitor the risks and adherence to limits by means of reliable and timely data. The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties (Note 43.5).

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits where appropriate.

**Collateral**

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, fixed deposits and guarantees. Estimates of fair value of the collateral (including shares) are updated on a regular basis. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The principal collateral types for loans and advances are:

- cash and marketable securities;
- mortgages over residential and commercial properties;
- charges over business assets such as premises, inventory and accounts receivable;
- charges over financial instruments such as debt securities and equities; and
- guarantees.

The estimated fair value of collateral and other security enhancements held against loans and advances to customers and banks for the year ended 31 December 2015 was AED 135,122,154 thousand (31 December 2014 — AED 130,582,750 thousand).

**Derivatives**

The Group maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. positive fair value of assets), which in relation to derivatives is a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers together with potential exposures from market movements.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risks arising from the Group's market transactions on any single day.

**Master netting arrangements**

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of statement of financial position assets and liabilities, as transactions are usually settled on a gross basis, hence the impact of netting in practice is immaterial.

However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a year, as it is affected by each transaction subject to the arrangement.

## 43.5 PORTFOLIO MONITORING AND IDENTIFYING CREDIT RISK

Credit Risk Management is actively involved in identifying and monitoring credit risk on loans. It monitors the portfolio through system-generated MIS and periodic reviews giving due consideration to industry/general economic trends, market feedback and media reports.

Within the retail portfolios comprising homogeneous assets, statistical techniques are deployed to monitor potential weaknesses within a particular portfolio. The approach is consistent with the Group's policy of raising a specific impairment allowance as soon as objective evidence of impairment is identified. Retail accounts are classified according to specified categories of arrears status (days-past-due buckets), which reflect the level of contractual payments that are overdue on a loan.

The probability of default increases with the number of contractual payments missed, thus raising the associated impairment requirement. In the event where a decision is taken to write off a loan, the account is moved to legal recovery function. However, in certain cases, an account may be charged off directly from a performing status, such as in the case of insolvency or death.

In the Wholesale Banking portfolio, the Group will more frequently participate in debt restructuring agreements as part of the business support process. Debt restructuring agreements may include actions to facilitate recovery of the principal and interest outstanding and may include rate negotiation, relaxing payment schedules, etc.

**Exposure to credit risk by days past due**

The Group's risk classification of loans and advances, which is in adherence to the recommendations of the Central Bank of the United Arab Emirates guidelines, is as follows:

| **Risk Category** | |
|---|---|
| Neither past due nor impaired | Up to 30 days past due |
| Past due but not impaired | Between 31 and 90 days past due |
| Past due and impaired | Over 91 days past due |

The classification of loans and advances by days past due are as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Neither past due nor impaired | **151,998,938** | 140,470,227 |
| Past due but not impaired | **3,189,229** | 2,259,015 |
| Past due and impaired | **4,834,106** | 4,610,999 |
| | **160,022,273** | 147,340,241 |
| Less: Allowance for impairment | **(6,344,887)** | (6,777,743) |
| **Loans and advances, net** | **153,677,386** | 140,562,498 |

Analysis of the age of past due but not impaired loans as at the end of the reporting period is as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| 31–60 days | **2,514,110** | 980,353 |
| More than 60 days | **675,119** | 1,278,662 |
| **Total past due but not impaired loans** | **3,189,229** | 2,259,015 |

**Exposure to credit risk by internal risk grades**

The Group uses an internal grading system which employs 10 grades that categorise the Group's wholesale and high-net-worth (HNW) customers based on various qualitative and quantitative factors such as borrower financial strength, industry risk factors, management quality, operational efficiency, company standing, liquidity, capital structure, peer group analysis, etc. Some of these grades are further sub-classified with a plus or a minus sign. Lower grades are indicative of a lower likelihood of default. Credit grades 1–7 are assigned to performing customers or accounts whilst credit grades 8–10 are assigned to non-performing or defaulting customers.

Credit ratings are used by the Group to decide the maximum lending amount per customer group and also to set minimum pricing thresholds. Retail customers or individual borrowers are not assigned a credit rating under this structure. However, the Retail Banking division uses behaviour scoring for its customers.

The internal credit grade system is not intended to replicate external credit grades, but as factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a worse internal credit grade.

The following table represents credit quality of loans and advances, net, that are neither past due nor impaired and derivative financial assets as at December 31:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Loans and advances, net AED'000 | Derivative financial assets AED'000 | Loans and advances, net AED'000 | Derivative financial assets AED'000 |
| **Internal risk grades** | | | | |
| Grades 1 to 4 | 55,156,235 | 3,771,580 | 39,030,401 | 3,896,924 |
| Grades 5 to 6 | 55,381,367 | 230,328 | 63,757,473 | 390,479 |
| Grade 7 | 9,191,443 | – | 11,539,533 | 1,103 |
| Ungraded — including retail loans | 32,269,893 | – | 26,142,820 | – |
| | 151,998,938 | 4,001,908 | 140,470,227 | 4,288,506 |

**External credit ratings**

The table below presents the external credit ratings as at 31 December of the Group's deposits and balances due from banks, reverse-repo placements and available-for-sale bond securities based on Standard & Poor's rating scale. Wherever Standard & Poor's ratings are not available, comparable Fitch or Moody's equivalent ratings scale is used.

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Deposits and balances due from banks AED'000 | Reverse-repo placements AED'000 | Available-for-sale bonds AED'000 | Deposits and balances due from banks AED'000 | Reverse-repo placements AED'000 | Available-for-sale bonds AED'000 |
| **Ratings** | | | | | | |
| AAA to AA– | 802,543 | 925,594 | 5,114,768 | 1,663,961 | 435,606 | 5,982,840 |
| A+ to A– | 10,195,647 | 1,376,402 | 6,327,081 | 5,370,166 | 2,394,443 | 8,372,359 |
| BBB+ to BBB– | 3,060,057 | 117,780 | 6,344,134 | 5,265,768 | – | 4,349,496 |
| BB+ to B– | 792,596 | – | 1,194,583 | 772,057 | – | 741,088 |
| CCC+ to C– | 26 | – | – | – | – | – |
| Unrated | 104,128 | 1,836,501 | 1,324,846 | 117,460 | – | 1,661,180 |
| | 14,954,997 | 4,256,277 | 20,305,412 | 13,189,412 | 2,830,049 | 21,106,963 |

As at 31 December 2015, unrated available-for-sale bonds include Government bonds of AED 720,796 thousand (31 December 2014 — AED 1,155,283 thousand).

## 43.6 IDENTIFICATION OF IMPAIRMENT

At each reporting date, the Group assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to an asset of the Group such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group.

The Group considers evidence of impairment for loans and advances and investment securities measured at amortised cost at both individual and collective levels.

**Individually assessed loans and advances**

Impairment losses for individually assessed loans are determined by an evaluation of objective evidence relating to each exposure on a case-by-case basis. This procedure is applied to all classified corporate, commercial, high-net-worth individual and bank loans and advances which are individually significant accounts or are not subject to a portfolio-based approach. Specific factors considered by management when determining allowance for impairment on significant individual loans and advances include the Group's aggregate exposure to the customer, viability of the customer's business model and its capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations, the amount and timing of expected receipts and recoveries, likely dividend available on liquidation or bankruptcy, extent of other creditors' commitments ranking ahead of, or *pari passu* with, the Group, likelihood of other creditors continuing to support the company, realisable value of security (or other credit mitigants) and likelihood of successful repossession and likely deduction of any costs involved in recovery of amounts outstanding.

The amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows excluding future credit losses but including amounts recoverable from guarantees and collateral, discounted at the loan's original effective interest rate, when it became delinquent under the contract. The amount of the loss is recognised using an allowance account and is included in the consolidated income statement line — impairment allowances.

The Group's policy requires regular review of the level of impairment allowances on individual facilities, regular valuation of the collateral and consideration of its enforceability. Impaired loans continue to be classified as impaired unless they are fully current and the collection of scheduled interest and principal is considered probable.

### Collectively assessed loans and advances

Impairment is assessed on a collective basis in two circumstances:

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

### Incurred but not yet identified loss on individual loans

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics based on industry, product or loan rating for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group may have incurred as a result of events occurring before the reporting date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. As soon as information becomes available which identifies losses on individual loans within the group of the customer, those loans are excluded from collective impairment assessment and assessed on an individual basis. 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 reporting date.

In assessing collective impairment, the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

The collective impairment allowance is determined after taking into account factors such as historical loss experience in portfolios of similar credit risk characteristics, past restructurings, estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against individual loans and management's judgement based on experience as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

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

### Homogenous groups of loans and advances

Statistical methods are used to determine impairment losses on a collective basis for homogenous groups of loans that are not considered individually significant, because individual loan assessment is impracticable. Losses in these groups of loans are recorded on individual basis when individual loans are written off, at which point they are removed from the group.

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

All unsecured retail loans falling under similar overdue categories are assumed to carry similar credit risk and an allowance for impairment is taken on a portfolio basis. In cases of secured loans where the Group possesses collateral (mortgage) the realisable value of the collateral is taken into consideration in assessing the allowance for impairment.

### Write-off of loans and advances

Loans and advances (and the related impairment allowance) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised loan, when the proceeds from realising the security have been received. All retail loans (except mortgages) are written off at 181 days past due based on approved write-off policies. However, recovery efforts continue on these loans.



The movement in individual and collective impairment allowance on loans and advances is as follows:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Individual impairment AED'000 | Collective impairment AED'000 | Total AED'000 | Individual impairment AED'000 | Collective impairment AED'000 | Total AED'000 |
| **Opening balance** | **3,856,796** | **2,920,947** | **6,777,743** | 4,250,195 | 2,639,752 | 6,889,947 |
| Charge for the year | **704,616** | **48,230** | **752,846** | 714,991 | 325,560 | 1,040,551 |
| Recoveries during the year | **(252,566)** | **–** | **(252,566)** | (229,352) | – | (229,352) |
| Net charge for the year | **452,050** | **48,230** | **500,280** | 485,639 | 325,560 | 811,199 |
| Discount unwind/others | **(126,033)** | **–** | **(126,033)** | (160,011) | (44,245) | (204,256) |
| Net amounts written-off | **(806,219)** | **–** | **(806,219)** | (718,638) | – | (718,638) |
| Currency translation | **(596)** | **(288)** | **(884)** | (389) | (120) | (509) |
| **Closing balance** | **3,375,998** | **2,968,889** | **6,344,887** | 3,856,796 | 2,920,947 | 6,777,743 |

**Reversal of impairment**

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the consolidated income statement in the period in which it occurs.

**Derivative related credit risk**

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. The Group enters into derivative contracts with financial institutions and corporates which are of satisfactory credit standing as per the Group's independent credit assessment. Credit risk in derivatives is mitigated through limit control and master netting agreements as explained in Note 43.4.

**Off-balance sheet**

The Group applies the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

### 43.7 RENEGOTIATED LOANS

The contractual terms of a loan may be modified for a number of reasons, and not limited to credit deterioration of the customer. When determining whether a renegotiated loan should be derecognised and a new loan be recognised, the Group performs a quantitative and qualitative evaluation of whether the changes to the original contractual terms result in a substantially different financial instrument, in which case an existing loan is derecognised and the renegotiated loan is recognised at fair value. For loans under credit deterioration, irrespective of whether the loan is derecognised on renegotiation, it remains disclosed at same risk grade until there is sufficient evidence of improvement.

## 44 INTEREST RATE RISK FRAMEWORK, MEASUREMENT AND MONITORING

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

Overall interest rate risk positions are managed by the Group's Treasury department, which uses derivative instruments like interest rate swaps and currency swaps to manage the overall interest rate risk arising from the Group's interest bearing financial instruments.

Financial assets and liabilities exposed to interest rate risk are financial assets and financial liabilities with either a fixed or a floating contractual rate of interest. A significant portion of the Group's loans and advances, deposits and balances due from banks, investment securities, deposits from customers, due to banks, borrowings and capital notes fall under this category.

Financial assets that are not subject to any interest rate risk mainly comprise of investments in equity investments, cash and balances with central banks excluding certificates of deposit and reverse repo.

The off-balance sheet gap represents the net notional amounts of the off-balance sheet financial instruments, such as interest rate swaps which are used to manage interest rate risk.

The Group uses financial simulation tools to periodically measure and monitor interest rate sensitivity. The results are analysed and monitored by the Asset and Liability Committee (ALCO).

The Group's interest rate sensitivity position based on contractual repricing arrangements at 31 December 2015 was as follows. Derivative financial instruments (other than those designated in a hedge relationship) and trading book assets and liabilities (excluding non-interest bearing) are included in the 'less than 3 months' column at their fair value. Derivative financial instruments designated in a hedge relationship are included according to their contractual next re-pricing tenor bucket.

| 31 December 2015 | Less than 3 months AED'000 | 3 months to less than 6 months AED'000 | 6 months to less than 1 year AED'000 | 1 year to less than 3 years AED'000 | Over 3 years AED'000 | Non-interest bearing items AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with central banks | 3,877,603 | 1,300,000 | 1,469,200 | – | – | 13,533,474 | 20,180,277 |
| Deposits and balances due from banks | 14,006,224 | 550,000 | – | – | – | 398,773 | 14,954,997 |
| Reverse-repo placements | 4,146,087 | 110,190 | – | – | – | – | 4,256,277 |
| Trading securities | 62,261 | – | – | – | – | – | 62,261 |
| Derivative financial instruments | 2,930,189 | 59,257 | 13,035 | 14,779 | 348 | 984,300 | 4,001,908 |
| Investment securities | 2,710,931 | 2,095,029 | 1,799,232 | 5,764,041 | 7,936,179 | 558,195 | 20,863,607 |
| Loans and advances, net | 108,731,012 | 15,002,028 | 2,581,464 | 8,870,446 | 25,961,856 | (7,469,420) | 153,677,386 |
| Investment in associate | – | – | – | – | – | 197,156 | 197,156 |
| Investment properties | – | – | – | – | – | 647,647 | 647,647 |
| Other assets | 76,656 | – | – | – | – | 8,494,984 | 8,571,640 |
| Property and equipment, net | – | – | – | – | – | 835,145 | 835,145 |
| Intangible assets | – | – | – | – | – | 18,800 | 18,800 |
| **Total assets** | 136,540,963 | 19,116,504 | 5,862,931 | 14,649,266 | 33,898,383 | 18,199,054 | 228,267,101 |
| **Liabilities and equity** | | | | | | | |
| Due to banks | 1,162,570 | 173,097 | 73,460 | – | – | 282,666 | 1,691,793 |
| Derivative financial instruments | 3,638,300 | 20,274 | – | 85 | 14,141 | 1,068,380 | 4,741,180 |
| Deposits from customers | 68,647,987 | 13,793,142 | 16,836,605 | 4,079,116 | 148,735 | 40,020,711 | 143,526,296 |
| Euro commercial paper | 3,199,655 | 1,408,901 | 1,091,508 | – | – | – | 5,700,064 |
| Borrowings | 12,665,540 | 292,738 | 1,917,582 | 4,011,062 | 14,584,809 | – | 33,471,731 |
| Other liabilities | 25,700 | – | – | – | – | 10,377,534 | 10,403,234 |
| Equity | – | – | – | – | – | 28,732,803 | 28,732,803 |
| **Total liabilities and equity** | 89,339,752 | 15,688,152 | 19,919,155 | 8,090,263 | 14,747,685 | 80,482,094 | 228,267,101 |
| **On-balance-sheet gap** | 47,201,211 | 3,428,352 | (14,056,224) | 6,559,003 | 19,150,698 | (62,283,040) | – |
| **Off-balance-sheet gap** | (144,450) | 1,896,915 | (7,411,791) | 5,727 | 5,653,599 | – | – |
| **Total interest rate sensitivity gap** | 47,056,761 | 5,325,267 | (21,468,015) | 6,564,730 | 24,804,297 | (62,283,040) | |
| **Cumulative interest rate sensitivity gap** | 47,056,761 | 52,382,028 | 30,914,013 | 37,478,743 | 62,283,040 | – | |

Non-interest bearing items under loans and advances, net, include mainly loan loss provisions.

The Group's interest rate sensitivity position based on contractual repricing arrangements at 31 December 2014 was as follows:

| 31 December 2014 | Less than 3 months AED'000 | 3 months to less than 6 months AED'000 | 6 months to less than 1 year AED'000 | 1 year to less than 3 years AED'000 | Over 3 years AED'000 | Non-interest bearing items AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with central banks | 769,812 | 1,400,000 | 1,375,000 | – | – | 11,547,380 | 15,092,192 |
| Deposits and balances due from banks | 9,642,911 | 2,218,661 | 567,972 | – | – | 759,868 | 13,189,412 |
| Reverse-repo placements | 1,704,217 | 1,125,832 | – | – | – | – | 2,830,049 |
| Trading securities | 199,599 | – | – | – | – | – | 199,599 |
| Derivative financial instruments | 3,033,279 | 2,274 | 1,356 | 8,071 | – | 1,243,526 | 4,288,506 |
| Investment securities | 2,238,686 | 2,173,425 | 3,259,543 | 7,059,929 | 6,375,380 | 544,875 | 21,651,838 |
| Loans and advances, net | 94,310,980 | 17,324,887 | 2,224,771 | 8,227,431 | 26,210,607 | (7,736,178) | 140,562,498 |
| Investment in associate | – | – | – | – | – | 195,854 | 195,854 |
| Investment properties | – | – | – | – | – | 615,778 | 615,778 |
| Other assets | 372,776 | – | – | – | – | 4,179,068 | 4,551,844 |
| Property and equipment, net | – | – | – | – | – | 806,188 | 806,188 |
| Intangible assets | – | – | – | – | – | 35,705 | 35,705 |
| **Total assets** | 112,272,260 | 24,245,079 | 7,428,642 | 15,295,431 | 32,585,987 | 12,192,064 | 204,019,463 |
| **Liabilities and equity** | | | | | | | |
| Due to banks | 3,474,061 | 36,730 | – | – | – | 578,228 | 4,089,019 |
| Derivative financial instruments | 3,444,353 | 11,937 | – | 8,290 | 3,002 | 1,532,485 | 5,000,067 |
| Deposits from customers | 62,252,659 | 10,626,953 | 14,549,660 | 3,662,208 | 4,194 | 34,915,553 | 126,011,227 |
| Euro commercial paper | 3,398,994 | 1,265,598 | 1,710,692 | – | – | – | 6,375,284 |
| Borrowings | 10,484,548 | 1,125,369 | 1,349,044 | 3,520,601 | 13,840,559 | – | 30,320,121 |
| Other liabilities | – | – | – | – | – | 5,804,912 | 5,804,912 |
| Equity | – | – | – | – | – | 26,418,833 | 26,418,833 |
| **Total liabilities and equity** | 83,054,615 | 13,066,587 | 17,609,396 | 7,191,099 | 13,847,755 | 69,250,011 | 204,019,463 |
| **On-balance-sheet gap** | 29,217,645 | 11,178,492 | (10,180,754) | 8,104,332 | 18,738,232 | (57,057,947) | – |
| **Off-balance-sheet gap** | (1,322,234) | (3,358,401) | 390,837 | (3,125,076) | 7,414,874 | – | – |
| **Total interest rate sensitivity gap** | 27,895,411 | 7,820,091 | (9,789,917) | 4,979,256 | 26,153,106 | (57,057,947) | |
| **Cumulative interest rate sensitivity gap** | 27,895,411 | 35,715,502 | 25,925,585 | 30,904,841 | 57,057,947 | – | |

Non-interest bearing items under loans and advances, net, include mainly loan loss provisions.

## 45 LIQUIDITY RISK FRAMEWORK, MEASUREMENT AND MONITORING

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replenish funds when they are withdrawn. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

### LIQUIDITY RISK MANAGEMENT PROCESS

The Group has a Board of Directors (BOD)–approved liquidity risk appetite framework which establishes the minimum liquidity to be carried by the Group in order to survive a stress environment for a stipulated time horizon. The BOD has delegated to Management Executive Committee (MEC) the responsibility of liquidity management which is overseen on its behalf by the Asset Liability Committee (ALCO) on a day-to-day basis. ALCO sets and monitors liquidity ratios and regularly revises and calibrates the liquidity management policies to ensure that the Group is in a position to meet its obligations as they fall due. ALCO also ensures that the Bank remains compliant with all regulatory and internal policy guidelines pertaining to liquidity risk.

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

- monitoring of liquidity position on a daily, weekly and monthly basis. This entails forecasting of future cash inflows/outflows and ensuring that the Group can meet the required outflows;
- regular liquidity stress testing of the Group's liquidity position conducted under a variety of scenarios covering both normal and more severe market conditions with well-defined triggers and suggested actions; and
- ensuring regular compliance with the liquidity ratios such as Advances to Stable Resources (ADR) ratio, Eligible Liquid Assets Ratio (ELAR) and Liquidity Coverage Ratio (LCR) stipulated by the Central Bank of UAE.

The Group has set an internal ceiling on the ADR ratio that should not be higher than 1:1 between:

- the amount of loans and advances together with the amount of inter-bank placements with a remaining life of more than three months; and
- the amount of stable resource comprising of free own funds with a remaining life of more than six months, stable customer deposits and standby liquidity facilities.

The above definition is in line with the Central Bank of the UAE definition of the Advances to Stable Resources ratio.

Monitoring composition of funding sources at a granular level has set triggers for avoiding concentration of funding sources. The concentration of funding sources is monitored as a percentage of the total liability position. Some of the ratios monitored are as follows:

- Euro commercial paper to total liabilities
- Wholesale funds to total liabilities
- Money market deposits to total liabilities
- Core funds to total liabilities
- Non-core funds to total liabilities
- Offshore funds to total liabilities

### TOOLS FOR LIQUIDITY MANAGEMENT

The Group through its Treasury department ensures that it has access to diverse sources of funding ranging from local customer deposits from its retail, corporate and institutional customers as well as international sovereign wealth funds and central banks to long-term funding such as debt securities and subordinated liabilities issued under the Global Medium-Term Note programme.

Whilst the Group's debt securities and sub-debt typically are issued with maturities of greater than one year, deposits from banks and customers generally have shorter maturities which increase the liquidity risk of the Group. Treasury manages this risk by:

- diversification of funding sources and balancing between long-term and short-term funding sources through borrowing under its Global Medium-Term Notes issue programmes;
- monitoring the stickiness of the liability portfolio and rewarding business units for sticky deposits through the fund transfer pricing process; and
- investing in various short-term or medium-term but highly marketable assets in line with Basel III guidelines for high quality liquid assets (HQLA) such as certificates of deposit (CDs) with the Central Bank, investment grade bonds that can be repurchased at short notices, etc.

Further, the Bank also has the following facilities from the Central Bank of the UAE to manage its liquidity risk during critical times:

- overdraft facility against its cash reserves at an overnight rate at a spread of 150 basis points;
- overdraft facility beyond the cash reserves at an overnight spread of 300 basis points; and
- repo facility against CDs at an overnight rate with a spread of 100 basis points.

The Bank has access to marginal lending facility (MLF) initiated by the Central Bank of the UAE effective from March 2014. Under MLF, the Bank can borrow from the UAE Central Bank by posting eligible collateral. The Bank periodically tests MLF facility with the Central Bank for its operational readiness.

None of the above Central Bank facilities are utilised and outstanding at the end of the year.

The Bank has in place a contingent funding plan which lists out the trigger points to be monitored for invoking the contingent funding plan. The trigger points are based on market observable data points like credit spreads and internal and external events like decline in customer deposits and drying up of wholesale markets. The contingent funding plan clearly defines the roles and responsibilities and is updated with changing market conditions by ALCO.

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the end of the reporting period date to the contractual maturity date and do not take into account the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds.

Derivative financial instruments (other than those designated in a hedge relationship) and trading portfolio assets and liabilities are included in the 'less than 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of remaining maturity since they are not held for settlement according to such maturity and will frequently be settled before remaining maturity at fair value. Derivatives designated in a hedge relationship are included according to their remaining maturity at fair value.

The maturity profile is monitored by management to ensure adequate liquidity is maintained.

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

| | Less than 3 months AED'000 | 3 months to less than 6 months AED'000 | 6 months to less than 1 year AED'000 | 1 year to less than 3 years AED'000 | Over 3 years AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| **31 December 2015** | | | | | | |
| **Assets** | | | | | | |
| Cash and balances with central banks | 17,411,077 | 1,300,000 | 1,469,200 | – | – | 20,180,277 |
| Deposits and balances due from banks | 14,404,997 | 550,000 | – | – | – | 14,954,997 |
| Reverse-repo placements | 4,146,087 | 110,190 | – | – | – | 4,256,277 |
| Trading securities | 62,261 | – | – | – | – | 62,261 |
| Derivative financial instruments | 3,597,190 | 130,461 | 21,935 | 51,813 | 200,509 | 4,001,908 |
| Investment securities | 2,847,570 | 2,095,029 | 1,810,265 | 6,174,564 | 7,936,179 | 20,863,607 |
| Loans and advances, net | 17,990,652 | 2,811,237 | 4,585,329 | 22,515,638 | 105,774,530 | 153,677,386 |
| Investment in associate | – | – | – | – | 197,156 | 197,156 |
| Investment properties | – | – | – | 647,647 | – | 647,647 |
| Other assets | 3,371,109 | 1,375,895 | 3,824,636 | – | – | 8,571,640 |
| Property and equipment, net | – | – | – | – | 835,145 | 835,145 |
| Intangible assets | – | – | – | – | 18,800 | 18,800 |
| **Total assets** | 63,830,943 | 8,372,812 | 11,711,365 | 29,389,662 | 114,962,319 | 228,267,101 |
| **Liabilities and equity** | | | | | | |
| Due to banks | 1,445,236 | 173,097 | 73,460 | – | – | 1,691,793 |
| Derivative financial instruments | 3,625,613 | 131,051 | 34,794 | 369,255 | 580,467 | 4,741,180 |
| Deposits from customers | 108,249,792 | 13,793,142 | 16,836,605 | 4,079,116 | 567,641 | 143,526,296 |
| Euro commercial paper | 3,199,655 | 1,408,901 | 1,091,508 | – | – | 5,700,064 |
| Borrowings | 3,834,208 | 292,738 | 2,600,606 | 11,781,258 | 14,962,921 | 33,471,731 |
| Other liabilities | 4,878,097 | 1,316,571 | 3,823,889 | – | 384,677 | 10,403,234 |
| Equity | – | – | – | – | 28,732,803 | 28,732,803 |
| **Total liabilities and equity** | 125,232,601 | 17,115,500 | 24,460,862 | 16,229,629 | 45,228,509 | 228,267,101 |
| **Balance sheet liquidity gap** | (61,401,658) | (8,742,688) | (12,749,497) | 13,160,033 | 69,733,810 | – |
| **Off balance sheet** | | | | | | |
| **Financial guarantees and irrevocable commitments** | 873,984 | 951,775 | 2,263,418 | 5,722,196 | 5,360,613 | 15,171,986 |

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

| | Less than 3 months AED'000 | 3 months to less than 6 months AED'000 | 6 months to less than 1 year AED'000 | 1 year to less than 3 years AED'000 | Over 3 years AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | |
| **Assets** | | | | | | |
| Cash and balances with central banks | 12,317,192 | 1,400,000 | 1,375,000 | – | – | 15,092,192 |
| Deposits and balances due from banks | 10,402,779 | 2,218,661 | 567,972 | – | – | 13,189,412 |
| Reverse-repo placements | 1,704,217 | 1,125,832 | – | – | – | 2,830,049 |
| Trading securities | 199,599 | – | – | – | – | 199,599 |
| Derivative financial instruments | 4,046,567 | 3,374 | 12,961 | 129,783 | 95,821 | 4,288,506 |
| Investment securities | 2,730,150 | 2,173,425 | 3,259,543 | 7,113,340 | 6,375,380 | 21,651,838 |
| Loans and advances, net | 13,247,824 | 3,880,910 | 4,559,945 | 19,453,338 | 99,420,481 | 140,562,498 |
| Investment in associate | – | – | – | – | 195,854 | 195,854 |
| Investment properties | – | – | – | 615,778 | – | 615,778 |
| Other assets | 2,592,567 | 509,290 | 1,445,473 | 4,514 | – | 4,551,844 |
| Property and equipment, net | – | – | – | – | 806,188 | 806,188 |
| Intangible assets | – | – | – | – | 35,705 | 35,705 |
| **Total assets** | 47,240,895 | 11,311,492 | 11,220,894 | 27,316,753 | 106,929,429 | 204,019,463 |
| **Liabilities and equity** | | | | | | |
| Due to banks | 4,052,289 | 36,730 | – | – | – | 4,089,019 |
| Derivative financial instruments | 4,131,342 | 120,592 | 147,611 | 274,684 | 325,838 | 5,000,067 |
| Deposits from customers | 96,742,314 | 10,626,953 | 14,549,660 | 3,662,208 | 430,092 | 126,011,227 |
| Euro commercial paper | 3,398,994 | 1,265,598 | 1,710,692 | – | – | 6,375,284 |
| Borrowings | 4,522,596 | 2,594,569 | 1,349,044 | 7,629,836 | 14,224,076 | 30,320,121 |
| Other liabilities | 3,571,806 | 447,989 | 1,444,098 | 4,514 | 336,505 | 5,804,912 |
| Equity | – | – | – | – | 26,418,833 | 26,418,833 |
| **Total liabilities and equity** | 116,419,341 | 15,092,431 | 19,201,105 | 11,571,242 | 41,735,344 | 204,019,463 |
| **Balance sheet liquidity gap** | (69,178,446) | (3,780,939) | (7,980,211) | 15,745,511 | 65,194,085 | – |
| **Off balance sheet** | | | | | | |
| **Financial guarantees and irrevocable commitments** | 809,879 | 565,740 | 4,405,885 | 5,119,135 | 3,316,568 | 14,217,207 |

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2015 and 2014 based on contractual undiscounted repayment obligations. As interest payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. Derivative financial instruments held for trading are included in the "less than 3 months" column at their fair value. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay, and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

| | Carrying amount AED'000 | Gross outflow AED'000 | Less than 3 months AED'000 | 3 months to less than 6 months AED'000 | 6 months to less than 1 year AED'000 | 1 year to less than 3 years AED'000 | Over 3 years AED'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2015** | | | | | | | |
| **Liabilities** | | | | | | | |
| Due to banks | **1,691,793** | **1,694,509** | **1,446,384** | **173,952** | **74,173** | **–** | **–** |
| Derivative financial instruments | **4,741,180** | **4,112,501** | **3,581,419** | **191,594** | **12,109** | **373,466** | **(46,087)** |
| Deposits from customers | **143,526,296** | **144,690,813** | **108,724,839** | **13,927,282** | **17,152,421** | **4,291,254** | **595,017** |
| Euro commercial paper | **5,700,064** | **5,703,859** | **3,199,992** | **1,410,567** | **1,093,300** | **–** | **–** |
| Borrowings | **33,471,731** | **41,505,978** | **4,089,956** | **428,454** | **2,989,783** | **12,983,127** | **21,014,658** |
| **Total financial liabilities** | **189,131,064** | **197,707,660** | **121,042,590** | **16,131,849** | **21,321,786** | **17,647,847** | **21,563,588** |
| **31 December 2014** | | | | | | | |
| **Liabilities** | | | | | | | |
| Due to banks | 4,089,019 | 4,089,886 | 4,053,058 | 36,828 | – | – | – |
| Derivative financial instruments | 5,000,067 | 5,023,682 | 4,077,474 | 214,931 | 113,896 | 281,165 | 336,216 |
| Deposits from customers | 126,011,227 | 126,468,608 | 96,874,067 | 10,711,147 | 14,711,405 | 3,733,361 | 438,628 |
| Euro commercial paper | 6,375,284 | 6,386,264 | 3,401,055 | 1,267,617 | 1,717,592 | – | – |
| Borrowings | 30,320,121 | 36,046,831 | 4,776,097 | 2,710,859 | 1,699,753 | 9,785,018 | 17,075,104 |
| **Total financial liabilities** | 171,795,718 | 178,015,271 | 113,181,751 | 14,941,382 | 18,242,646 | 13,799,544 | 17,849,948 |

## 46 FOREIGN EXCHANGE RISK FRAMEWORK, MEASUREMENT AND MONITORING

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored on a daily basis. The sensitivity of currency fluctuation risk is given in Note 47. The off-balance sheet position represents the nominal value of transactions dealt and outstanding under the Group's trading and hedging portfolio at reporting date. The analysis of currency concentrations of the Group's statement of financial position are presented below:

| | AED AED'000 | USD AED'000 | EUR AED'000 | CHF AED'000 | GBP AED'000 | MYR AED'000 | Others AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|---|
| **31 December 2015** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and balances with central banks | 13,950,380 | 6,194,515 | 103 | – | – | – | 35,279 | 20,180,277 |
| Deposits and balances due from banks | 3,898,160 | 7,674,138 | 524,974 | 12,670 | 38,580 | 102 | 2,806,373 | 14,954,997 |
| Reverse-repo placements | – | 4,256,277 | – | – | – | – | – | 4,256,277 |
| Trading securities | – | 3,717 | 44,699 | – | – | – | 13,845 | 62,261 |
| Derivative financial instruments | 874,848 | 3,115,109 | 512 | – | – | – | 11,439 | 4,001,908 |
| Investment securities | 257,430 | 16,069,387 | 2,629,898 | 334,633 | – | – | 1,572,259 | 20,863,607 |
| Loans and advances, net | 120,807,141 | 31,784,686 | 18,850 | – | 16,689 | – | 1,050,020 | 153,677,386 |
| Investment in associate | 197,156 | – | – | – | – | – | – | 197,156 |
| Investment properties | 647,647 | – | – | – | – | – | – | 647,647 |
| Other assets | 974,115 | 7,178,221 | 46,239 | 3,858 | 7,767 | 3,799 | 357,641 | 8,571,640 |
| Property and equipment, net | 830,232 | – | – | – | – | – | 4,913 | 835,145 |
| Intangible assets | 18,800 | – | – | – | – | – | – | 18,800 |
| **Total assets** | 142,455,909 | 76,276,050 | 3,265,275 | 351,161 | 63,036 | 3,901 | 5,851,769 | 228,267,101 |
| **Liabilities and equity** | | | | | | | | |
| Due to banks | 775,277 | 815,467 | 136 | – | 69,360 | – | 31,553 | 1,691,793 |
| Derivative financial instruments | 755,240 | 3,977,552 | 46 | – | – | – | 8,342 | 4,741,180 |
| Deposits from customers | 79,220,339 | 46,533,001 | 3,049,906 | 48,664 | 1,085,803 | 24 | 13,588,559 | 143,526,296 |
| Euro commercial paper | – | 2,294,750 | 2,341,393 | 453,223 | 543,636 | – | 67,062 | 5,700,064 |
| Borrowings | 504,164 | 29,420,462 | 48,314 | 760,059 | 636,355 | 598,227 | 1,504,150 | 33,471,731 |
| Other liabilities | 2,911,803 | 6,590,494 | 48,886 | 3,870 | 9,984 | 3,799 | 834,398 | 10,403,234 |
| Equity | 28,756,412 | 3,261 | (26,132) | (738) | – | – | – | 28,732,803 |
| **Total liabilities and equity** | 112,923,235 | 89,634,987 | 5,462,549 | 1,265,078 | 2,345,138 | 602,050 | 16,034,064 | 228,267,101 |
| **Net balance sheet position** | 29,532,674 | (13,358,937) | (2,197,274) | (913,917) | (2,282,102) | (598,149) | (10,182,295) | – |
| **Net off-balance-sheet position** | (3,121,094) | (12,671,349) | 501,495 | 818,191 | 2,697,440 | 598,227 | 11,177,090 | – |
| **Net FX open position** | 26,411,580 | (26,030,286) | (1,695,779) | (95,726) | 415,338 | 78 | 994,795 | – |

| | AED AED'000 | USD AED'000 | EUR AED'000 | CHF AED'000 | GBP AED'000 | MYR AED'000 | Others AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and balances with central banks | 13,569,830 | 1,478,331 | – | – | 23 | – | 44,008 | 15,092,192 |
| Deposits and balances due from banks | 4,872,896 | 4,579,808 | 165,777 | 25,206 | 513,076 | 120 | 3,032,529 | 13,189,412 |
| Reverse-repo placements | – | 2,830,049 | – | – | – | – | – | 2,830,049 |
| Trading securities | – | 199,599 | – | – | – | – | – | 199,599 |
| Derivative financial instruments | 1,160,711 | 3,120,663 | 413 | – | – | – | 6,719 | 4,288,506 |
| Investment securities | 336,076 | 18,298,044 | 1,178,432 | – | – | – | 1,839,286 | 21,651,838 |
| Loans and advances, net | 107,694,204 | 32,089,205 | 33,706 | – | 17,551 | – | 727,832 | 140,562,498 |
| Investment in associate | 195,854 | – | – | – | – | – | – | 195,854 |
| Investment properties | 615,778 | – | – | – | – | – | – | 615,778 |
| Other assets | 813,806 | 3,308,119 | 71,601 | 5,190 | 15,110 | 33,092 | 304,926 | 4,551,844 |
| Property and equipment, net | 801,878 | – | – | – | – | – | 4,310 | 806,188 |
| Intangible assets | 35,705 | – | – | – | – | – | – | 35,705 |
| **Total assets** | 130,096,738 | 65,903,818 | 1,449,929 | 30,396 | 545,760 | 33,212 | 5,959,610 | 204,019,463 |
| **Liabilities and equity** | | | | | | | | |
| Due to banks | 2,230,279 | 1,707,876 | 4,034 | – | 10 | – | 146,820 | 4,089,019 |
| Derivative financial instruments | 1,592,341 | 3,398,999 | – | – | – | – | 8,727 | 5,000,067 |
| Deposits from customers | 77,480,201 | 33,628,483 | 994,337 | 23,938 | 755,013 | 12 | 13,129,243 | 126,011,227 |
| Euro commercial paper | – | 3,231,920 | 1,082,659 | 619,295 | 1,441,410 | – | – | 6,375,284 |
| Borrowings | 513,270 | 25,693,740 | 53,905 | 1,325,958 | – | 1,518,306 | 1,214,942 | 30,320,121 |
| Other liabilities | 2,578,278 | 2,169,382 | 72,791 | 5,270 | 17,221 | 18,185 | 943,785 | 5,804,912 |
| Equity | 26,048,931 | 343,848 | 26,054 | – | – | – | – | 26,418,833 |
| **Total liabilities and equity** | 110,443,300 | 70,174,248 | 2,233,780 | 1,974,461 | 2,213,654 | 1,536,503 | 15,443,517 | 204,019,463 |
| **Net balance sheet position** | 19,653,438 | (4,270,430) | (783,851) | (1,944,065) | (1,667,894) | (1,503,291) | (9,483,907) | – |
| **Net off-balance-sheet position** | (1,564,369) | (6,143,814) | (2,787,447) | 1,990,259 | 2,083,911 | 1,518,306 | 4,903,154 | – |
| **Net FX open position** | 18,089,069 | (10,414,244) | (3,571,298) | 46,194 | 416,017 | 15,015 | (4,580,753) | – |

## 47 MARKET RISK FRAMEWORK, MEASUREMENT AND MANAGEMENT

The Group's activities expose it primarily to market risk which is defined as the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates, commodity prices and credit spreads (not relating to changes in the obligor's/issuer's credit standing), will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

- Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
- Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
- Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

The Group separates its exposure to market risk between trading and banking book as defined below:

### MARKET RISK ARISING FROM TRADING BOOK

Trading positions are held by the Treasury group, and include positions arising from market-making and proprietary position-taking, together with financial assets and liabilities that are managed on a fair value basis. Realised and unrealised gains and losses on these positions are reported in the consolidated income statement.

### MARKET RISK ARISING FROM BANKING BOOK

Market risk from banking book arises from execution of the Group's core business strategies, products and services to its customers, that invariably create interest rate risk and open currency positions that the Group endeavours to manage through strategic positions to mitigate the inherent risk caused by these positions.

Banking book includes all positions that are not held for trading, such as, but not limited to, the Group's investments in available-for-sale instruments, loans and advances carried at amortised cost, derivatives used for hedging and other financial assets held for long term.

These exposures can result from a variety of factors including but not limited to re-pricing of gaps in assets, liabilities and off-balance-sheet instruments, and changes in the level and shape of market interest rate curves.

### RISK IDENTIFICATION AND CLASSIFICATION

The MRCC approves market risk policies for the Group. All business segments are responsible for comprehensive identification and verification of market risks within their business units. Regular meetings are held between market risk management and the heads of risk-taking businesses to discuss and decide on risk exposures in the context of the market environment.

### MANAGEMENT OF MARKET RISK

The Board of Directors has set risk limits based on the value at risk (VaR), stressed value at risk (SVaR), Greeks, sensitivity/stress analysis and foreign exchange open position limits, which are closely monitored by the Risk Management division and reported regularly to senior management and discussed by the ALCO.

Market risk is identified, measured, managed and controlled by an independent Risk Control function. Market risk management aims to reduce volatility in operating performance and make the Group's market risk profile transparent to senior management, the Board of Directors and regulators.

Market risk management is overseen by the Management Risk & Credit Committee (MRCC) and performs the following primary functions:

- establishment of a comprehensive mark-to-market valuation policy framework;
- establishment of a comprehensive market risk policy framework;
- independent measurement, monitoring and control of market risk; and
- setting and monitoring of limits.

### RISK MEASUREMENT

The following are the tools used to measure market risk, because no single measure can reflect all aspects of market risk. The Group uses various matrices, both statistical and non-statistical, including sensitivity analysis.

### STATISTICAL RISK MEASURES

The Group measures the risk of loss arising from future potential adverse movements in market rates, prices and volatilities using VaR methodology. The VaR that the Group measures is an estimate, using a confidence level of 99%, of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. This confidence level suggests that potential daily losses in excess of the VaR measure are likely to be experienced, once every 100 days. The Board has set limits for the acceptable level of risks in managing the trading book.

The Group uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VaR models are usually designed to measure the market risk in a normal market environment and therefore the use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VaR represents the risk of portfolios at the close of a business day, and intra-day risk levels may vary from those reported at the end of the day. The actual trading results, however, may differ from the VaR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VaR limitations mentioned above, the Group runs both SVaR and Expected Shortfall daily to monitor the tail risk outside the confidence limit. Stressed VaR is the VaR run through a stressed year rather than the previous year, as used in VaR.

The Group's VaR for the year ended December 31 is as below:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| **Daily value at risk (VaR at 99% — 1 day)** | | |
| Overall risk | **(3,228)** | (4,898) |
| Average VaR | **(6,714)** | (4,896) |

### NON-STATISTICAL RISK MEASURES

Non-statistical risk measures, other than stress/sensitivity testing, include independent market valuations to ensure that the Group's valuations are correct and Risk Greeks to ensure that trading is within the risk appetite thresholds. These measures provide granular information of the Group's market risk exposures.

Independent market valuations/Greeks are validated by the Market Risk function in order to ensure that the market valuations/Greeks are measured correctly. The Group uses first-order Risk Greeks to monitor and control market risk on a day-to-day basis. The interest rate Delta and Vega and the foreign exchange Delta and Vega are computed daily and monitored against a limit. The Board has set limits for the Delta and the Vega within acceptable levels of risk in managing the trading book.

### SENSITIVITY ANALYSIS

To overcome the VaR limitations mentioned under Statistical Risk Measures above, the Group also carries out daily stress tests/sensitivity analysis of its portfolio to simulate conditions outside normal confidence intervals in order to analyse potential risk that may arise from extreme market events that are rare but plausible. The results of the stress tests are reported regularly to the Group's ALCO for its review.

### CURRENCY RISK

The following table depicts the sensitivity of fair valuations in the trading and banking book to hypothetical, instantaneous changes in the level of foreign currency exchange rates — with other market risk factors held constant (including the USD-AED currency pair, which is pegged) — that would have an impact on the Group's consolidated income statement:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| Price shock in percentage | **+5% AED'000** | **−5% AED'000** | +5% AED'000 | −5% AED'000 |
| USD-AUD | **1,122** | **(227)** | 57 | (57) |
| EUR-USD | **2,536** | **3,195** | (6,838) | 8,906 |
| GBP-USD | **193** | **214** | (1,389) | (4,219) |
| USD-JPY | **6,541** | **3,839** | (206) | (351) |
| USD-CHF | **1,367** | **(786)** | 2,643 | 1,903 |
| USD-INR | **(10,614)** | **12,606** | (8,816) | 18,173 |

### INTEREST RATE RISK — TRADING BOOK

The following table depicts the sensitivity of fair valuations in the trading book to hypothetical and instantaneous changes in the level of interest rates — with other market risk factors held constant — which would have an impact on the Group's consolidated income statement:

Relative instantaneous rate move shift for all tenors:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | +25% AED'000 | –25% AED'000 | +25% AED'000 | –25% AED'000 |
| AED | (17,319) | 23,349 | 54,635 | (56,243) |
| USD | 10,215 | (9,471) | (39,435) | 41,160 |

### INTEREST RATE RISK — BANKING BOOK

The following table depicts the sensitivity of fair valuations in the non-trading book to hypothetical and instantaneous changes in the level of interest rates — with other market risk factors held constant — which would have an impact on the Group's consolidated income statement:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | +25 bps AED'000 | –25 bps AED'000 | +25 bps AED'000 | –25 bps AED'000 |
| Sensitivity of net interest income | 88,701 | (88,123) | 52,941 | (52,145) |

The sensitivity on the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities, including the effect of hedging instruments.

## 48 OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks can arise from all business processes and activities carried out by the Group and can expose the Group to potentially large losses. The Group manages operational risk exposures through a consistent set of management processes that include risk identification, assessment, control, mitigation and monitoring. The Operational Risk Management Framework is built on elements that allow the Group to effectively manage and measure its operational risk profile and to calculate the amount of operational risk capital it needs to hold to absorb potential losses. The framework is governed by a three-lines-of-defence concept.

Each business group, as an integral part of its first-line-of-defence responsibilities, is responsible for identifying and managing risks that arise from its activities. Identified operational risk exposures are rated 'Minor', 'Moderate', 'Significant' and 'Major' in accordance with defined risk assessment criteria. Significant and Major risks are analysed to identify the root cause of any failure for remediation and future mitigation. Additionally, data on operational losses is systematically collected and analysed to address the root cause of failures.

As the second line of defence, Group Operational Risk is responsible for setting and maintaining the standards for operational risk management and control. This includes defining appropriate policies and provides tools to manage and monitor operational risks within the Group's activities. The Group Operational Risk function is well supported by Business Operational Risk Managers, for identifying risks that are material to the Group and for maintaining an effective control environment across the organisation. Additionally, a system has been implemented to ensure that operational risk data is consistently captured across the Group in line with the regulatory framework. New products, material process changes and critical outsourcing arrangements are also assessed and authorised in accordance with product governance policies and procedures. Operational risk reporting is an integral part of the governance framework. On a quarterly basis, reporting is done to the heads of business groups, senior management committees and the Board Risk Committee.

As the third line of defence, the Internal Audit function provides further independent review of the Group's operational risk management processes, systems and controls and reports to the Board and senior management.

## 49 FOREIGN CURRENCY BALANCES

Net assets amounting to the Indian rupee equivalent of AED 202,732 thousand (31 December 2014 — AED 203,778 thousand) held in India are subject to the exchange control regulations of India.

## 50 TRUST ACTIVITIES

As at 31 December 2015, the net asset value of the funds under the management of the Group amounted to AED 2,161,522 thousand (31 December 2014 — AED 2,895,168 thousand).

## 51 SUBSIDIARIES

The following is the list of subsidiaries of the Bank:

| Name of subsidiary | Ownership interest | Incorporation Year | Incorporation Country | Principal activities |
|---|---|---|---|---|
| ADCB Securities LLC | 100% | 2005 | UAE | Agent in trading of financial instruments and stocks |
| Abu Dhabi Commercial Properties LLC | 100% | 2005 | UAE | Real estate property management and advisory services |
| Abu Dhabi Commercial Finance Solutions LLC | 100% | 2005 | UAE | Financial investments |
| Abu Dhabi Commercial Investment Services LLC | 100% | 2005 | UAE | Financial investments |
| Kinetic Infrastructure Development LLC | 100% | 2006 | UAE | Financial investments |
| Abu Dhabi Commercial Property Development LLC (*) | 100% | 2006 | UAE | Property development |
| Abu Dhabi Commercial Engineering Services LLC | 100% | 2007 | UAE | Engineering services |
| ADCB Finance (Cayman) Limited | 100% | 2008 | Cayman Islands | Treasury financing activities |
| ADCB Markets (Cayman) Limited (Formerly known as ADCB Holdings [Cayman] Limited) | 100% | 2008 | Cayman Islands | Treasury related activities |
| ADCB Holdings (Labuan) Limited | 100% | 2008 | Malaysia | Holding company |
| ADCB Holdings (Malaysia) Sdn Bhd | 100% | 2008 | Malaysia | Investment holding company |
| ACB LTIP (IOM) Limited | Controlling interest | 2008 | Isle of Man | Trust activities |
| Abu Dhabi Commercial Properties Consultancy LLC (*) | 100% | 2008 | UAE | Real estate consultancy |
| Abu Dhabi Commercial Bank (UK Representative Office) Limited | 100% | 2008 | United Kingdom | UK representative office and process service agent |
| ADCB Fund Management SARL | 100% | 2009 | Luxembourg | Fund management company |
| Abu Dhabi Commercial Islamic Finance Pvt.J.S.C. | 100% | 2009 | UAE | Islamic banking |
| ITMAM Services FZ LLC (Formerly known as ADCB Services FZ LLC) | 100% | 2010 | UAE | Transaction processing and back-office support for the Group |
| ADCB Islamic Finance (Cayman) Limited | 100% | 2011 | Cayman Islands | Islamic financing activities |
| AD NAC Ventures WLL | 99.75% | 2013 | Bahrain | Trust activities |
| ITMAM Services LLC | 100% | 2014 | UAE | Transaction processing and back-office support for the Group |
| Abu Dhabi Commercial Enterprises LLC | 100% | 2014 | Qatar | Engineering services |
| Omicron Capital (Cayman) Limited | 100% | 2014 | Cayman Islands | Treasury financing activities |

(*) These subsidiaries are dormant.

During the year, all units in Al Nokhitha Investments Feeder Fund, MSCI UAE Index Feeder Fund and Arabian Index Feeder Fund (together referred to as "feeder funds") were redeemed in exchange for units in ADCB SICAV Fund (Société d'investissement à capital variable Fund or "SICAV Fund") at fair value on the date of exchange. The units received have been classified as available-for-sale investments as per IAS 39. This being a non-cash transaction has not been reflected in the consolidated statement of cash flows.

## 52 CAPITAL ADEQUACY AND CAPITAL MANAGEMENT

### CAPITAL MANAGEMENT PROCESS

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- to comply with the capital requirements set by the Central Bank of the UAE;
- to safeguard the Group's ability to continue as a going concern and increase 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 the UAE. The required information is filed with the regulators on a regular basis as required under Basel II standards.

The UAE Central Bank, vide its circular No. 27/2009 dated 17 November 2009, informed all the banks operating in the UAE to implement the standardised approach of Basel II from the date of the circular. For credit and market risk, the Central Bank has issued guidelines for implementation of the standardised approach, and banks are required to comply and report under Pillar 2 — Internal Capital Adequacy Assessment Process (ICAAP) requirements since 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 standardised approach.

The Group currently uses the approach defined below for Pillar 1 reporting:

**Credit risk:** The standardised approach is used by the Group in calculating its capital requirements for credit risk. This approach allows the use of external ratings from designated credit rating agencies, wherever available, in determining the appropriate risk weights. The risk weight is determined by the asset class and the external rating of the counterparty. The net exposure incorporates off-balance-sheet exposures after applying the credit conversion factors (CCF) and credit risk mitigants (CRM).

**Market risk:** For the regulatory market risk capital requirement, the Group uses the standardised approach.

**Operational risk:** Basel II includes a capital requirement for operational risk, again utilising three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardised approach it is one of three different percentages of total operating income under each of eight defined business lines. Both these approaches use an average of the last three financial years' revenues. The Group has adopted the standardised approach in determining the operational risk capital requirements.

The Group also prepares an annual comprehensive ICAAP document. This document is a detailed assessment by the Group of its risk profile, approaches to assessing and measuring various material risks, and capital planning under regular and stress scenarios.

The Group's capital management is driven by long-/short-term strategies and organisational requirements with due consideration to the regulatory, economic and commercial environment in which the Bank operates.

The Group seeks to optimise returns on capital, and it has always been its objective to maintain a strong capital base to support business development and to meet regulatory capital requirements at all times.

**Capital supply**

As per Basel II requirements, capital should comprise the following:

**Tier 1 capital** includes paid-up share capital, share premium, published reserves (including post-tax retained earnings but excluding positive balance of cumulative changes in fair value), hybrid Tier 1 instruments (with prior approval from the Central Bank) and non-controlling interests in the equity of subsidiaries less than wholly owned.

Deductions are made from Tier 1 core capital as per the Basel Guidelines/Central Bank of the UAE rules and include goodwill and other intangibles at net book value, adjustments for the cumulative effect of foreign currency translation, negative balance of cumulative changes in fair value, and own shares held — at net book value, taking account of any provisions made against the acquisition value, current-year loss/retained losses, shortfall in provisions and other deductions to be determined by the Central Bank of the UAE.

**Tier 2 capital** includes collective provisions per Basel Guidelines and UAE Central Bank rules, undisclosed reserves, asset revaluation reserves/cumulative changes in fair value, hybrid (debt/equity) capital instruments and subordinated term loan.

**Tier 3 capital** includes principal forms of eligible capital to cover market risks and consists of shareholders' equity and retained earnings (Tier 1 capital) and supplementary capital (Tier 2 capital). Subject to prior approval from the Central Bank of the UAE, banks may employ a third tier of capital (Tier 3), consisting of short-term subordinated debt as defined in paragraph 49(xiv) of Basel II, for the sole purpose of meeting a proportion of the capital requirements for market risks, subject to the conditions in paragraph 49(xiii) and 49(xiv).

### SECURITISED ASSETS

Exposures to securitised assets that are rated B+ and below (long-term) or below A3/P3 (short-term), or are un-rated, are deducted from the capital base, and the deductions will be 50% from Tier 1 and 50% from Tier 2 capital.

### CAPITAL ALLOCATION

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital and the Group's business strategy, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital, to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank Risk & Credit and Finance functions and is subject to review by the ALCO as appropriate.

## CAPITAL ADEQUACY RATIO

The ratio calculated in accordance with Basel II guidelines is as follows:

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| **Tier 1 capital** | | |
| Share capital (Note 22) | **5,595,597** | 5,595,597 |
| Share premium | **3,848,286** | 3,848,286 |
| Other reserves, net of Treasury shares (Note 23) | **5,656,564** | 5,540,106 |
| Retained earnings | **9,627,315** | 7,172,755 |
| Non-controlling interests | **5,041** | 10,397 |
| Capital notes (Note 26) | **4,000,000** | 4,000,000 |
| Less: Intangible assets (Note 16) | **(18,800)** | (35,705) |
| Less: Investment in associate (Note 12) | **(98,578)** | (97,927) |
| **Total Tier 1 capital** | **28,615,425** | 26,033,509 |
| **Tier 2 capital** | | |
| Collective impairment allowance on loans and advances | **1,966,431** | 1,709,253 |
| Cumulative changes in fair value (Note 23) | **–** | 113,261 |
| Subordinated notes (Note 20) | **4,226,037** | 4,439,637 |
| Less: Investment in associate (Note 12) | **(98,578)** | (97,927) |
| **Total Tier 2 capital** | **6,093,890** | 6,164,224 |
| **Total regulatory capital** | **34,709,315** | 32,197,733 |
| **Risk-weighted assets** | | |
| Credit risk | **157,314,517** | 136,740,240 |
| Market risk | **5,652,368** | 4,497,079 |
| Operational risk | **12,689,402** | 11,835,586 |
| **Total risk-weighted assets** | **175,656,287** | 153,072,905 |
| **Capital adequacy ratio** | **19.76%** | 21.03% |
| **Tier 1 ratio** | **16.29%** | 17.01% |
| **Tier 2 ratio** | **3.47%** | 4.02% |

The capital adequacy ratio was above the minimum requirement of 12% for 31 December 2015 (31 December 2014 — 12%) stipulated by the Central Bank of the UAE.

**Tier 1 capital resources**

(a) Ordinary shareholders' funds, which include the cumulative proceeds from the issuance of ordinary shares at their nominal value net of Treasury shares. These instruments confer a share of ownership in the Bank, and carry no obligations.

(b) Statutory and legal reserves:

(i) Statutory reserve: As required by Article 239 of the UAE Federal Law No. (2) of 2015, 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid-up share capital. Accordingly, an amount of AED 105,645 thousand has been transferred to statutory reserve during the year (31 December 2014 — AED 404,973 thousand). The statutory reserve is not available for distribution.

(ii) Legal reserve: In accordance with the Article 82 of Union Law No. 10 of 1980 and the Articles of Association of the Bank, 10% of the net profit for the year is transferred to the legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid-up share capital. Accordingly, an amount of AED 150,432 thousand has been transferred to legal reserve during the year (31 December 2014 — AED 404,973 thousand). The legal reserve is not available for distribution.

(c) General reserve and contingency reserves:

(i) General reserve: In accordance with the Articles of Association of the Bank, a further percentage of net profit for the year can be transferred to the general reserve based on the recommendation of the Board of Directors. The Bank may resolve to discontinue such annual transfers when the reserve equals 25% of the nominal value of the paid-up share capital. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.

(ii) Contingency reserve: The contingency reserve is established to cover unforeseen future risks or contingencies which may arise from general banking risks.

(d) Employees' incentive plan shares: The Bank grants equity-settled share-based payments to employees. These shares are acquired by the Bank for its employees and are deducted from capital.

(e) Cash flow hedge reserve: The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity.

(f) Foreign currency translation reserve: The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(g) Retained earnings which represent the cumulative profits not distributed to shareholders, and other eligible reserves.

(h) Non-controlling interests in equity of subsidiaries.

(i) Capital notes: In February 2009, the Department of Finance, Government of Abu Dhabi, subscribed to ADCB's Tier 1 regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "Notes"). The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date. Redemption is only at the option of the Bank.

Deductions from Tier 1 resources include intangible assets and 50% of investment in associate.

**Tier 2 capital resources**

(a) Collective impairment on loans and advances limited to 1.25% of credit risk-weighted assets.

(b) Cumulative changes in fair value — The cumulative changes in fair values includes the cumulative net change in the fair value of available-for-sale investments measured at fair value through other comprehensive income. However, it is limited to 45% if the balance is positive. But if the balance is negative, the entire balance is adjusted in Tier 1 capital.

(c) Eligible subordinated notes (Note 20).

Deductions from Tier 2 resources include 50% of investment in associate.

## 53 DISPOSAL OF FUND SUBSIDIARIES

On 31 March 2014, the Bank redeemed substantial units in Al Nokhitha Investments Feeder Fund, MSCI UAE Index Feeder Fund and Arabian Index Feeder Fund which resulted in reduction of its indirect stake in Al Nokhitha Fund, ADCB MSCI UAE Index Fund and ADCB Arabian Index Fund (the "Funds"), and consequently its exposure to variable returns from its involvement in these Funds reduced considerably to a level that led the Bank to conclude that there is a loss of control over these subsidiaries. The residual interest in these Funds is classified as available-for-sale investments as per IAS 39.

**Analysis of net assets over which control was lost**

| | AED'000 |
|---|---|
| Bank balances | 226,121 |
| Trading securities | 867,792 |
| Other assets | 11,888 |
| **Total assets** | **1,105,801** |
| Other liabilities | 4,218 |
| Non-controlling interests | 836,495 |
| **Total liabilities** | **840,713** |
| **Net assets over which control was lost** | **265,088** |

**Sales consideration**

| | AED'000 |
|---|---|
| Cash consideration received | 95,112 |
| Fair value of residual interest classified as available-for-sale investments | 169,976 |
| **Total sales consideration** | **265,088** |
| **Less: Fair value of net assets over which control was lost** | **265,088** |
| **Gain on disposal of Fund subsidiaries** | **–** |

**Net cash inflow on disposal of Fund subsidiaries**

| | AED'000 |
|---|---|
| Consideration received in cash and cash equivalents | 95,112 |

Fair value of residual interest has been booked as transfer to available-for-sale investments, and this being a non-cash transaction has not been reflected in the consolidated statement of cash flows.

Net gains amounting to AED 91,521 thousand on Treasury shares held by the Fund subsidiaries pertaining to previous periods were recognised in retained earnings on the date of loss of control.

## 54 SOCIAL CONTRIBUTIONS

The Group made the following social contributions during the year:

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Donations | 3,689 | 1,862 |
| Sponsorships | 4,371 | 10,269 |
| **Total social contributions** | **8,060** | 12,131 |

## 55 LEGAL PROCEEDINGS

The Group is involved in various legal proceedings and claims arising in the ordinary course of business. Whilst the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Group's consolidated financial statements if disposed unfavourably.

بنك أبوظبي التجاري

ADCB