Leading Through

AMBITION + DISCIPLINE

Abu Dhabi Commercial Bank PJSC
2016 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

Ambition and discipline propel us forward, as a leader, as we work to create the most valuable bank in the UAE.

ADCB's success is built on delivering extraordinary service to our customers and communities. Offering a better way to bank, we have carved out a leading role in the banking sector and this region through a clear, focused strategy and its disciplined execution. This led to a series of record-breaking years and a very strong balance sheet, and now, even as the regional and global economy has become more challenging, growth continues.

The qualities that give rise to enduring success become all the more apparent when times get tough. And they continue to differentiate ADCB as the bank you can count on, going forward.

LEADING THROUGH

Putting Service First

We built this Bank around human needs. At ADCB, we all work together to serve the customer. This is our first priority and the heart of our business culture. Net Promoter Score™,[1] a customer satisfaction metric, is embedded into how every employee is evaluated. Smart digitisation—as exemplified by uBank, our new digital banking centre in Yas Mall—is helping to sustain our edge in customer service. With an industry-leading mobile app, superior Internet banking, and e-platforms for business, we continue to raise the bar for a differentiated customer experience.

[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

LEADING THROUGH
Continuity

Our strategy has not changed. Built for sustainable growth in the face of changing market dynamics, and proven in the marketplace, our strategy keeps us focused on the UAE, on a stable liability structure, on a culture of service excellence, on robust risk management and on developing our people. We continue to execute this focused strategy with great discipline. We also lead with a remarkably stable management team. Continuity of strategy and of leadership is a powerful combination that, we believe, has led to our consistently strong performance.

LEADING THROUGH

Resilience

ADCB is a bank designed to thrive no matter what the markets bring. The low growth macro environment presents a set of challenges we are well-prepared to face. Our disciplined risk management and corporate governance continue to set us apart in this sector and region. Offering clear strengths and proven resilience, we can help our customers and stakeholders move forward with confidence. As a leader, we continue to invest in our future, renewing our core banking infrastructure whilst continually enhancing customer experience. As the economy of the UAE continues to diversify and to grow, we continue to seek a leading share of that growth.

Chairman's Message

Eissa Mohamed Al Suwaidi
Chairman

On behalf of ADCB's Board of Directors, I am pleased to report that the Bank has delivered another strong year of performance, particularly in light of the challenges of the low oil price environment.

Whilst profitability declined, 2016 saw good results in all other key performance metrics. Operating income of AED 8.495 billion was up 3% over 2015 and our return on equity remained strong at 15.7%.

Net Profit
(AED billion)

4.157

Recommended Dividend per Share
(AED)

0.40

We expect the heightened economic challenges to persist into 2017 and beyond. However, we believe that the Bank's proven strategy, commitment to service excellence, and strong, well-established governance standards will continue to serve shareholders well. With our resilient balance sheet and strong franchise, we remain focused on delivering sustainable growth and improving long-term financial performance and returns for shareholders.

Building On a Proven Strategy

In September, the Board reviewed and confirmed the Bank's strategy. This strategy was devised to build a robust and resilient leader in the UAE financial sector, and has proven to be highly effective in that regard. 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.

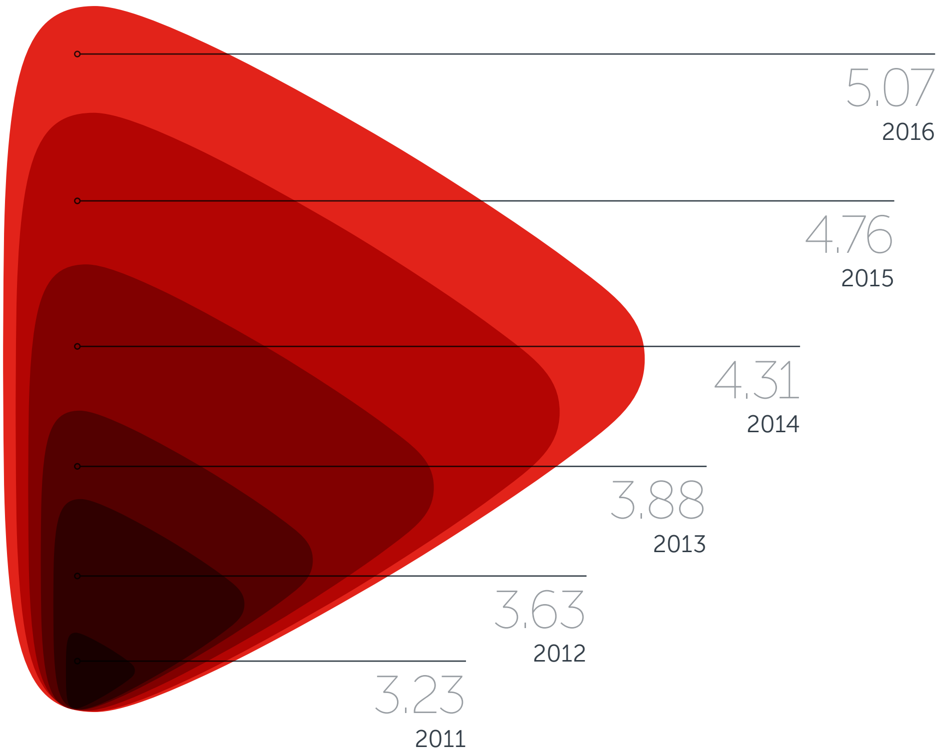
The Board also confirmed the importance of continuing investment in creating a superior and differentiated customer experience, through digitisation initiatives and sustained focus on customer service. We believe that the Bank has built a distinct advantage in customer service, and that maintaining and extending this advantage is critical to future success.

ADCB continues to make gains in cost control, whilst also driving efficiency throughout its operations with initiatives such as Itmam shared services and improvements to service standards and speeds. Gains in efficiency deliver both savings and enhancements in customer service. We believe the Bank's internal service model to be exemplary, with its sustained focus on improvement.

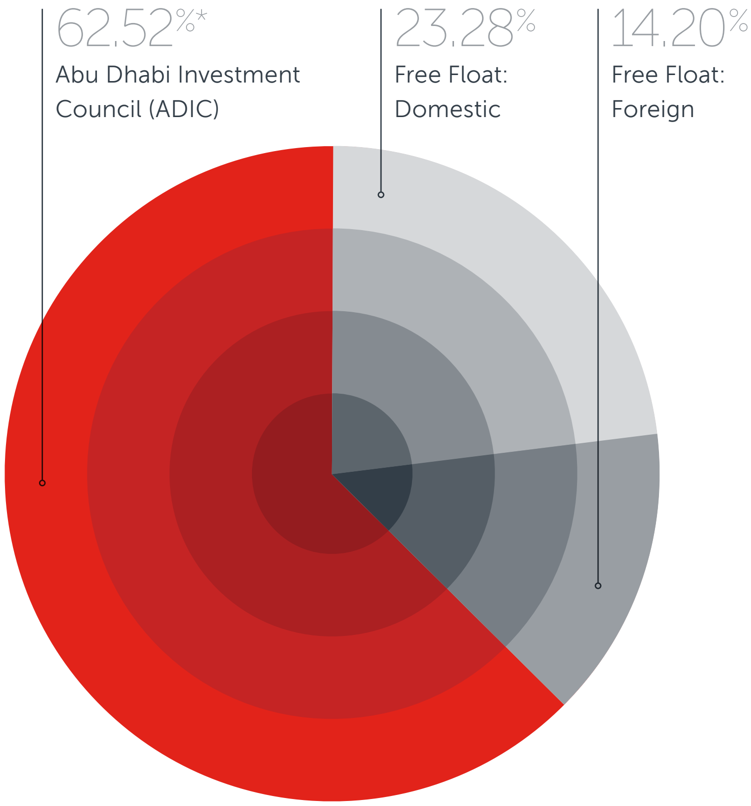
Well-capitalised and with a strong balance sheet, ADCB remains a healthy institution positioned as the leading bank focused primarily on the UAE. Our credit quality remains strong, and the Bank continues to aspire to grow based on prudent risk management.

Book Value per Share

(AED)



Shareholding Structure



* Following our buyback programme concluded in January 2015, the Bank has cancelled 397,366,172 treasury shares. The new issued share capital is AED 5,198,231,209 (Effective 8 January 2017)

Recommended Dividend

We continue to deliver good value to our shareholders. Since 2010, our dividend per share has grown year on year, while our payout ratio has consistently been around the 50% mark. As a result of ADCB's performance in 2016, the Board has recommended a cash dividend of AED 0.40 per share, translating to a payout of AED 2.079 billion, equivalent to 50% of net profit. This is subject to approval by the shareholders at the Annual General Meeting.

Continued Focus on Governance and Strengthening the Bank's Culture

As in prior years, the Board remained active and engaged throughout 2016, conducting 62 full Board or Committee meetings. The Board also engaged regularly with management outside of full Board or Committee meetings.

Your Board is diverse and engaged, with a good mix of skills and strengths. In particular, your Board communicates well with management and constructively challenges management's activities.

The Board continues to work with management in our shared aim to excel in corporate governance. Having met or exceeded nearly all of the Basel Committee's Guidelines on Corporate Governance, during 2017 the Board will commission an external review of the Bank's governance framework aimed at helping the Bank to improve its governance practices even further.

Your Board believes that ADCB has developed a positive culture, and that management and staff are suitably incentivised to maintain and further improve the culture. The Board influences the Bank's culture by setting the appropriate tone in its deliberations (particularly on strategy and risk matters), and by its selection and incentivisation of senior staff. Your Board intends to make efforts to develop this further in 2017.

Looking Ahead

We expect 2017 to be another challenging year for financial services globally, and liquidity remains an ongoing concern. However, the UAE's economy remains well-diversified, strong and growing. Monetary policy remains accommodative. As a country and a market, the UAE is strongly positioned in the regional and global economy, and we are confident in its future. The Bank stands by its enduring commitment to the long-term economic development of the UAE.

During 2017 the Board will guide management in continued delivery of the Bank's strategy, oversee any transitions required as a result of the Basel III and IFRS 9 implementations, seek to continue leading the market in corporate governance practices, and continue to assess and develop the Bank's corporate culture.

Management has the full support of the Board as it leads the Bank through this challenging trading environment. Together we will continue to monitor conditions closely and will take actions as necessary.

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.

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

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. Given the headwinds and turbulence in the global economy, it certainly was a successful year for the Bank.

2016 was challenging, and being close to our customers and their businesses, we are well aware of the effects of the lingering low oil price environment for various businesses. Still, the economy of the UAE continued to diversify and to grow year on year. ADCB grew, too. In fact, we did more than grow.

We continued to invest in enhancing the customer experience and in smart digitisation. We continued to invest in our infrastructure as we re-engineer and upgrade our core banking system. We continued to invest in our people.

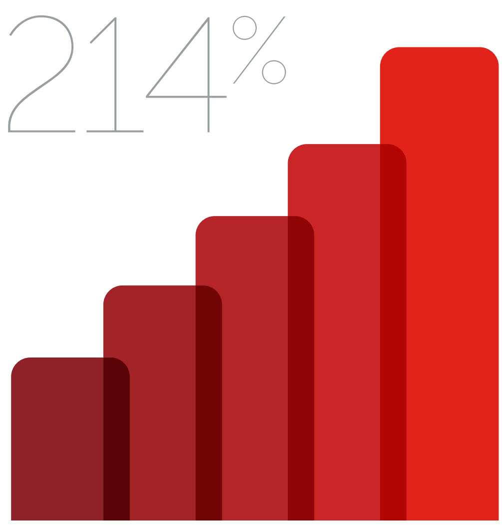
Yes, profitability declined, net profit of AED 4.157 billion for 2016 was 16% lower year on year. This was primarily on account of the tightening liquidity environment that has driven up our cost of funds and higher impairment allowances reflective of our prudent and disciplined approach to risk management. But in other leading indicators and measures that matter, we continued to perform exceptionally well.

The factors driving ADCB's continued success are clear to see.

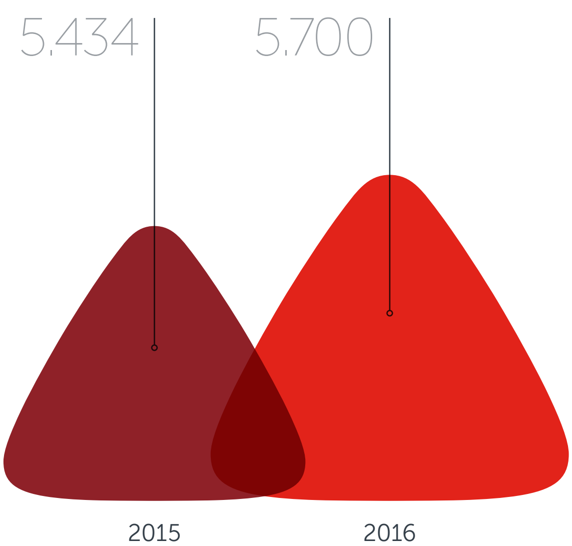
Leading through Continuity of Strategy and Management

We have a clear and focused strategy, born out of the global economic crisis of 2008, and we continue to execute against it. This strategy has harnessed our collective ambition and discipline and put that to work on behalf of our customers and shareholders. Our focus on executing our strategy consistently and with great discipline has not wavered.

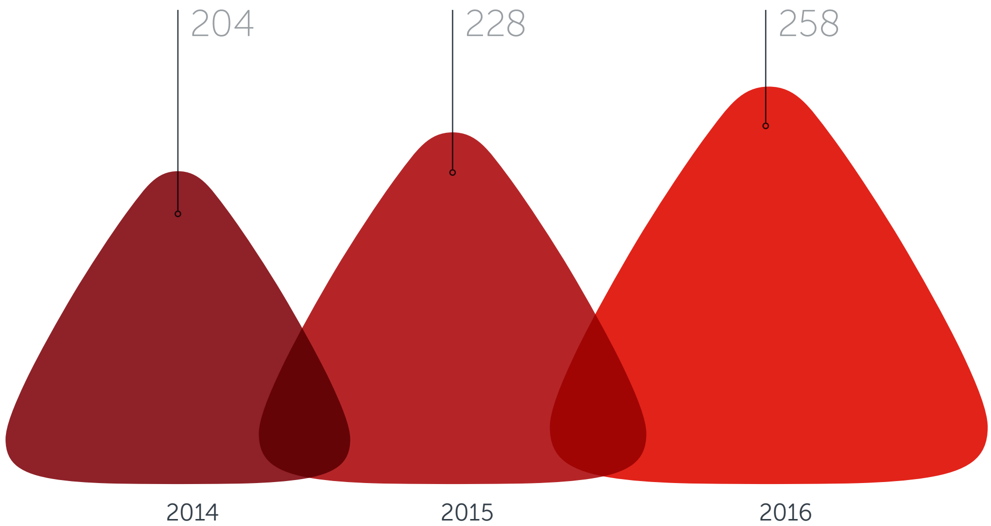
5-Year Total Shareholder Return (TSR)



Operating Profit before Impairment Allowances
(AED billion)



Total Assets
(AED billion)



The Management Executive Committee that conceived and dedicated itself to our five-pillar strategy has been with the Bank for an average of nine years. We go forward with a remarkably stable management team. And whilst our tenure together is long, the team remains a flexible and agile group that brings great energy and passion to our challenges every day. We believe this continuity has contributed to the Bank's proven ability to produce strong and even record-breaking results year after year—enabling us to deliver consistently strong total returns to our shareholders.

AED 258 billion

Total assets reached AED 258 billion as at 31 December 2016

Leading through Strong Underlying Performance

The Bank delivered strong financial results in 2016, reporting an operating income of AED 8.495 billion, up 3% and operating profit before impairment allowances of AED 5.700 billion, up 5% over 2015. We continue to focus on granular growth opportunities in the UAE to build our balance sheet. Total assets reached AED 258 billion as at 31 December 2016. Year on year, loans to customers increased 8% in our core businesses and core geography, with Islamic financing assets up 30% over 2015. Our customer deposits also increased 8% year on year, and low-cost CASA (current and savings account) deposits comprised 42% of total customer deposits. Our cost to income ratio improved to 32.9% in 2016, an improvement of 130 basis points year on year. By total assets, operating profit, cost to income ratio and a host of other measures, it was a very good year for ADCB.

Leading through Putting Service First

We have built this Bank around human needs.

In this market, ADCB is known for customer service and a differentiated customer experience, and we believe this reputation is a direct result of our strategy. We are widely acknowledged as having an industry-leading mobile app as well as superior Internet banking and e-platforms for business. We recently unveiled our pacesetting digital centre at Yas Mall in Abu Dhabi and two other Digital Centres are on the way.

Our cash management platform and Wholesale Banking franchise continue to win awards. Recently, Euromoney awarded us global "Five Star" status for cash management, based on an extensive survey of client feedback. This is an accolade fewer than ten banks worldwide earned in 2016—a remarkable achievement for a UAE bank and a testament to our platform, digital capabilities, transactional businesses and to our employees, who deliver such exceptional service. Our investments and innovations have focused on differentiating the Bank on this absolutely mission-critical point of customer service, for both our retail and our business customers who trust us with their banking requirements. Within the Bank, our people bring an equally strong focus on customer service to internal customers.

A little over two years ago, we instituted Net Promoter Score (NPS), which measures our customers' propensity to recommend ADCB to friends and family. This has given us a quantifiable means of assessing and improving our effectiveness in serving customers. The progress and impact have been remarkable. Our 2016 NPS indicates that we have retained #1 ranking against our peer group in almost all segments. This confirms that we are putting the customer at the center of everything we do at ADCB. We are relentless in the pursuit of service excellence, and our efforts are being rewarded by our loyal customers. Exceptional customer service is also reinforced with real-time, fast feedback loops and led by a Customer Experience Working Group, which I chair.

Leading through Empowering Our People

We firmly believe that if you focus on the human element, everything falls into place.

In the culture we have built within ADCB, our people bring a unique blend of ambition and discipline to every task. The Bank continues to earn extremely high levels of employee engagement and retention, whereby employee engagement reached 76% and the staff turnover came down by 54% in 2016. We see this as a function of how we train and treat our employees.

147

Our Tamooha initiative has given 147 Emirati women a place in the working world where their talent and education can shine

"This is our time. We are more confident than ever that we chose the right path and have the right people to meet the challenges ahead."

We routinely open up new avenues of opportunity. For example, our Tamooha initiative has given 147 Emirati women a place in the working world where their talent and education can shine. Tamooha's success is a unique and innovative part of our overall commitment to the national goals of Emiratisation, which includes helping more Emirati nationals earn their way into positions of expertise and authority. Our vibrant workforce represents over 70 nationalities—a diverse blend of talented people from all over the world who come here to make the most of their careers and personal ambitions.

Despite job losses around us, we have not let go of our people. Historically when crises have hit, we have found a way to keep our people, and to redeploy and retrain them when necessary—to keep their knowledge and experience as a living asset of the Bank. My management team understands that over 4,000 families are counting on us to lead them through whatever the economy may bring.

Leading through Social Engagement

On the social front, our people are working to raise the level of financial literacy throughout the UAE, especially with young adults, through our partnership with the Emirates Foundation with whom we have worked for over a decade. This is a first-of-its-kind financial literacy programme in the region, a public-private partnership combining an international best practices framework with in-branch counseling. ADCB experts and Emirates Foundation specialists will cooperate to develop free, branch-based counseling focused on providing help and advice to young adults who have just started their careers. ADCB is a pioneer in responsible lending practices, and we are very pleased to be able to play a role in encouraging the widespread adoption of sound financial management practices across the UAE.

Leading through Focus

Like the soaring falcon, who can track the slightest movement hundreds of metres below, we do not lose sight of what matters. We focus keenly on our five strategic pillars: on our home market; on a granular balance sheet growth with a stable and conservative liability base; on a customer experience that is second to none; on diligent risk management; and on the people who sustain our success as well as those who are counting on us to succeed. Ambition plus discipline describes us as a business and as people—and that is not about to change.

ADCB today enjoys strong fundamentals, an agile approach to the marketplace and proven innovation that continually raises the bar on making it easier and more enjoyable to bank with us. These challenging times make the strengths of the Bank all the more apparent.

Leading through Resilience

In essence, we were built for times like these.

Our resilience stems in part from our stringent standards as to risk management. We perform rigorous and continuous "last bank standing" stress testing to ensure our viability as a business and as a leader in the UAE banking sector. Whilst the economy presents difficulties, we are not locked down in crisis mode. We continue to serve our customers, meet their needs and grow our business.

ADCB is viewed positively by global monitors of our industry. In June, Standard & Poor's upgraded ADCB's stand-alone credit profile (SACP) to 'bbb+,' driven by the Bank's strengthening business position, track record at improving returns, and balanced earnings across different business segments. We were ranked amongst the top five safest banks in the Middle East and Africa in *Global Finance* magazine's rankings of the world's safest banks. The *Euromoney* Cash Management Survey awarded ADCB "Best Cash Manager" in the UAE. *Asian Banking and Finance* recognised our retail and SME businesses with four awards, including "SME Bank of the Year."

We take pride in the respect ADCB has earned as a competitor in this market. Banking leaders outside of our region also have taken notice. A number of CEOs of major global banks have come to us to share their ideas and to see ours in action—looking to share strategies, experience and insight on how to face the future with enduring confidence.

Leading through Confidence

What these times have shown us, is that our strategy is working. This is our time. We are more confident than ever that we chose the right path and have the right people to meet the challenges ahead. As we pursue responsible, sustainable growth, we strive to continue to earn the right to bring our customers and shareholders with us on this journey—leading through these difficult times into the favourable future.

We deeply appreciate the support of our employees and the Board, and 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

Your Bank delivered strong financial results in 2016, reporting a net profit of AED 4.157 billion and a return on equity of 15.7%.

Upon reflection, there is much to be pleased about in our performance. We achieved solid growth year on year in a challenging operating environment, whilst continuing to manage our business efficiently.

Once again we posted record revenues, building on years of remarkable performance, even as the economy presented us with a slowdown. It is easy for a bank, when a tough year comes, to cut back on investments and expenditures, to put necessary projects on hold, even to let people

Liquidity Coverage Ratio

129%

Cost to Income Ratio

32.9%

go, just to hit the next target. That is not the kind of bank we are. We do not manage for the next quarter; but rather take the long view. We are here for the UAE and our shareholders, and continue to invest in our franchise and our shared future.

Tightened liquidity and turbulent markets certainly have impacted the industry, yet the Bank's underlying performance and fundamentals remain strong. ADCB's resilient balance sheet registered healthy growth. We continue to grow our businesses and to be a partner for growth in this market. All the while, we have not wavered from our focus on delivering a superior customer experience.

Built for Resilience and Sustainable Growth

The Bank's agility and strong underlying performance are a direct result of the strategies we put in place coming out of the global recession of 2008.

We remain steadfastly UAE-focused. We manage our balance sheet for liquidity and granular growth. We contain expenses whilst continuing to make prudent investments. We keep a sharp eye on asset quality and risk management. We empower our people to drive success. Perhaps most importantly, we have elevated customer-centricity and are focused on delivering an unmatched experience for every customer of the Bank.

Our Ratings

A/A-1/ Stable

S&P

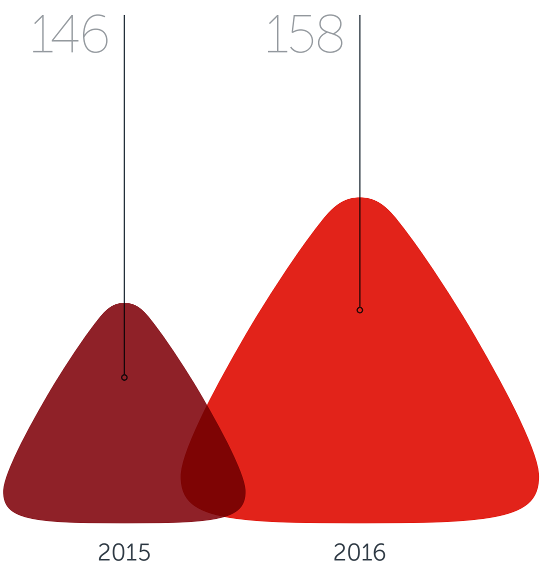
A+/F1/ Stable

Fitch

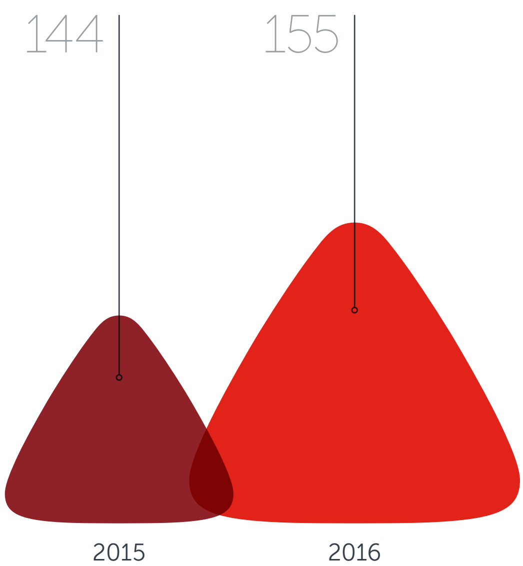
AAA/P1/ Stable

RAM

Net Loans*
(AED billion)



Customer Deposits
(AED billion)



ADCB is a very agile bank when it comes to making decisions and launching products to both retail and business customers.

We also remain very disciplined in our approach to growth, and believe that our resistance to calls to grow more quickly has served and will continue to serve our stakeholders well. Today, we continue to emphasise liquidity over profitability and prioritise loans of high credit quality that can be written at acceptable margins. We manage our balance sheet conservatively, and our loans and advances are diversified across all economic sectors to minimise risk. We remain selective about the sectors to which we lend and have grown even more prudent about our provisioning. We also continue to diversify our revenue stream, emphasising non-interest income generation. Our non-interest income of AED 2.294 billion was up 12% over 2015, and comprised 27% of operating income compared to 25% in 2015.

This responsible approach, a strong franchise and stable financial footing have positioned us well in the current environment. The results for 2016 bear this out.

Built for Consistently Strong Performance

The Bank's balance sheet remains strong. We grew net loans 8%; Wholesale Banking loans were up 11%, and Consumer Banking loans were up 5%. Loans to banks decreased 52% year on year to AED 3.6 billion, due to a conscious decision to reduce this portfolio. The Bank's capital ratios remain robust, with a capital adequacy ratio of 18.92%, and a Tier I ratio of 15.66% at year-end. We are committed to protecting the long-term financial strength of the Bank in our pursuit of sustainable growth. We maintain a well diversified funding base. In line with best practices of banking, ADCB has adopted the Liquidity Coverage Ratio (LCR) standards issued by Basel and the UAE Central Bank. Subsequent to a rigorous examination, ADCB was amongst the first banks approved by the UAE Central Bank to adopt the LCR standards. At the end of 2016, ADCB's LCR stood at 129% compared to a minimum ratio of 70% prescribed by the UAE Central Bank. ADCB was a net lender of AED 22 billion in the interbank markets as at 31 December 2016, and our investment portfolio increased 58% over 2015 to AED 33 billion, providing a further source of liquidity for the Bank. In a tight liquidity environment, our liquidity ratio increased from 25.8%

*In Q2'16, loans and advances to banks were reclassified to "Deposits and balances due from banks, net" to better reflect the underlying nature of the business of the borrowers. Accordingly, comparative amounts pertaining to previous years were reclassified to conform to current period's presentation in 2015 to 29.2% in 2016, whilst our loan to deposit ratio remained stable at 101.9%.

Our asset quality metrics remain healthy, with a non-performing loan ratio of 2.7% and a provision coverage ratio of 129.9% as at year end, reflecting our strong risk management culture.

What these numbers reflect is that ADCB is built to perform in any environment.

The market continues to be tough on two fronts. First, liquidity in the marketplace is tight. As a result, our cost of funds increased to 1.33% from 0.92% in 2015. Second, we have taken a higher level of impairments on our lending, as we have seen a higher level of defaults in the marketplace. This has raised our cost of risk to 0.83% from 0.29% in 2015. This rise is simply a function of the current market environment. Such rises in impairment allowances are in keeping with our prudent and conservative approach, and a reflection of the discipline we exact on our lending practices.

The small to medium size enterprise sector has been hit hard, but that does not mean it is not bankable. We have not retreated nor retrenched. Instead, we resolutely continue to fund, finance and work with our SME customers, who meet our standards, and stand by them in challenging times. In 2016, this sector continued to be a net contributor to our liability book.

Given the macro conditions and our discipline, it is not surprising that we experienced reduced profitability in 2016. But this in no way has limited our ability to perform like the leader we built the Bank to be.

Built for Continuing Success

This operating performance demonstrates the strength and resilience of our business model and strategic pillars as we move forward.

As a highly disciplined bank, we continue to take measures to address the current economic realities, with rigorous risk management and cost containment. At the same time, we continue to invest in digitisation to create a more differentiated banking experience. Today, more than 90% of our retail financial transactions are done electronically, enabling us to better serve customers, whilst moderating costs.

A differentiated customer experience is key to our ongoing success.

We have a very productive relationship with the Board. Recently, the Board reaffirmed its support for our strategy and in particular our focus on the UAE and, in fact, directed us to continue investing in service excellence as a key differentiator for the Bank in this market. The Board concurs that significant investment in our digital strategy today is foundational to sustaining and extending our current advantage in customer service going forward.

Simply put, we will continue to make it simpler and easier for customers to do business with us. That is where we are making most of our investments—so that the customer never feels inconvenienced.

A strength of the Bank is that we have held course and stay true to our strategy. We expect the current economic environment to be temporary. However long it may last, we have always said we will ride the fortunes of the UAE economy, both up and down, because we believe in this market long term.

UAE is well-positioned for sustained growth, and so is your Bank. We have a strong franchise and continue to deliver enduring value for all our stakeholders. Our credit ratings from Standard & Poor's, Fitch and RAM remain world-class at A, A+ and AAA, respectively, and Standard & Poor's upgraded our stand-alone credit profile in 2016. The Bank remains on a very solid footing in terms of its capital base and liquidity metrics, and in its compliance with Basel III and UAE regulatory requirements as they evolve. Most importantly, ADCB is still growing and taking market share.

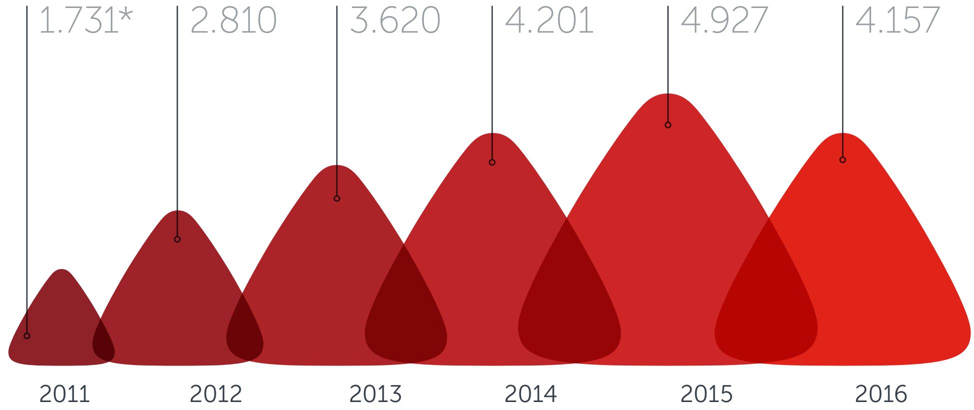
We approach 2017 and beyond with confidence. Our strategic framework creates a clear path forward, resilience and agility in a rapidly changing world, and we remain committed in our pursuit of measured and sustainable growth.

Deepak Khullar
Group Chief Financial Officer

Financial Highlights

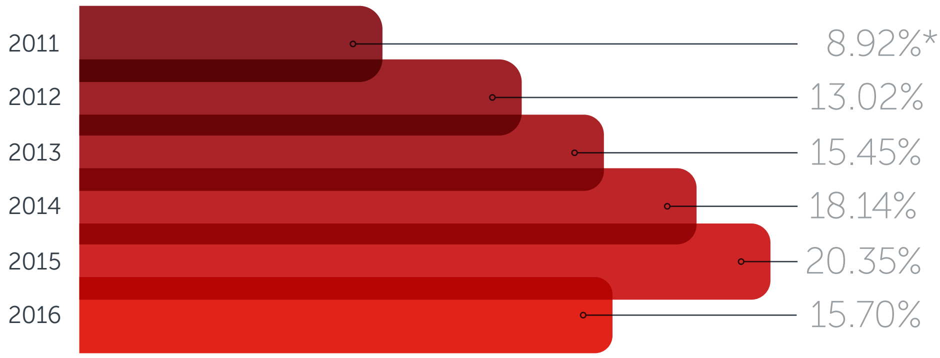
Net Profit
(AED billion)

4.157
in 2016



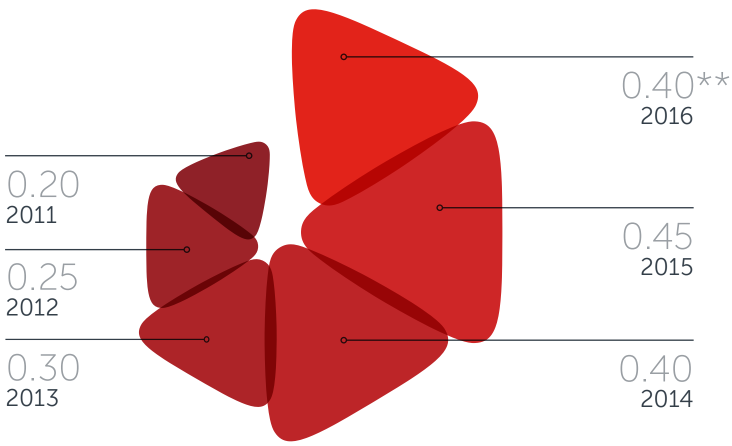
Return on Average Equity

15.70%
in 2016



Dividend per Share
(AED)

0.40
in 2016

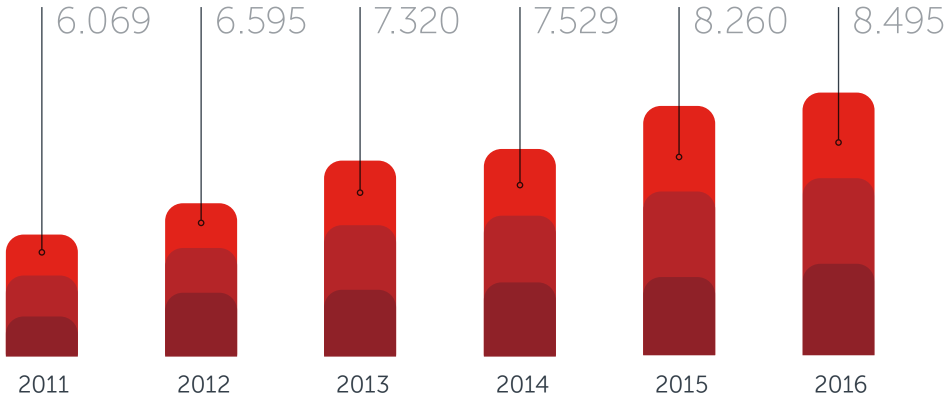


*Normalised to reflect sale of investment in associate
**Subject to approval by the shareholders at the Annual General Meeting

Total Operating Income
(AED billion)

+3%

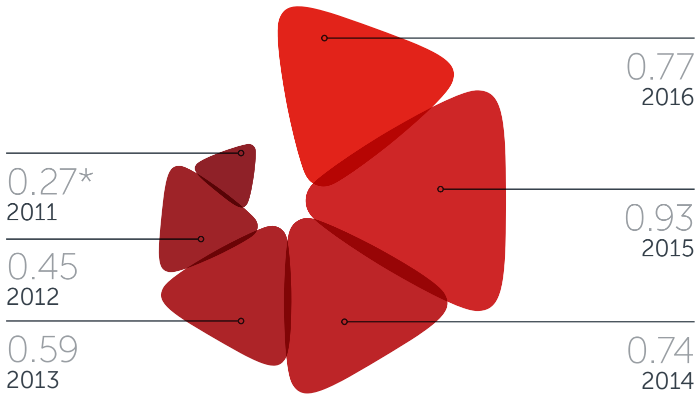
increase in the past year



Basic Earnings per Share
(AED)

0.77

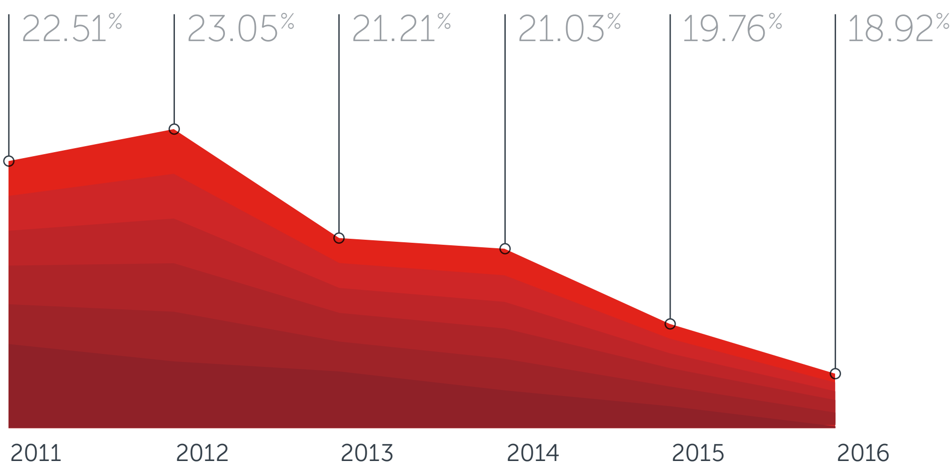
in 2016



Capital Adequacy Ratio

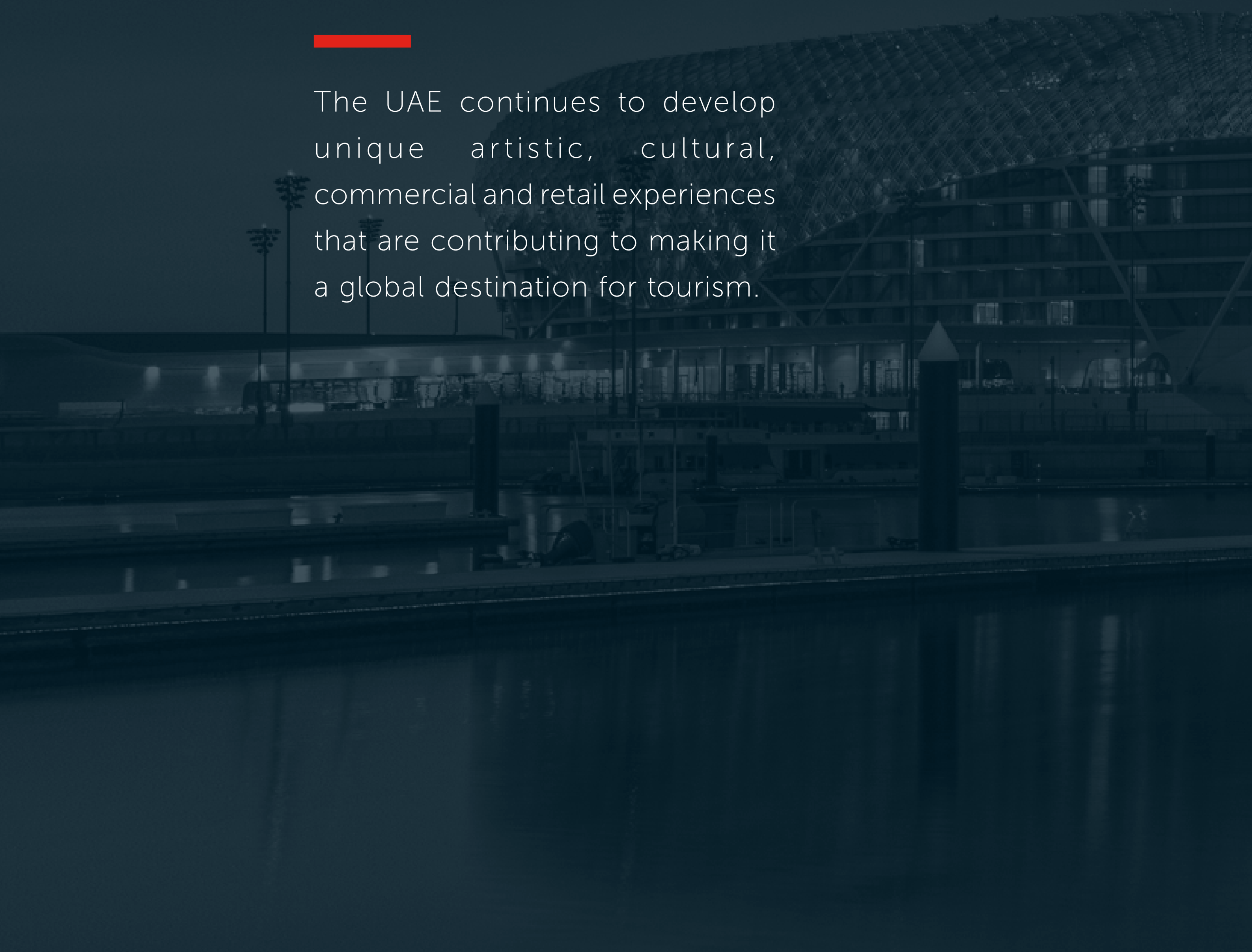
18.92%

in 2016



LEADING THROUGH

The UAE continues to develop unique artistic, cultural, commercial and retail experiences that are contributing to making it a global destination for tourism.



Economic Overview

The UAE remains well-positioned within the GCC, offering a stable and diversified economy with strong macroeconomic fundamentals, clear leadership vision and a focus on economic development.

2016 was a challenging year, marked by a low oil price environment combined with soft regional and global demand, which impacted the UAE economy. However, even with the weakening of overall economic activity, the UAE continued its investment in core projects.

In a welcome development, the price of oil finally showed signs of picking back up toward the end of 2016, following the OPEC and non-OPEC agreement. While the announcement boosted the oil price above USD50 p/b, uncertainties remain over the implementation of the deal. We remain conservative in our forecasts for average oil price in the near term.

Fiscal Adjustments

The low oil price environment has been accompanied by fiscal reform in Abu Dhabi, a pull back in government spending across the wider region and restructuring in government-related entities (GREs) and other businesses looking to become leaner and more efficient.

In the interest of fiscal sustainability, Abu Dhabi has been proactive in reforms to reduce the size of its deficit. This has contributed to the softness in domestic demand.

Over the medium term, the non-oil sector accounted for approximately 65% of the UAE's GDP

↑AED↓

We forecast that the UAE's annual average inflation rate will accelerate to 2.8% in 2017

Projects to increase economic capacity, including investments in ports, logistics infrastructure and leisure facilities such as theme parks, are continuing

A weak global backdrop also had an impact, with a strengthening US dollar affecting competitiveness. A rise in USD and subsequent appreciation in the AED have been key factors behind weaker external demand, impacting core non-oil sectors such as transportation, hospitality, real estate and retail.

Many corporates have responded to the slowdown by focusing on cost-cutting, including job cuts, thereby adding further softness to the domestic demand environment.

Projects to increase economic capacity, including leisure facilities such as theme parks, are continuing

Yas Island—Yas Media Hub

Non-Oil Activity

Over the medium term, the non-oil sector accounted for 65% of the UAE's GDP. Whilst lower oil prices have led to a more cautious spending approach by the Government and the private sector, core sectors of the UAE economy, including tourism, leisure facilities, transportation and logistics continue to see growth. We see an ongoing broadening of the leisure industry, with continuing investment in both family-related theme parks and business-related conference tourism.

Technology is a new area that the UAE is focusing on, as further diversification away from oil as well as from tourism and retail development.

Growth to Pick Up in 2017

We expect the UAE economic activity to strengthen in 2017 on stronger Dubai investment, with investment spending budgeted to accelerate by 27% as Dubai Expo 2020 approaches. The 2020 event marks the first time that this global mega-economic expo will be held in a country in the Middle East, North Africa or South Asia.

Despite the low oil price, we saw a more moderate contraction in project awards during 2016, down 8% year on year compared to 16% in 2015. Key construction project awards in 2016 included Yas West Residential; hotel projects in Dubai including expansion of Atlantis; Dubai Library, and Mohammed bin Zayed City Fujairah. Key transportation projects include the Dubai Metro Red Line Extension Route 2020, and Musanada Capital District and related road infrastructure. A significant number of construction projects are expected to be awarded in 2017.

Meanwhile, we forecast that the UAE's annual average inflation rate will accelerate to 2.8% in 2017, up from 1.7% in 2016, driven in part by higher gasoline prices. As the UAE's fuel prices have been liberalised (since August 2015), global oil developments will now be reflected in domestic prices.

Credit and Deposit Growth

Total credit growth has moderated in 2016, in line with the weakening economic backdrop, albeit still outstripping deposit growth for most of 2016. This resulted in a further tightening in banking sector liquidity conditions, which pushed interbank rates higher in 2016. Government and GREs combined were net creditors from the banking sector in 2016, particularly with a pickup in GRE borrowing and lower deposits in the banking system compared to 2015.

The financial sector's fundamentals remain solid. For the most part, UAE banks are strongly capitalised and equipped to deal with this lingering slowdown in economic activity.

Looking Ahead

We maintain a strong belief in the UAE economy and its future. Even with the current economic environment and its evolution, there are still strong underlying fundamentals at play. Whilst the UAE's economy faces headwinds, it is well-positioned to address the current challenges and poised for strong and sustained growth over the medium and long term. For these reasons, focusing on the UAE remains a key strategic pillar for ADCB.

LEADING THROUGH

The UAE is a focal point for trade within and amongst the GCC and with the wider world—creating and supporting interrelationships that sustain a well-diversified economy.

Board Roundtable

Mohamed Sultan Ghannoum Al Hameli
Vice Chairman

Non-Executive Director
11 years on the Board

Mohamed Ali Al Dhaheri
Non-Executive Director

Chairman–Corporate Governance Committee
11 years on the Board

Aysha Al Hallami
Non-Executive Director

4 years on the Board
First female board member of a major financial institution in UAE

Sir Gerry Grimstone
Board Adviser

4 years as Board Adviser

Resilience in the Face of the Low Oil Price Environment and the Changing Landscape

Mohamed Sultan Ghannoum Al Hameli
The low oil price environment has affected the sentiment of the business community. It has not diminished our confidence in the UAE and in ADCB. The diversified economy remains a strength.

We are fortunate as a bank to be operating in the Emirates. The Government has a long-term vision of diversifying away from oil, investing in and supporting industries such as tourism, hospitality, logistics, education and healthcare. They have opened opportunities for the banking sector to participate in this growth.

Mohamed Ali Al Dhaheri
Unfortunately, low oil prices have dampened growth across the region and created a liquidity squeeze in the financial sector. This has resulted in an uptick in a number of costs, particularly the cost of funds.

Mohamed Sultan Ghannoum Al Hameli
Managing risk remains a high priority. The Bank has been very selective about the kinds of loans to take on board. We believe this has made ADCB more resilient than other institutions.

Aysha Al Hallami
As you mentioned, this is a very disciplined bank when it comes to taking on risk. Even with this tough cycle, the Bank has a loan book of very high quality. The Bank's cost of funds is generally low because of the strategic focus on low-cost CASA deposits (Current Accounts and Savings Accounts). These factors keep ADCB safe in times of crisis. We are well-prepared to succeed in this environment. ADCB is a very well established bank with strong management, a strong core business and loyal customers.

Sir Gerry Grimstone
The world is very uncertain at the moment. There is a global revolution manifesting itself in different ways. You have the rise of populism. You have Britain voting to leave the European Union. There is the election of Mr. Trump, and the continuing low price of oil.

"A very striking point about ADCB has been the continuity of its leadership."

The safe way of acting in uncertain times is to be very responsive to changes in your environment. A bank like ADCB, a one-country bank in a country still partly dependent on oil and gas revenues, cannot escape that volatility. The job of the Board and management is to steer ADCB through these difficult times as the safe, responsive and resilient bank it has become.

Mohamed Sultan Ghannoum Al Hameli
The landscape of the UAE banking sector also continues to change. There has been a mega-merger. We see this as an opportunity. Whilst key competitors are focused on consolidation, ADCB has an opportunity to grow. ADCB thrives amongst healthy competition.

Aysha Al Hallami
Fewer banks in the UAE would be good for us. We can increase our market share.

Mohamed Ali Al Dhaheri
If you look at the UAE in general, it is over-banked. Small banks have been operating in the shadows of large banks. Having one large bank is not something that threatens any other bank. Prior to this merger, the largest bank in the UAE was twice the size of ADCB. There was no issue. It depends on the way you manage the business. You can attract customers even if you are operating in this kind of environment.

Sir Gerry Grimstone
ADCB is very nicely placed as a powerful number three in the marketplace, having to be more nimble, substituting brain power for sheer financial power. ADCB is a very agile bank, with tight chains of command and few layers of management between the chief executive and the staff.

Continuity of Strategy and Leadership

Mohamed Sultan Ghannoum Al Hameli
The UAE remains our main market. This strategy was set post financial crisis and has been reaffirmed by the Board numerous times since. We will remain a UAE-centric bank, and work to extract as much value as we can from the local market.

We are very happy with and confident in the management of ADCB, and in the Bank's long-term vision and strategy that was put in place back in 2008 and 2009.

Sir Gerry Grimstone
A very striking point about ADCB has been the continuity of its leadership. We have a team of highly experienced people who are used to working together. They rebuilt the Bank after the financial crisis, and have created a highly performing Bank executing on a clear and well-defined strategy. Management is backed up by a very good Board.

The thing I notice at ADCB is how management and the independent Board Members work together as a team. The synergies that you get from that, the checks and balances, the positive challenge, the idea generation, is part of the success of ADCB.

Customer Service as a Key Differentiator, Powered by Digitalisation

Mohamed Sultan Ghannoum Al Hameli

Our belief in the importance of customer service goes back to the financial crisis of 2008. Our Chairman was charged with leading the Bank through a very difficult period that affected all global financial markets. The Board and management agreed that customer service would be one of the pillars of growth going forward.

The most important consideration has always been the customer. How do we keep customers with the Bank? The answer: present them with a customer experience that they will never forget. That is at the root of the Bank's strategy.

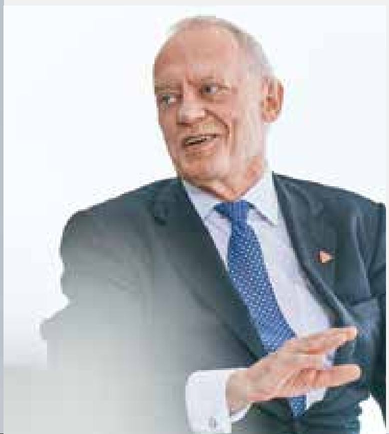
One cannot do this just as a Board or as Management. It takes the staff as a whole. Management was successful in raising the bar, and the staff rose to the challenge.

The Board recently confirmed this strategic pillar going forward, directing the Bank to keep investing in an elevated customer experience.

Sir Gerry Grimstone

The Bank understands that you cannot create good service by a set of instructions. It all comes down to the culture of the Bank, its root instincts. Respect for

"Great service creates loyalty to the Bank, and leads to great word of mouth that attracts more customers to the Bank."



customers starts with the people in the Bank having respect for one another. If you have a stable management team, if you treat people well, that harmony moves out into the outside world.

ADCB treats its customers and clients with respect. That is how you win.

Aysha Al Hallami
To add to your point, here we operate in a very competitive environment. Every bank provides essentially the same products and services. In order to differentiate ADCB amongst its peers, we had to provide something unique: an unmatched customer experience.

From my own experience, when I walk into a branch where no one knows me, anonymously, I see how well they treat me. It feels good knowing that this is not because I am a member of the Board. This is how they treat everyone. It is part of the culture that is embedded in the Bank. It makes me proud to be part of ADCB.

Sir Gerry Grimstone
As you said, the way you differentiate yourself in a very crowded banking market is by the quality of service that you give to your customers. Customers nowadays are very, very sophisticated. Through the Internet, through comparison websites, just through the sheer availability of information, customers are much more powerful than they were before.

One of the ingredients of ADCB's success has been this ruthless attention to customer service. In a relatively small market such as the UAE, a sophisticated and intelligent market, the word of mouth gets around. That has underpinned the Bank's strategy.

Mohamed Sultan Ghannoum Al Hameli
Just to add to that, it is about dealing with people. In the name ADCB, the "C" stands for commercial. Customer service is not just about the retail experience. It is very important to attracting and growing that commercial business

that ADCB stands for—from small to medium size enterprises to mid– and large corporates who are looking for a great experience with the Bank and who want us to be partners in their success.

Mohamed Ali Al Dhaheri
Customer service is very important to any banking institution. Having strong customer service would always be a key factor in the success of any bank.

Aysha Al Hallami
Customers come to ADCB because we have better software, with better online and mobile applications. We make it easy for them.

Mohamed Sultan Ghannoum Al Hameli
ADCB makes banking simple again. The Bank has continuously focused on digitalisation and automation. Customers can interact with the Bank through a phone or a tablet, and execute transactions from the device seamlessly. The gap between customer and bank is shrinking.

Aysha Al Hallami
To emphasise the point: keeping up with the technology is the most challenging and costly endeavour for the Bank. It also introduces risks like cyberattacks, which can threaten the entire banking system. We have to keep spending on enhancing our internal models, on technology and on differentiation.

Sir Gerry Grimstone
If you do not invest to keep up with change, what happens? You get left behind. To maintain the position as the most customer-responsive bank in the UAE, ADCB has to invest.

Going back to Charles Darwin, who are the most successful organisms over time? The ones which adapt to changes in their environment. We have had such dramatic changes in technology and customer empowerment, if ADCB had not adapted to that it would not be in the position that it is in today.

Mohamed Sultan Ghannoum Al Hameli
Last year, ADCB was listed amongst the top ten searched brands in the UAE, and was the only domestic brand. For me, that was something to be proud of. People in the UAE put ADCB in the company of Apple and Google. It really is remarkable.

Mohamed Ali Al Dhaheri
Great service creates loyalty to the Bank, and leads to great word of mouth that attracts more customers to the Bank.

Aysha Al Hallami
Today, even if other banks are offering better deposit rates, we still have people depositing their money with us just because of the service and the experience they are getting with us.

Mohamed Sultan Ghannoum Al Hameli
Customers are willing to pay a premium to get better service, a better mobile application and a better experience. We were the first with Internet banking and offer the best mobile app. Competitors tend to copy what ADCB does—a sure sign that the Bank is recognised as a leader.

Resilience as a Product of Strong Governance and Disciplined Risk Management

Aysha Al Hallami
The Board gives clear direction to management on risk appetite.

We believe the way to maximise shareholder value over the long term is to maintain a very healthy balance sheet. The Bank's balance sheet has to be clean, with no toxic assets.

Mohamed Sultan Ghannoum Al Hameli
The overarching argument here is risk management. We are focused on making ADCB strong and

"ADCB treats its customers and clients with respect. That's how you win."

resilient, to be the last bank standing if need be. That is why our strategy emphasises governance and risk management—having a prudent appetite for risk. The pressure that management receives from the Board is around being a healthy bank.

ADCB has always been transparent, with shareholders and within the Bank. We have built a high degree of trust between the Board and management. There is great alignment, as well as good chemistry.

Mohamed Ali Al Dhaheri
ADCB has been a leader in the region in adopting best practices in corporate governance from across the world, whatever is applicable to this region. Having the proper risk governance incorporated within different segments within the Bank will help the Bank succeed.

Aysha Al Hallami
We have defined roles and responsibilities of each team and unit within the Bank, each function. Everyone knows what to do, what are his or her limits. At the same time, we still have great collaboration and interaction between teams, and a culture focused on disciplined execution.

Sir Gerry Grimstone
I am a great believer in corporate governance. I have spent over 30 years of my life in financial services, working in London, New York and Asia. I have served on many boards, and worked with many boards. What I have learned from that experience, is that banks and financial service companies which have good governance actually are better, safer organisations. They produce better returns for their shareholders. I do not see corporate governance as an add-on.

Governance at ADCB stands comparison with any bank in the world. That is a real achievement, and a credit to the Board and management. It is also a credit to the UAE, that it can have a bank here which is one of the global leaders of corporate governance.

I find it a great privilege to advise the Board of ADCB, and whilst I believe that I help in some ways, I have also learned a great deal from watching how ADCB operates.

Mohamed Sultan Ghannoum Al Hameli
Going forward, we will continue to focus on the Bank's proven strategy. We believe that ADCB will continue to win market share and deliver value to the shareholders.

LEADING THROUGH

Like the majestic falcon, ADCB is keenly focused. With great ambition and discipline, we seek to deliver an elevated banking experience to all our customers and become the most valuable bank in the UAE.

Strategy

02

Sustainability through liability growth

01

Growth through a UAE-centric approach, with controlled internationalisation

03

A culture of service excellence and efficiency

04

Predefined risk strategy

05

Success through staff

ADCB's success is driven by a focused and well-executed strategy. Built to generate sustainable growth in the face of changing market dynamics, our strategy has not changed. The Bank and our stakeholders benefit from this continuity, as demonstrated in our consistently strong performance in this market.

The challenging economic environment may have dampened our results in 2016, but it has also demonstrated the strength and resilience ADCB derives from its five strategic pillars. Because of them, we continue to make progress on our journey toward achieving our ambitious goal of creating the most valuable bank in the UAE.

At ADCB, staying true to our home market remains the cornerstone of our strategy.

01

UAE-CENTRIC

Growth through a UAE-centric approach, with controlled internationalisation

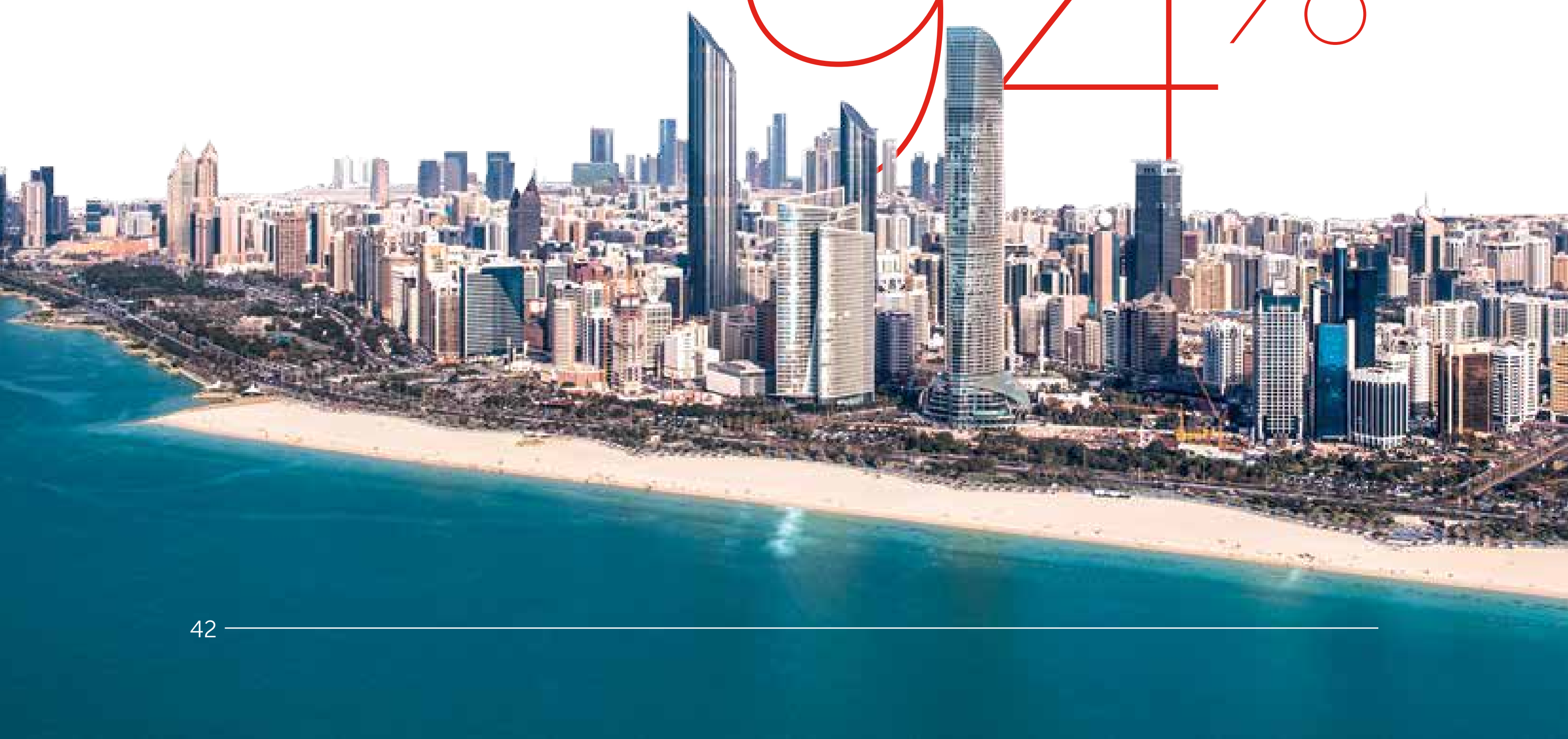
Our sharp focus on serving the UAE differentiates ADCB and is a clear strength in the marketplace. The UAE remains a dynamic, growing market of significant business potential long term, and we are entirely committed to its future. We understand this market, and this is where our expertise resides. Dedicating ourselves to this singular market also ensures clarity and speed of decision-making within the Bank.

We have built a strong domestic franchise and extensive, high-quality brand recognition, with 48 branches across the UAE. ADCB serves a growing customer base of more than 761,500 retail customers and over 57,700 corporate clients.

As at 31 December 2016, 94% of our loan book (gross) and 64% of our investment portfolio were 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, our representative offices in London and Singapore allow us to capitalise on global economic trade and investment flows. We also have a strategic partnership in place with Bank of America Merrill Lynch to provide a global network for our clients.

94% of gross loans are within the UAE

94%



42% Current Account and Savings Account (CASA) Deposits as a Percentage of Total Customer Deposits in 2016

02

SUSTAINABLE GROWTH

Sustainability through liability growth

A key pillar in our strategy is to develop and sustain a resilient liability structure based on granular growth in CASA and time deposits. CASA deposits have a strategic advantage over fixed deposits, as they provide stable, low-yield/low-cost customer deposits that help to hold down our overall cost of funds. Our award-winning and world-class cash management services, which help clients make their businesses more efficient and automated, also deliver CASA balances for ADCB.

Over the years, our CASA balances increased from AED 25 billion in 2010 to AED 65 billion in 2016. Our liability structure remained resilient in the face of rising interest rates with CASA deposits comprising 42% of total customer deposits. While maintaining a strong CASA base, over 2015 and 2016 we also focused on gathering time deposits in order to provide additional liquidity and longer term deposits to the Bank. As at 31 December 2016, time deposits totalled AED 90 billion.

03

CUSTOMER-CENTRIC

A culture of service excellence and efficiency

At ADCB, we invest in and focus on creating a differentiated customer experience for every customer of the Bank. Continuing investment in technology and simplifying our businesses enhances our customer-centric culture, and has led to ADCB becoming the acknowledged leader in this market in Internet and mobile banking.

The launch of uBank, our Digital Centre at Yas Mall, in Abu Dhabi has taken digital banking to a whole new level. We continue to invest in digitising and optimising processes

#1

We retained the #1 position among our peers across Wholesale, Mid Corporate, Treasury, SME, Institutional Client Group, Private accounts and ADCB securities segments*

to provide a better banking experience, whilst delivering best-in-class service through multiple channels.

Customer satisfaction is measured and guided by our use of Net Promoter Score (NPS), a well-recognised measure of customer advocacy that tracks the propensity of customers to recommend a business to their family, friends and associates. NPS functions 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 continue to rise.

04

RISK-AWARE

Predefined risk strategy

Robust risk management protocols are vital to preserving and protecting ADCB's long-term financial strength and growth potential. These protocols are built upon a rigorous control framework, disciplined risk practices and a strong risk management culture that guides each and every employee.

The effectiveness and efficiency of our disciplined risk profile are reflected in three key elements:

1. a conservative balance sheet;
2. a clear risk governance structure and strong risk management culture; and
3. a strong capital and liquidity position.

0.83% cost of risk in 2016

0.83%

*Source: 2016 survey conducted by independent third-party research agencies for ADCB customers

145,194 employee training hours in 2016

145,194

05

This discipline prepared us well for the changing operating environment, which caused ADCB's cost of risk to rise from 0.29% to 0.83% year over year. The cost of risk has risen across the banking sector due to macro factors such as the lingering effects of low oil prices on economic activity and resultant tightened liquidity.

We continue to improve our risk management function, corporate governance and transparency through regular reviews. We also actively monitor and assess macroeconomic conditions and realign policies and practices to ensure our portfolio remains robust. Our risk appetite is approved by our Board and our strict enforcement of discipline uses measures such as risk adjusted return on capital (RAROC). We keep our risk appetite always in alignment with our overall strategy to maintain the quality of our portfolio and our long-term growth prospects.

TALENT-DRIVEN
Success through staff

At ADCB, we recognise that the Bank's long-term profitability and success are in the hands of our staff—and that harnessing our people's ambition and discipline is critical to the successful realisation of our strategic aspirations. We benefit from having a highly talented, motivated and inclusive workforce, who take personally our purpose to build partnerships with customers that last a lifetime.

This is in part because we have chosen our people well, but it is also a function of having empowered them through professional development, function-specific training academies and career advancement opportunities. These aspects of our "human capital" development work together to promote individual growth and institutional excellence. We also focus 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, and our ability to sustain an outstanding employee engagement of 76%. We view retention and continuity of staff and management as distinct strengths of ADCB. Our executive team averages 8.8 years of experience with the Bank.

In 2016, we transformed our banking structure greatly to simplify job titles and descriptions, and to clarify the paths to promotion. The number of job descriptions was reduced from 1,500 to 600.

Leading Through is the Vision for the Future

Since 2009 ADCB has been guided by our clearly defined strategic framework, which continues to provide our bank and its shareholders with a solid financial foundation. Driven by our ambition and discipline, we consistently refine and evolve our strategic pillars to ensure their relevance and effectiveness through the cycles of today's global financial markets. This approach ensures that ADCB can meet and exceed our ambitious goals; while at the same time positioning the bank to deliver consistently strong performance, despite the rapidly changing business environment. Our Board of Directors is actively engaged in ensuring our success. Looking forward from 2016, ADCB is still dedicated to achieving our ambition of being the most valuable bank in the UAE. We will do this by delivering a second-to-none customer experience across our retail operations; selectively growing our wholesale franchise; and maintaining shareholder value in a disciplined manner underpinned by strong corporate governance and a prudent approach to risk management.

Through a range of performance measures, we rigorously measure our progress against our strategy and aim to create the most valuable bank in the UAE.

STRATEGIC AIM	HOW WE MEASURE OUR STRATEGIC KPIs	OUR 2016 PERFORMANCE
Most valuable bank in the UAE	**Total Shareholder Return (TSR)** 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.	214% 5-Year Total Shareholder Return
Most profitable	**Return on Average Equity (ROAE)** Calculated as the profit attributable to equity shareholders as a percentage of average shareholders' equity. To increase ROAE, we focus on growing our business where risk-adjusted returns are maximised and capital is efficiently deployed.	15.70% Return on Average Equity
Most resilient	**Basic Earnings per Share (EPS)** 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 0.77 Basic Earnings per Share
Most efficient	**Cost to Income Ratio** Calculated by dividing operating expenses by operating income. We made important changes to our core processes, strengthened and enhanced our procurement function. We also introduced specialist management techniques to do more with less, and thus became more efficient whilst still investing in our businesses.	32.9% Cost to Income Ratio
Best customer service	**Net Promoter Score (NPS)** NPS is based on customers' likelihood to recommend ADCB to a friend or colleague. 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.	We retained the #1 position among our peers across Wholesale, Mid Corporate, Treasury, SME, Institutional Client Group, Private accounts and ADCB securities segments

LEADING THROUGH

Real estate and hospitality remain vibrant sectors of the UAE economy, with continuing investment in attractive residential and hotel properties.

Management's Discussion & Analysis

LEADING THROUGH

Sustainable Growth

ADCB's 2016 results reflect the strength of our strategies and speak to the discipline and resilience of the Bank. The Bank's underlying performance and fundamentals remain strong and we remain committed to protecting the long term financial strength of the Bank in our pursuit of sustainable growth.

As part of our discipline, a prudent and robust approach to risk management is a foundational strategy of the Bank. We believe this to be a differentiator that sustains us and that favours ADCB going forward, as we manage the Bank for long-term success.

Underscoring our resilience, the Bank's strong results in 2016 were delivered in a challenging environment. In the interest of transparency, the following pages take a closer look at the numbers and, at a granular level, management's views on the factors contributing to the Bank's performance.

2016 Financial highlights	Year-on-year trend			Quarterly trend				
			Change %				Q4'16 Change %	
Income statement highlights (AED million)	2016	2015	YoY	Q4'16	Q3'16	Q4'15	QoQ	YoY
Total net interest and Islamic financing income	**6,201**	6,206	0	**1,573**	1,528	1,476	3	7
Non-interest income	**2,294**	2,055	12	**598**	541	539	10	11
Operating income	**8,495**	8,260	3	**2,171**	2,070	2,016	5	8
Operating expenses	**(2,796)**	(2,827)	(1)	**(729)**	(663)	(715)	10	2
Operating profit before impairment allowances	**5,700**	5,434	5	**1,443**	1,406	1,301	3	11
Impairment allowances	**(1,521)**	(502)	203	**(437)**	(380)	(110)	15	296
Share in profit of associate	**8**	1	NM	**2**	2	1	NM	NM
Profit before taxation	**4,187**	4,933	(15)	**1,008**	1,028	1,191	(2)	(15)
Overseas income tax expense	**(30)**	(6)	NM	**(4)**	(22)	(1)	NM	NM
Net profit for the period	**4,157**	4,927	(16)	**1,004**	1,006	1,191	0	(16)
Net profit attributable to equity shareholders	**4,149**	4,924	(16)	**1,004**	999	1,190	1	(16)
Basic earnings per share (AED)	**0.77**	0.93	-0.16	**0.19**	0.18	0.23	0.01	(0.04)

			Change				Change %	
Balance sheet highlights (AED million)	2016	2015	%	Dec'16	Sep'16	Dec'15	QoQ	YoY
Total assets	**258,289**	228,267	13	**258,289**	254,679	228,267	1	13
Loans and advances to customers, net[1]	**158,458**	146,250	8	**158,458**	161,562	146,250	(2)	8
Deposits from customers	**155,442**	143,526	8	**155,442**	153,353	143,526	1	8

Ratios (%)	2016	2015	bps	Dec'16	Sep'16	Dec'15	bps	bps
CAR (Capital adequacy ratio)	**18.92**	19.76	(84)	**18.92**	17.98	19.76	94	(84)
Tier I ratio	**15.66**	16.29	(63)	**15.66**	14.72	16.29	94	(63)
Loan to deposit ratio	**101.9**	101.9	–	**101.9**	105.4	101.9	(350)	–

Figures may not add up due to rounding differences.

[1] In Q2'16, loans and advances to banks were reclassified to "Deposits and balances due from banks, net" to better reflect the underlying nature of the business of the borrowers. Accordingly, comparative amounts pertaining to previous years were reclassified to conform to current period's presentation

Net profit
(AED billion)

4.157

Return on average equity
(ROAE)

15.7%

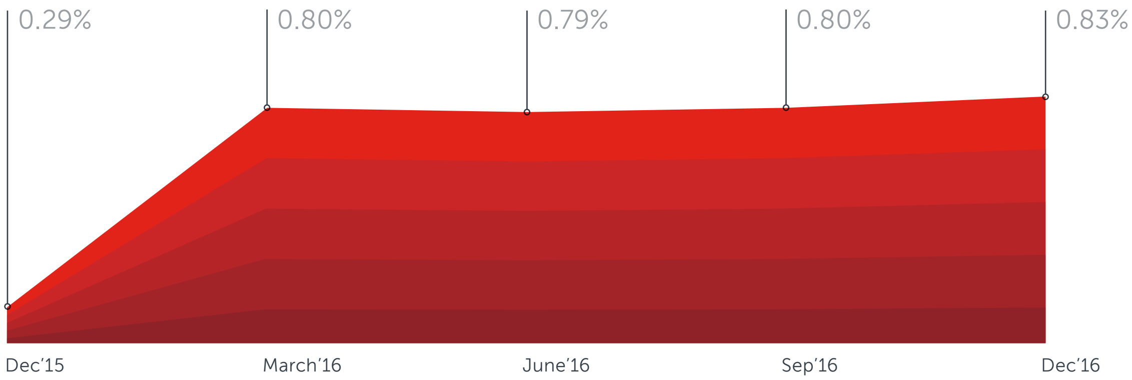
Return on average assets
(ROAA)

1.65%

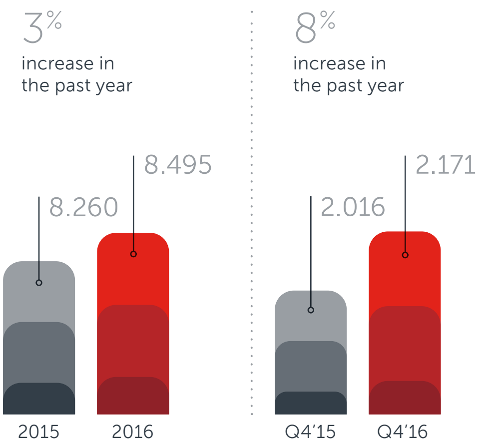
Basic earnings per share
(EPS – AED)

0.77

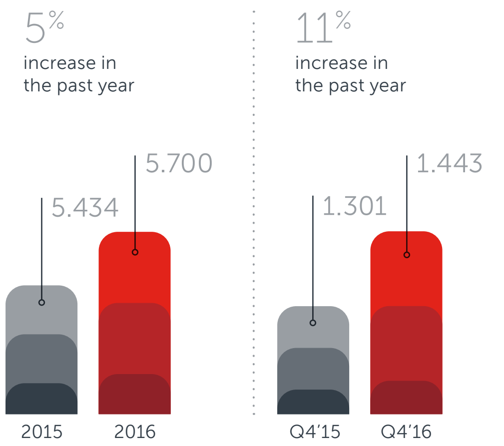
Cost of risk



Operating income
(AED billion)



Operating profit before impairment allowances
(AED billion)



Operating performance: Strong underlying performance and efficiently managed cost base

- Operating income of AED 8.495 billion was up 3%, while operating profit before impairment allowances of AED 5.700 billion, was up 5% over 2015, reflecting the Bank's strong fundamentals and resilient financial performance in 2016. The Bank's solid underlying performance was also reflected in our quarterly numbers, with an operating income of AED 2.171 billion, up 8% and operating profit before impairment allowances of AED 1.443 billion, up 11% over Q4'15. The Bank achieved these results in the absence of significant recoveries and interest in suspense reversals recorded in 2015, which were not repeated in 2016.

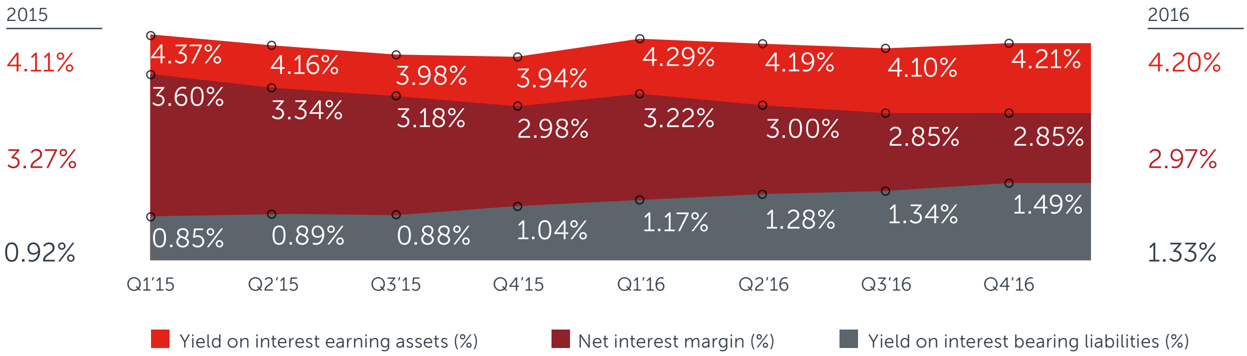
- Net profit of AED 4.157 billion for 2016 and Q4'16 net profit of AED 1.004 billion were 16% lower year on year, impacted by the lingering effects of low oil prices on economic activity and tightened liquidity, which resulted in higher funding costs and cost of risk for the Bank. Cost of risk for 2016 was 0.83% compared to 0.29% in 2015, reflective of our prudent and disciplined approach to risk management.

- Gross interest and Islamic financing income of AED 8.751 billion, was up 12% over 2015, driven by a 10% increase in average interest earning assets over 2015. While asset yields remained strong, higher cost of funds resulted in a flat total net interest and Islamic financing income of AED 6.201 billion, and a lower net interest margin of 2.97% in 2016. The Bank increased its time deposits 13% year on year, providing stability with longer term deposits. The higher premium paid on these deposits and higher Eibor drove cost of funds to 1.33% from 0.92% in 2015.

- Non-interest income of AED 2.294 billion was up 12% over the previous year and accounted for 27% of operating income in 2016 compared to 25% in 2015. The increase in non-interest income was mainly driven by higher trading income and higher fee and commission income. Net trading income of AED 522 million in 2016 was up 48% year on year, mainly due to higher FX and derivative income. Net fee income of AED 1.472 billion was up 2% over 2015, primarily on account of higher retail banking fees.

- The Bank's disciplined approach to cost management resulted in operating expenses of AED 2.796 billion in 2016, 1% lower year on year. The ongoing bankwide cost management initiatives and higher revenues resulted in an improved cost to income ratio of 32.9% compared to 34.2% in 2015. This improvement was achieved whilst we continued to make prudent investments in our businesses, systems and infrastructure, including an upgrade of our core banking system and a set of digital initiatives to enhance our offerings and customer service.

Evolution of yields



Balance sheet highlights: Focused on sustainable growth

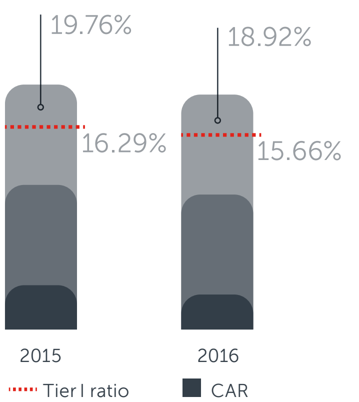
- Total assets reached AED 258 billion as at 31 December 2016, an increase of 13% over 2015. Net loans and advances to customers were AED 158 billion, up 8% year on year, compared to system wide growth of 6%. Consumer Banking loans increased 5%, while Wholesale Banking loans increased 11% year on year. 94% of loans to customers (gross) were within the UAE, in line with the Bank's UAE centric strategy. Loans to banks decreased 52% year on year to AED 3.6 billion.

- Total customer deposits increased to AED 155 billion as at 31 December 2016, up 8% year on year, outpacing the system wide growth of 6%. Year on year, low cost CASA deposits increased 3% to AED 65 billion, and comprised 42% of total customer deposits. In a tight liquidity environment, the Bank was able to maintain its loan to deposit ratio of 101.9%, and improved its liquidity ratio to 29.2% from 25.8% in 2015.

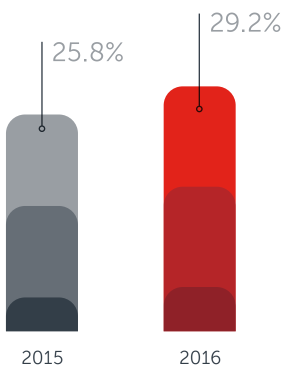
- The Bank adopted the liquidity coverage ratio (LCR) standard issued by Basel and the UAE Central Bank. LCR at the end of 2016 stood at 129% as compared to a minimum ratio of 70% prescribed by UAE Central Bank. ADCB was amongst the first banks approved by the Central Bank to publish the LCR ratio.

- Investment securities totaled AED 33 billion, an increase of 58% year on year, mainly driven by an increase in UAE government bonds, providing further liquidity for the Bank. The Bank was a net lender of AED 22 billion in the interbank markets at year end.

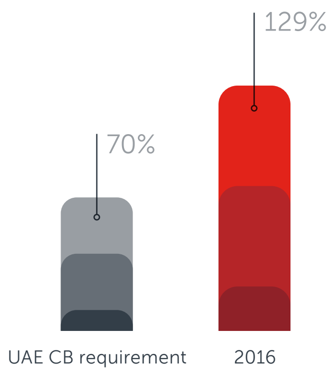
Capital adequacy ratio



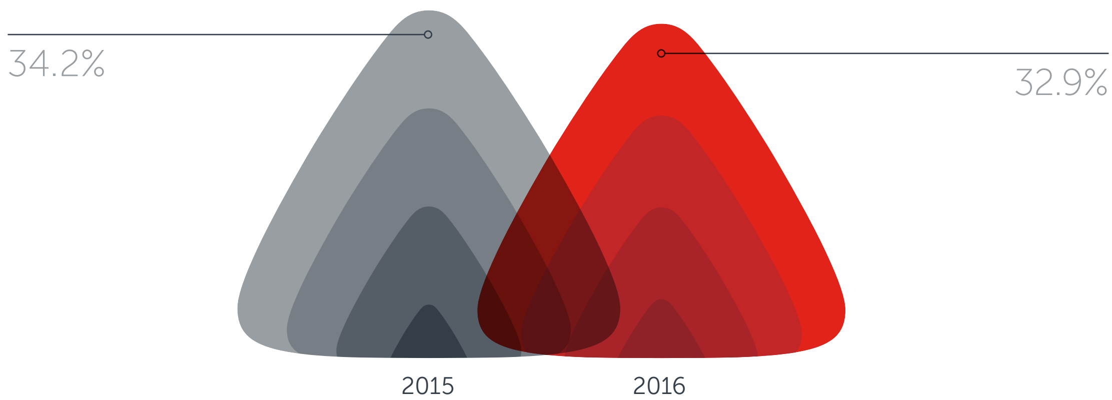
Liquidity ratio



Liquidity coverage ratio



Cost to income ratio



- Capital and liquidity position continue to be at industry leading levels, with a capital adequacy ratio of 18.92% and a Tier I ratio of 15.66% compared to 19.76% and 16.29% respectively as at 31 December 2015. The reduction in capital adequacy ratio was mainly on account of balance sheet growth and a change in asset mix. The capital adequacy ratio minimum requirement stipulated by the UAE Central Bank is 12% and the Tier I minimum requirement is 8%.

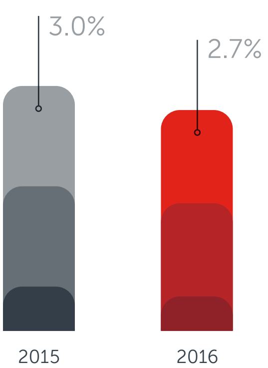
Healthy asset quality metrics

- Non-performing loan (NPL) and provision coverage ratios were 2.7% and 129.9% respectively, compared to NPL ratio of 3.0% and provision coverage ratio of 128.5% as at 31 December 2015. Non-performing loans were AED 4.600 billion compared to AED 4.834 billion as at 31 December 2015, a decrease of 5% year on year.

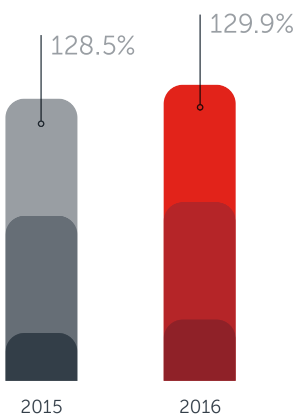
- Charges for impairment allowances on loans and advances, net of recoveries amounted to AED 1.552 billion in 2016 compared to AED 500 million in 2015. Loan impairment charges in 2016 included collective impairment charges of AED 226 million to account for increase in the loan book and reflecting our prudent risk management approach.

- The Bank's collective impairment allowance balance was AED 3.194 billion, 1.89% of credit risk weighted assets and above the minimum 1.5% stipulated by the UAE Central Bank, while individual impairment balances stood at AED 2.851 billion.

NPL ratio



Provision coverage ratio



LEADING THROUGH

ADCB continues to be a leading bank in the UAE. A review of the Bank's performance in 2016 highlights that we have the strategy, people and discipline to achieve our goal of being the most valuable bank in the UAE.

Business Review

Consumer Banking Group*

ADCB is seen as a leader in both conventional and Shari'ah-compliant retail banking, with customer service and both our online and mobile banking widely acknowledged as best in class in this market. The current economic environment has slowed this trajectory, but it has not stopped ADCB from growing this vital business and taking market share whilst investing further in the customer experience of the future.

Despite the challenging and highly competitive environment, operating income for the Group rose 5% to AED 3.953 billion and operating profit before impairment allowances increased 8% to AED 2.171 billion over 2015. Year on year, customer deposits increased 18% to AED 50 billion, while net loans increased 5% to AED 71 billion as at 31 December 2016. An increase in the customer base led to a 32% growth in the retail liability book and 5% growth in the retail asset book over 2015.

We continue to make bold moves to serve consumers, including enhancing our offerings with digital initiatives as part of our relentless focus on making it simple to bank with ADCB. Our customer base is increasingly digitally engaged and looking for more.

ADCB has set a new standard for digital banking in the UAE with the opening of the first uBank, ADCB's digital banking centre, at Yas Mall in Abu Dhabi. It is the first of its kind digital banking centre which enables transition from conventional banking channels to a paperless digital experience, with the help of biometric authentication and digital signature and video assistance from a Virtual Relationship Officer, if required. At uBank, a new customer may open a bank account and receive his debit card, cheque leaves and credit card instantly. In addition, uBank can also service several requirements for existing ADCB customers, such as emergency replacement of credit or debit card in minutes.

Today, more than 90% of our retail financial transactions occur digitally, with mobile banking emerging as the fastest growing channel. Adoption and usage of the Internet and mobile banking platforms continued to grow in 2016, with the percentage of active users reaching 51% for Internet banking and 65% for mobile

*Consumer Banking includes banking services for retail and high net worth individuals

banking. Online (Internet and mobile) bill payment transactions and their total value grew 17% and 18% respectively, whilst both online fund transfer transactions and their total value grew 46% over 2015.

Our first-in-market, multi-lingual voice authentication system, VoicePass, now has over 64,000 registered users, with 30% active users every month and over 1,100 authentications every day.

Numerous enhancements and refinements were made to our mobile app this year. These include the introduction of fingerprint authentication, Balance Preview and Ready Money. Ready Money, a first in the UAE, allows customers to make international transfers using ADCB credit cards. The app also enables faster remittances to 14 countries through Xpress Money partnership. The constant innovation and development of this channel has resulted in financial transactions via mobile app overtaking the desktop for the first time this year.

2016 also saw the continued launch of ADCB Private, introduced at the very end of 2015. This regionally distinctive private banking proposition aims at the top end of the market, with a full suite of services tailored to high-net-worth individuals and families. Clients of ADCB Private benefit from a broad suite of wealth management products and services, including convenient access to global investment and capital market opportunities, bespoke lending solutions and highly attractive lifestyle privileges delivered through ADCB Private Concierge by Quintessentially Lifestyle. By year-end 2016, ADCB Private's assets under management had grown to AED 3.4 billion.

SimplyLife, our suite of banking solutions aimed at the mass market and launched just two years ago, led the growth in our retail asset book, contributing AED 1.1 billion in 2016. Innovation and simplicity were at the core of new SimplyLife initiatives in 2016, including SimplyLife Pulse tailor-made solutions for the medical community and SimplyLife@work customised solutions for select businesses.

During the year, our Asset Management division launched the ADCB Islamic GCC Equity fund, whilst also introducing international equity trading capabilities and a bespoke investment advisory offering to high-net-worth individuals. ADCB Securities launched a state-of-the-art mobile trading app, growing the share of online orders to around 60%. ADCB Securities also established an Institutional Sales Trading Desk, supported by the introduction of a top-tier UAE equity research capability.

Our strong and leading retail franchise in the UAE has been acknowledged and honoured by a series of awards and accolades from eminent industry observers and authorities from around the world. These include the coveted "Best Retail Bank in UAE" and the "Best Brand Initiative of the Year" 2016 by *The Asian Banker*. We remain passionate about service and keeping our service levels up, both in the digital realm and in direct contact, face-to-face and voice-to-voice.

Our comprehensive suite of conventional and Shari'ah-compliant banking products and services are tailored to meet the needs of distinct retail segments that make up the diverse community of the UAE. This 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.

Our retail banking platform offers consumers the convenience of a broad, sophisticated multi-channel distribution network. This includes 48 branches in the UAE, two branches in India, one branch in Jersey, three pay offices, 331 ATMs, a 24/7 Contact Centre, leading online banking and mobile applications, tele-sales and a feet-on-the-street direct sales force. In 2016, we opened two new sales and service centres, at Lamcy Plaza in Dubai and Safeer Mall in Sharjah, in addition to the Burjuman Metro centre opened last year.

ADCB continues to offer distinctive advantages to consumers. Our customer-loyalty programme, one of the most generous rewards program in this market, offers miles on both Etihad Airways (co-branded programme) and Emirates Airlines (through conversion of TouchPoints). TouchPoints offer several other lifestyle benefits, and can be redeemed on the spot at 65 merchants and over 750 outlets in the UAE.

The overarching goal for all these investments and innovations is simple: to keep making it easier and more rewarding to bank with us. As consumer behaviour continues to evolve and expectations continue to rise, we will continue to offer the highest standards of service and a customer experience that is second to none.

ADCB ISLAMIC BANKING – LEADING THROUGH TRADITION

Islamic Banking forms an integral part of ADCB's franchise, providing high-quality, Shari'ah-compliant financial solutions that address a range of diverse banking needs and are consistent with our customers' values and traditions. It is also a prime driver of growth for the Bank, with Islamic financing assets growing 30% and Islamic deposits growing 17% over 2015.

The UAE is now the world's third-largest Islamic Banking market. ADCB offers the largest Islamic Banking window in the UAE, catering to the entire breadth of clientele, from large corporates to individuals, with a comprehensive platform ranging from pioneering retail financial solutions to bespoke wholesale banking needs.

ADCB Islamic Banking is committed to providing superior services for this rapidly growing market. In addition to the consistent focus on driving growth in the business during the past few years, our Islamic Banking team continues to develop innovative products and services to meet changing needs associated with international standards and evolving markets, whilst staying true to the principles of Shari'ah, including transparency and integrity. New solutions launched in 2016 include the University Student Account, Covered Card, Murabaha Deposits and Working Capital Overdraft. The Islamic Banking Academy was launched in 2016, and has provided online and classroom training for 2,000 ADCB staff members with the objective of adding to their current skills. To grow Islamic Banking further, we have been strengthening our sourcing teams by forming a coverage team entirely dedicated to offering Shari'ah-compliant services and products. Beyond the commercial objectives, ADCB Islamic Banking has strong social programmes, including support for many charitable causes whilst embedding a culture of sustainability within the business.

The exemplary performance of ADCB Islamic Banking has resulted in accolades from across the world:

- "Islamic Bank of the Year" Shari'ah Compliant Window by *The Banker*, Financial Times, UK.
- "Best Islamic Retail Bank in UAE" by *The Asset Financial Magazine*, Hong Kong.
- "Islamic Banker of the Year" Amr Al Menhali by *The Asset Financial Magazine*, Hong Kong.

Wholesale Banking Group

Our Wholesale Banking Group plays a vital role in the UAE's diversifying and growing economy, serving the entire spectrum of clients from large corporate and government-related entities, to mid-corporates, and smaller sized enterprises. The low oil price economy and tighter credit and liquidity conditions in the UAE market have had varying impacts on these segments, hitting hardest on the smaller end of the spectrum. Yet each segment continues to grow and so does our business share with them.

Wholesale Banking Group delivered year-on-year growth of 3% in operating income at AED 2.579 billion and 9% growth in operating profit before impairment allowances at AED 1.878 billion. Customer deposits increased 12% to AED 66 billion and net loans and advances to customers increased 11% year on year to AED 87 billion as at 31 December 2016. Loans to banks decreased 52% year on year to AED 3.6 billion due to conscious decisions to reduce this portfolio. Whilst external market conditions were challenging in 2016, the bank stayed on plan and posted strong results for our wholesale business.

In 2016, Aldar Properties signed an escrow accounts agreement with ADCB for its Yas Acres development

Aldar Head Office

We continue to grow our wholesale loan book faster than the market, whilst maintaining our well-known disciplined approach to pricing, lending conditions and counterparty risk. We avoided non-economic loan business during the year. This business remains focused on taking market share where we believe we can be competitive, managing and building on our relationships, and delivering a differentiated level of service.

Despite the current economic environment, we continue to invest in our business and infrastructure, including an upgrade of our core banking system and a set of digital initiatives to improve our offerings and enhance the customer experience. These are costly and lengthy endeavours but important for keeping ADCB at the forefront of the UAE banking sector, and for delivering regular functionality improvements for clients.

We grew our business in serving small to medium size enterprises (SMEs) in 2016, where we remain positive on business opportunity despite present pressure on some firms. SMEs remain a net contributor of liabilities to our balance sheet. Our SME client roster is now over 19,000 strong, and our focus has been to grow our share of wallet with these customers in a controlled manner. We also have increased the number and proportion of new loans that are collateralised. ADCB remains one of the few providers still fully open for business in this critical segment of the UAE economy. We will therefore continue to invest in this segment. In 2016, we increased the number of relationship managers by 25% to help us serve and build out further capabilities for the SME segment.

Mid-corporates also face a challenging time in a rapidly changing risk environment. ADCB benefits from having built a clean loan book in this segment, with high quality lending and stringent discipline in client selection. Our focus on mid-corporates is relatively new, and we have built substantial market share in this segment over the past five years.

Both our SME and mid-corporates businesses remain self-funded and self-contained, earning growth client by client. In 2016, our loans to SMEs increased by 10% whilst loans to mid-size corporate clients increased by 40%. ADCB continues to have appetite for both these segments and continues to invest in serving them better.

We maintain our position as a large and growing force in serving large corporates and government-related entities in the UAE. In large part, this segment has been well-prepared for the current more difficult market, having deleveraged or restructured financing. We are very clear on the type of business we want to do in this segment. We will not do business on non-economic terms, and are known to walk away from underpriced loans. We are still able to provide investment and transaction banking solutions to such clients successfully.

In all our segments, our teams focus on transactional banking, because it broadens our relationship with the client and gives us good client retention. Our transactional banking business had a record year in 2016, in every market segment. We continue to invest in and focus on transactional banking because of the breadth of new client relationships it can provide, and the accompanying strong client retention.

Our leading cash management business once again delivered a record number of new client mandates and a record number of cash management clients across all segments, with payment automation now at 86% of all activity. These clients tend to be loyal; more than 95% of the cash management clients who banked with us in 2011 are still customers today.

Pro-Cash, our award-winning online transaction banking platform, is key in securing business with large corporates and government clients. It also supports smaller clients; more and more SMEs have embraced this technology, leading to a 25% increase in transactions in 2016. Many of these clients have not yet reached a level of growth where they can invest in enterprise resource planning systems of their own. Our portal provides them the automation and visibility into their banking and finances they need. As an additional enhancement, our Pro-Cash platform is now mobile.

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. Our world-class cash management and client services also enable strong current account and savings account (CASA) growth. CASA are low-cost deposits which help to support the Bank's funding needs. In addition, we have re-engineered our commercial credit processes to simplify and minimise time. Three years ago, our average turnaround time to approve SME loans was 128 days. Now it is 39.

ADCB has received numerous prestigious awards for cash management over the years, and been ranked by *Euromoney* magazine as the top cash management provider in our home market in its last two rankings. The publication also awarded the Bank global "Five Star" status for cash management, based on an extensive survey of client feedback worldwide. This puts ADCB in select company—fewer than ten banks around the world earned this accolade in 2016.

Euromoney also recognised ADCB as the "Best Domestic Trade Finance Provider in UAE" for the second consecutive year. This prestigious award is based purely on client feedback and reflects ADCB's position as a preferred bank of choice for our clients' working capital needs. Early in 2016, to strengthen the real estate market and protect buyers and sellers, the Government of Abu Dhabi established a legal requirement for escrow related to real estate development projects. As a leader in providing such escrow services elsewhere in the UAE, ADCB was asked to consult on structuring the regulation and became the first registered escrow bank in Abu Dhabi. The Bank has been cultivating efforts to provide industry-leading escrow services since 2007 when similar laws were first announced in Dubai. Initial clients include the Tourism and Development and Investment Company (TDIC), the master developer of major tourism, cultural and residential destinations in Abu Dhabi. TDIC has signed an escrow accounts agreement with ADCB for its upcoming projects, as has Aldar Properties for its Yas Acres development, a golf and waterfront community of 1,315 villas and townhouses on Yas Island.

ADCB continued to benefit from its strategic banking relationship with Bank of America Merrill Lynch, providing their business clients access to our cash management and transaction banking services while giving our clients access to a truly global network.

Our high-quality services to business clients across the UAE include cash management, transaction management, trade finance, corporate finance and investment banking. In addition, our Wholesale Banking Group is also responsible for ADCB's Indian branches and has representative offices in London and Singapore, as well as a selected offshore offering through ADCB's Jersey branch.

Treasury & Investments Group

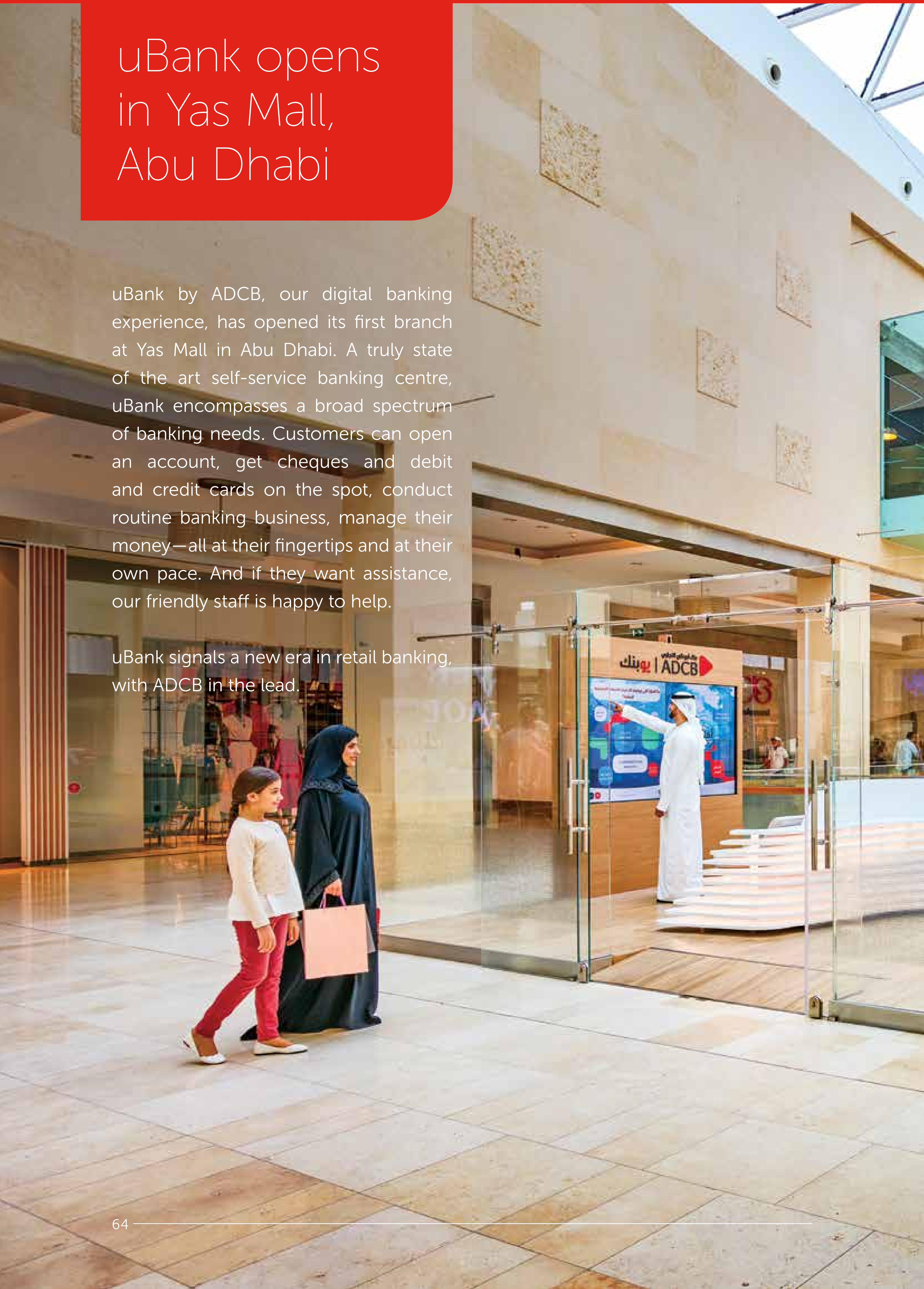
Despite a challenging backdrop with unprecedented financial market and geopolitical turmoil, all business units within our Treasury & Investments Group (Treasury) delivered strong results, with an operating income of AED 1.600 billion and operating profit before impairment allowances of AED 1.403 billion. Of particular note, revenue from trading activities grew by 48% year over year, adding meaningful diversity to the Bank's revenue streams. With Treasury's emphasis on core competencies and investment in cutting edge technology and talent, the growth prospects look promising.

At the core of all our business activities lies a strategy which is predicated on customer collaboration, rigorous risk management, innovative product development and investment in the talent and discipline of our staff. Treasury's success in dealing with the challenging liquidity environment and in improving efficiencies in responding to the fast-changing market and regulatory backdrop, stems from disciplined execution of this strategy. Early adaptation of international best practices around liquidity coverage, capital management and funding diversification has helped provide a stable platform for our other activities. In turn, the group has delivered strong, sustainable revenue and growth through continuous engagement with clients and delivering innovative product offerings.

uBank opens in Yas Mall, Abu Dhabi

uBank by ADCB, our digital banking experience, has opened its first branch at Yas Mall in Abu Dhabi. A truly state of the art self-service banking centre, uBank encompasses a broad spectrum of banking needs. Customers can open an account, get cheques and debit and credit cards on the spot, conduct routine banking business, manage their money—all at their fingertips and at their own pace. And if they want assistance, our friendly staff is happy to help.

uBank signals a new era in retail banking, with ADCB in the lead.




بنك أبوظبي التجاري
ADCB
uBank
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The future says
hello.
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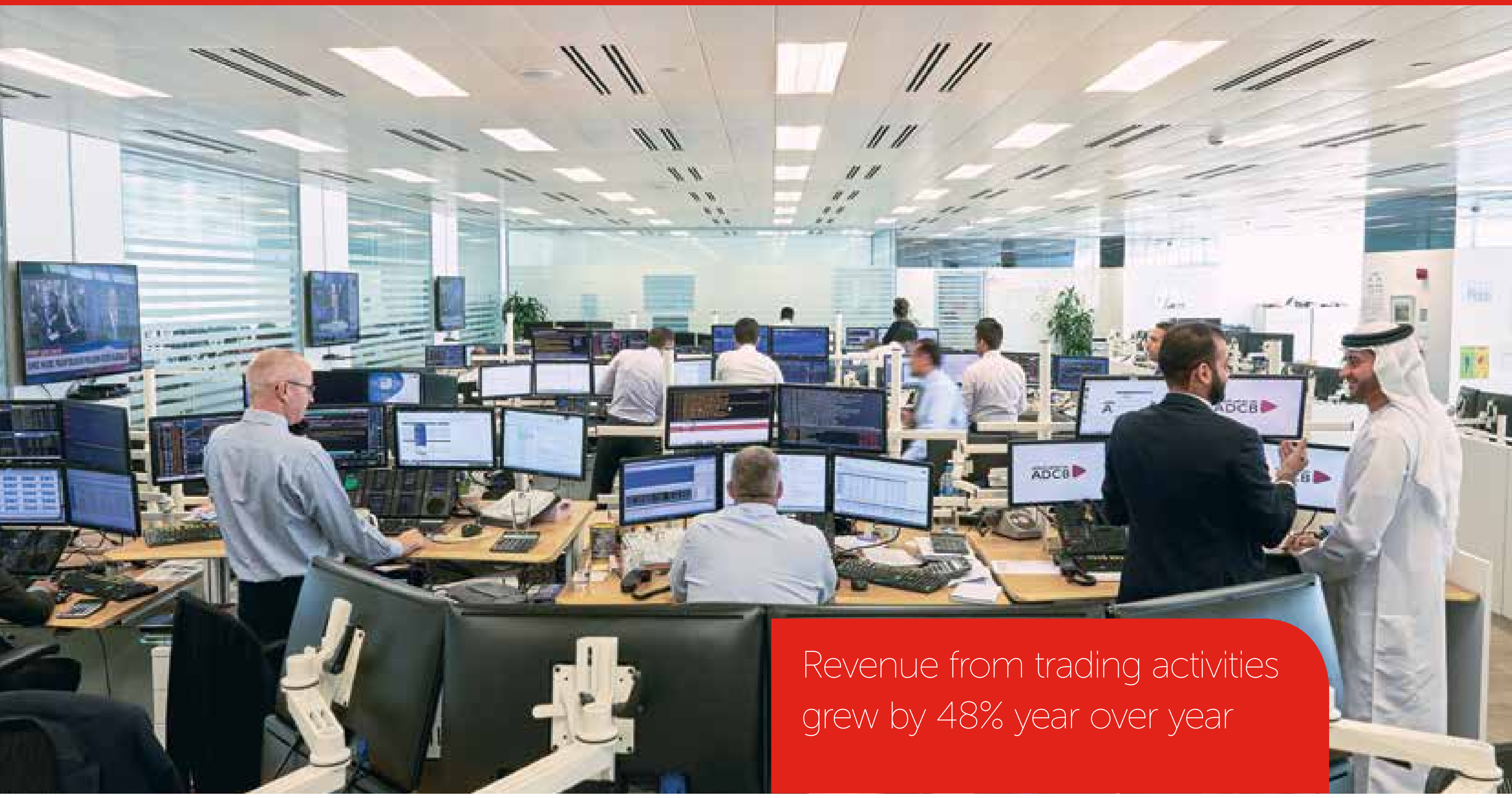


Revenue from trading activities grew by 48% year over year

Treasury achieved solid results in 2016 whilst calibrating the balance sheet against multiple regulatory obligations and dealing with markedly tighter funding conditions. Achieving sign-off on our processes around benchmark submissions and Basel III Liquidity Coverage Ratio has helped underpin our operations.

The Bank has successfully continued the buildup of its high quality liquid assets (HQLA) portfolio despite significant volatility in interest rate and credit markets, and has diversified our sources of funding from new markets, tenors, formats and currencies. This has allowed the Bank to achieve our stated objective of maintaining some of the strongest liquidity and capital ratios amongst our peer group.

As for wholesale funding, 2016 stands as ADCB's most successful year ever, raising over USD 3.3 billion in new funding. Wholesale funding is a critical element of ADCB's strategy for generating more stable and diversified term structure to its liability profile, and also paramount in terms of meeting the upcoming regulatory requirements for liquidity management.

2016 was a challenging year. The UAE's diversified economic base as well as structural reforms helped to soften the impact somewhat. However, liquidity in the region remained tight, with GRE (Government Related Entities) deposits in the UAE declining year on year. Treasury was effective in diversifying our funding base through innovations in funding formats and tapping existing markets more deeply by offering diverse opportunities to our established investor base.

In 2017, whilst the economic environment will likely remain challenging, our client-centric business model will continue to evolve, with the objective of becoming the partner of choice in the financial markets. Growth in our trading platform will be fostered to drive economies of scale and collaborative risk management in selling foreign exchange, derivatives and credit across our chosen markets. As always, we will remain watchful for structural and cyclical factors affecting our business and fine tune our operating models accordingly.

With less than a year before various far-reaching international regulatory changes come into effect, Treasury will continue to adjust our franchise and internal resource allocation to ensure that we deliver value to our shareholders over the long term. The challenges around liquidity, market volatility and regulatory evolution will need to be translated into opportunities through risk diversification, deeper client engagements and thought leadership. Across all our activities, Treasury will focus on putting our clients and other ADCB business groups at the forefront, whilst maintaining a steadfast approach to risk management and investment in talent and infrastructure.

Property Management

Our Property Management business provides vital services to the real estate sector of the UAE through our wholly owned subsidiaries, Abu Dhabi Commercial Properties (ADCP) and Abu Dhabi Commercial Engineering Services (ADCE). In addition, Property Management oversees the investment properties and rental income of the Bank.

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.

ADCP manages more than 2,100 buildings, comprising more than 51,000 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 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.

In 2016, our Property Management business had an operating income of AED 363 million and collected more than AED 3 billion in rent for its clients. It also addressed more than 160,000 service requests and resolved over 20,000 landlord-tenant queries.

Robust and Collaborative Support Structure

ADCB's business groups are enabled by collaborative support functions that bring high levels of professionalism and a passion for service to ensure that the Bank continues to be able to serve our stakeholders well. Group Business Services makes sure the Bank's technological and operational infrastructure remains robust, efficient and adaptive, whilst Human Resources supports the development of the Bank's greatest asset, our people.

POWERING OUR BUSINESSES: GROUP BUSINESS SERVICES

Group Business Services focuses on keeping ADCB running and keeping it safe, and is responsible for the support functions, systems and enabling platforms that foster operational excellence, structural resilience and strength for the Bank. The Group is spearheading the transformative upgrade of the core banking system—the heart and lungs of the bank—and the integration of technologies that enable the Bank's 'Grow Digital' agenda.

Going digital has many implications. It delivers an increasingly rich customer experience, with instantaneous access to information in the way and on the device the customer prefers, whether mobile, online or in conversation with our people. It also means further automation, going paperless to the greatest extent possible and embracing 100% straight-through processing with no human intervention or intermediation. The more effective the automation, the more we can drive out variation and, therefore, risk. We view going digital as an investment in both the customer experience and the strengthening of our risk posture.

The banking sector is nearing an inflection point as to digitisation. Five years ago, forward-looking banks were focused on what they could do to go digital. Now leading banks are preparing themselves for a new era of competition. We believe the winners will be those who lead with a consistently great customer experience, and who support that experience by refining and perfecting a digital sales and service model driven by perceptive analytics. The data-driven, digitally-born customer demands more agility and better mobility. ADCB has responded with the creation of an efficient digital ecosystem built to deliver a differentiated customer experience.

Group Business Services remains focused on the optimisation of the Bank's cost base. We instituted Itmam, ADCB's shared services centre, three years ago. In addition to Itmam, the group's responsibilities include: managing ADCB's ATM network; managing investments in and the implementation of new technology platforms; keeping technology systems operating and agile; helping to protect stakeholders from fraud; vendor management; management of capital expenditure projects; safeguarding physical security; providing facilities and workplace management solutions; payment processing; and, providing comprehensive online and mobile services to ADCB's customers. ADCB's world class customer experience management infrastructure, lean practice and major initiative support are also managed within the group.

Group Business Services continues to innovate, drive change and work diligently to ensure the ongoing success of ADCB.

EMPOWERING OUR PEOPLE: HUMAN RESOURCES

In 2016 ADCB completed the largest Human Resources project in the history of the Bank, streamlining the job grading and titling framework. This facilitated the classification of jobs into competency-based categories and enabled the creation of more effective paths for career progression. Although the project did not affect employees' pay or benefits, it has involved significant change management efforts on the part of Human Resources and the business alike.

As the Bank grew over the past few years and expanded into exciting new areas of business, the number of job descriptions proliferated. The re-banding project has effectively reduced complexity, cutting the number of job descriptions in half. This involved intensive collaboration within the department and with all the businesses of the Bank, leveraging the strong partnerships that Human Resources has developed over time to effectively break through silos and deliver the new value proposition to the people of ADCB.

Job titles have transformed, stripping away layers of social titles and designations typical in banks, to become much clearer, simpler and more reflective of the function involved. This refreshingly straightforward approach has been embraced throughout the Bank.

The key to the success of the project is twofold: first communicating what we were doing across the Bank using all available channels; and second, having top-down support and strong participation from senior leadership.

In a related move, Human Resources is launching a new Career Management framework. Such initiatives empower our people to take charge of their development and progression, whilst ensuring more targeted and structured assessments at career transition points and a stronger link between performance and rewards.

Human Resources plays a proactive role within the Bank, engaging the businesses and leaders at every level. The group also is integral in tracking and promoting employee engagement. In its tenth year, the annual Employee Engagement Survey showed a participation rate of 88% and an outstanding and unprecedented level of employee engagement of 76%—a 6% increase over last year.

Automation of Human Resources processes continues, and now encompasses remedial performance programmes, issuing of letters and certificates and collection of medical documents. As the Central Bank mandates certain training to be conducted regularly, ADCB ensures it remains 100% compliant by using a suite of e-learning modules. An entire floor of our headquarters building is dedicated to a high-tech, state-of-the-art university for developing a high performance workforce, covering a full suite of functional, business and leadership competencies.

ADCB's commitment to Emiratisation is intensifying with new programmes being launched to fast-track Emirati citizens in leadership positions and in critical positions requiring complex expertise.

The success of ADCB's Tamooha initiative—providing a women-only workspace, telecommuting and part-time options for highly educated and skilled

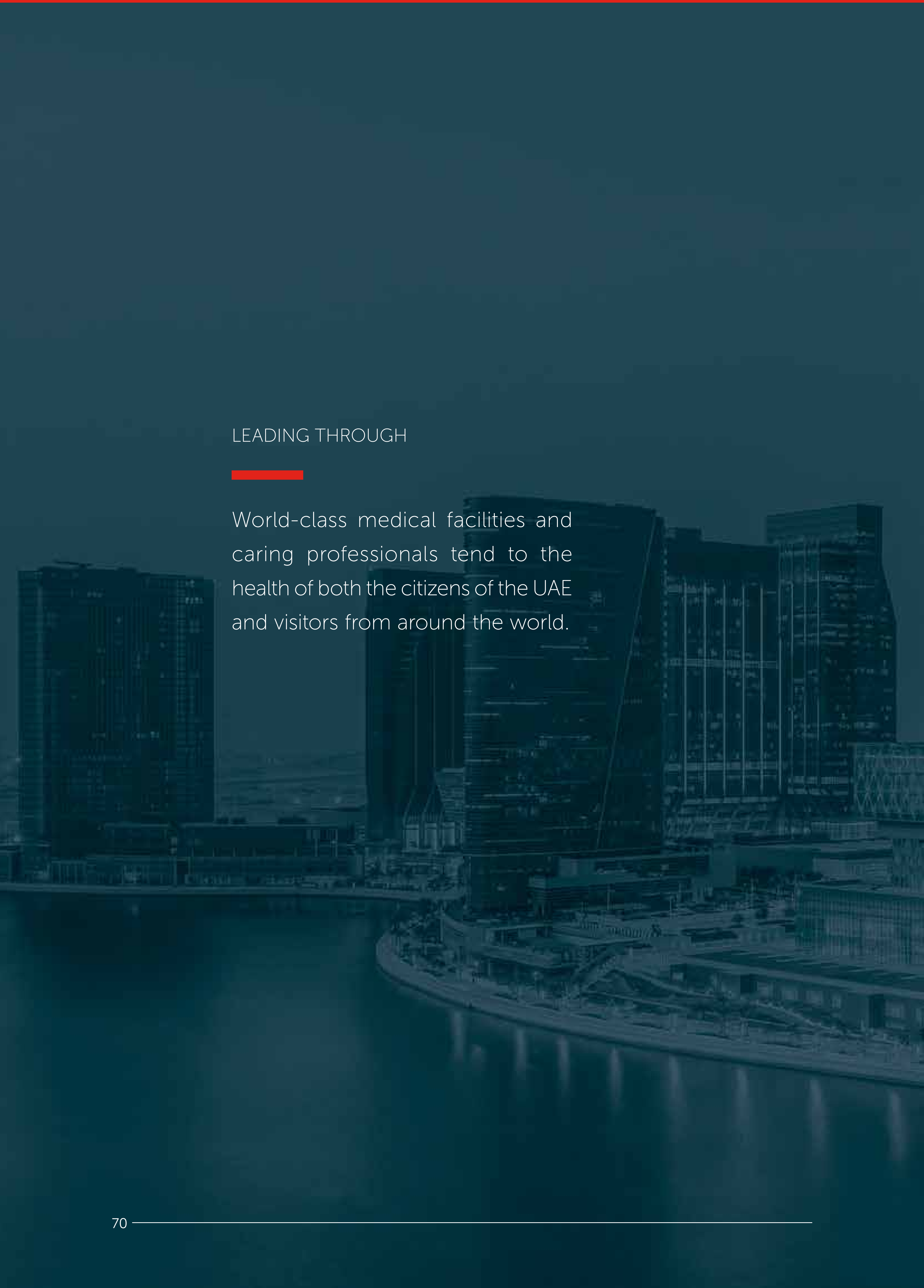
ADCB's commitment to Emiratisation intensifies, with new programmes fast-tracking Emirati citizens in leadership and other critical positions

Emirati women who wish to work in a context more aligned to their traditional values—can be seen in its transition from an initiative housed within Human Resources, to now being an integral part of ADCB's Business Services organisation and one of its highest performing groups.

ADCB continues to cultivate high-calibre, customer-centric staff throughout the Bank—people who are passionate about excellence in customer service, innovation and collaboration. In this way, Human Resources is helping to deliver enduring, sustainable value for all our stakeholders.

The efforts and success of the Bank in this regard have been recognised by external authorities and monitors of the industry. At the 4th Annual GCC GOV Summit & Awards 2016, ADCB received the award for the "GCC GOV Most Distinctive Learning and Development Strategy" for the Relationship Manager Certification programme under the Wealth Academy. The Bank was also one of four finalists for the "GCC GOV Human Resources Team of the Year." The GCC GOV awards are endorsed by the UAE Ministry of Human Resources & Emiratisation, and involve the participation of GCC government entities, semi-government entities, public sector organisations and private sector entities that are supported by government agencies. Additionally, ADCB Human Resources was also a finalist for the "Excellence in Cross-Border HR Programme" at the HR Asia Excellence Awards in Singapore.

At the prestigious Middle East HR Excellence Awards, the Bank received the "Innovation in Learning and Development" award for successful programmes that enhance organisational outcomes by directly linking the learning needs of employees to business needs. The annual Middle East HR Excellence Awards showcase the best Human Resources talent in the Middle East and honour Human Resources professionals in government and the private sector for their outstanding contributions in creating the high-performing workforce for the future.



LEADING THROUGH

World-class medical facilities and caring professionals tend to the health of both the citizens of the UAE and visitors from around the world.


كليفلاند كلينك أبوظبي
Cleveland Clinic Abu Dhabi

Sustainability

Leading through Impact

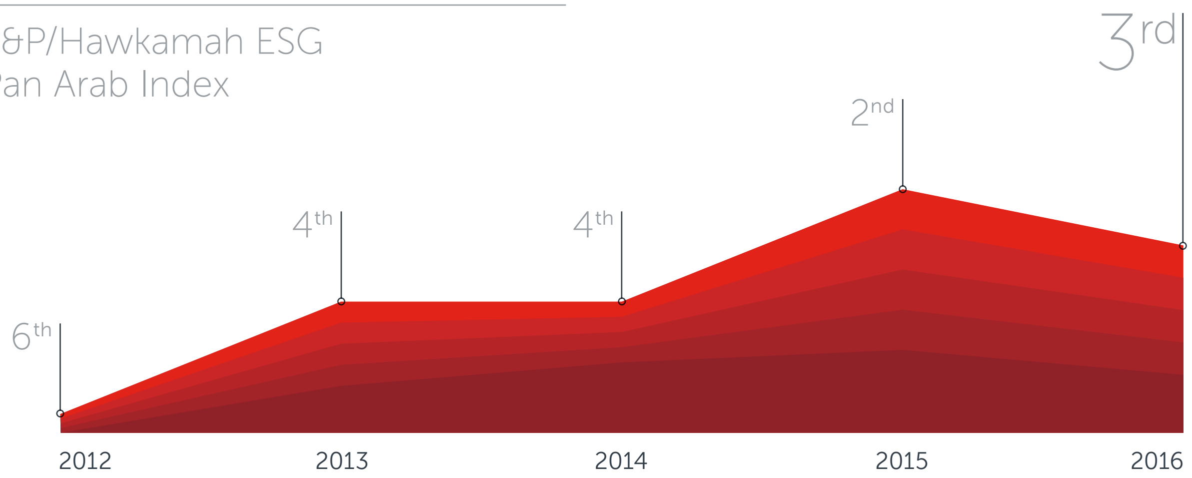
At ADCB, as a business we focus on sustainable growth, looking to foster long-term economic opportunity whilst growing value for our stakeholders in a responsible, ethical and transparent manner. As a corporate citizen, we have looked to foster sustainability both within the Bank and across the UAE. In 2016 our focus shifted to a more ambitious sense of giving back to society, taking our commitment to the next level by focusing on broader and deeper community impact.

Highlights of our 2016 achievements in the areas of social investments and environmental responsibility are summarised in the following pages. Additional information can be found on the Sustainability page at adcb.com.

SUSTAINABILITY RANKING

We are proud that ADCB continues to rank high on the S&P/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 metrics. ADCB was ranked #3 in the Index in 2016.

S&P/Hawkamah ESG
Pan Arab Index



Our Commitment to Giving Back

Investing in our communities

- Promoting our nation's values, culture, heritage and people
- Fostering important social, cultural and environmental causes through strategic partnerships
- Donating to local charities and community organisations

Contributing to UAE economic growth

- Strategic focus on sustainable growth
- Supporting Small to Medium size Enterprises (SMEs)
- Full array of best-in-class banking solutions
- Shari'ah-compliant financial solutions
- Products and services that promote health and wellness
- Tailored trade finance

Responsibly managing our business

- Award-winning corporate governance
- Highest standards of ethical banking
- Empowering our people to grow and succeed
- Constantly striving to deliver service excellence
- Minimising our negative environmental impact

Investing in Our Communities

AED 13.7 million

AED 13.7 million direct and indirect community investments

Investing in the wellbeing of our communities is fundamental to delivering sustainable economic growth. We have continued to contribute to our communities through measures that promote UAE culture and heritage, foster collaboration to address social challenges, and provide financial support for worthy causes.

EMIRATES FOUNDATION PARTNERSHIP AIMS TO ENHANCE SOUND MONEY MANAGEMENT SKILLS IN THE UAE

In a groundbreaking initiative to encourage the widespread adoption of sound personal financial management skills, ADCB has elevated its partnership with the Emirates Foundation, a UAE national foundation established in 2005 under the guidance of His Highness Sheikh Khalifa bin Zayed Al Nahyan, President of the UAE and Ruler of Abu Dhabi and the meticulous direction of his brother His Highness Sheikh Mohammed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces, and chaired by His Highness Sheikh Abdullah bin Zayed Al Nahyan, Minister of Foreign Affairs.

In a groundbreaking initiative to encourage the widespread adoption of sound personal financial management skills, ADCB has elevated its partnership with the Emirates Foundation

ADCB experts and Emirates Foundation specialists cooperated to develop the free, branch-based programme which focuses on providing helpful and sound information on topics of relevance and significance to young adults who have just started their careers, including: household budgeting, responsible borrowing, setting and reaching savings goals, and planning for the future. Aimed at young adults in the UAE, it is the first such programme in the region to combine an international best practices framework with delivery through in-branch personal mentoring sessions with well-trained staff.

The Bank, widely recognised as a pioneer in responsible lending practices, has worked with this revered UAE national foundation for a decade on various initiatives. Together, we are acting on the importance of educating citizens to manage their money better.

This innovative initiative aligns with the Bank's long-term strategy to add value to individual customers and the wider UAE society.

ADCB also promoted responsible money management through participation in the Shabaab Club, a financial literacy programme created by the Emirates Foundation. This train-the-trainer programme allowed ADCB staff to participate in comprehensive training on sound financial money management principles, delivered by a regional financial planning expert, and to give back to the community through outreach activities organised by the Emirates Foundation to train UAE national youth. ADCB constituted approximately 20% of the total participants in the Shabaab Club programme.

BREAST CANCER AWARENESS

ADCB's flagship, award-winning 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

Customer Service Response

94%

complaints resolved within three days

↓36%

36% decrease in customer complaints year on year

understanding of the disease, promoting medical screening, helping to fund research and offering hope. In order to maximise visibility, many of our initiatives are concentrated during the month of October, known as ADCB Pink Month. Initiatives undertaken in 2016 included the following:

- A total of approximately AED 98,000 was raised to support breast cancer research in 2016. 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 customers also donated through our Internet banking platform and Tree of Hope.

- 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 2016, we marked our seventh consecutive year sponsoring this event, which raises awareness about breast cancer 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.

- Seminars were provided free of charge to ADCB staff to enable them to learn about breast cancer. Through the seminars, 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.

Important information about breast cancer awareness is more broadly made available to the community through the Sustainability page at adcb.com.

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. ADCB Bikeshare offers both transportation benefits and support for a healthier and more sustainable lifestyle.

To promote a national Bike to Work initiative in 2016 within the UAE, a contingent of ADCB staff members participated in a bike to work activity along the Corniche, wearing ADCB branded sashes, riding ADCB Bikeshare bicycles.

ADCB continues to promote a healthier lifestyle and transportation alternative with our ADCB Bikeshare programme

There are currently 75 bicycles for hire at 11 locations, including Yas Island and Al Raha Beach in Abu Dhabi, with expansion scheduled to include the NYU campus and other locations on Saadiyat Island and Masdar City in early 2017. As at 31 December 2016, over 3.7 million kcal had been burned since launch and more than 19.95 tons of carbon emissions had been avoided through ADCB Bikeshare.

AKSHAYA PATRA – UNLIMITED FOOD FOR EDUCATION

We also give back to the other communities where we do business. ADCB India has partnered with the Akshaya Patra Foundation to provide daily, hot, nutritious midday meals to school children in Bengaluru, Karnataka on school days. In 2016, we increased our support to Rs 4,790,426 which aims to serve approximately 6,400 school children during the academic year 2016-2017. This program was honoured with the Nikkei Asia and the Padma Shri Awards in 2016 in recognition for contributing to sustainable development in Asia, in distinguished service of the children of India.

Contributing to UAE Economic Growth

ADCB contributes to UAE economic growth by offering best-in class products and services which facilitate sustainable growth and address key social and environmental concerns.

SUPPORTING SMALL TO MEDIUM SIZE ENTERPRISES

ADCB continues to provide products & services to entrepreneurs in the UAE, to help them grow and enhance their businesses. In providing funding for particular projects or trade transactions, the Bank's goal is to ensure that the transaction is successfully carried out. In addition, the Bank offers skilled trade and cash management specialists, as well as the services of its subsidiaries, Abu Dhabi Commercial Properties (ADCP) and Abu Dhabi Commercial Engineering Services (ADCE), all with the ultimate goal of helping customers grow their businesses and expand their market share.

To support our SMEs, ADCB regularly issues a newsletter to its commercial customers containing macroeconomic views on the country and the region, market and specific industry trends, regulatory changes and useful tips on how to improve business operations and efficiency.

In 2016, in collaboration with our strategic partner Emirates Wildlife Society in association with World Wildlife Fund (EWS-WWF), ADCB held a workshop in Dubai for small and medium size enterprise customers of the Bank, to help them understand how to create a sustainable office by managing energy and water consumption to reduce their enviromental footprint and achieve significant financial savings. The workshop was timed to coincide with preparations for Earth Hour, during the month of March. ADCB has supported Earth Hour since its inception.

SHARI'AH-COMPLIANT FINANCIAL SOLUTIONS THAT ADDRESS COMMUNITY NEEDS

The University Student Account is a new variant of ADCB's Islamic Banking savings account product family, introduced in 2016 and specially designed to meet the needs of students in the UAE (18 years of age or older) who are enrolled in a higher education institution, whether on a full or part time basis. The objectives of this product are to:

- Promote a culture of saving among students
- Encourage responsible money management through incentives
- Inspire students to get an earlier start to managing money

ADCB Islamic Banking has partnered with Government housing schemes to facilitate initiatives that provide dignified housing solutions for Emiratis. The Bank provides preferential pricing to eligible beneficiaries of these schemes and gap financing where needed for home construction.

PRODUCTS AND SERVICES THAT PROMOTE 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, 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 integration of good wealth and sound health.

ADCB's Health & Wealth Roadshows are hosted by selected ADCB branches and sales centres throughout the UAE, providing free basic health tests (blood pressure, BMI and blood sugar, and complimentary cholesterol check-up vouchers) to over 1,600 participants in 2016. The Roadshows also include a comprehensive wealth and financial planning session, during which customers are given the opportunity to meet with our

Over
AED 760,000

Over AED 760,000 invested directly and indirectly to support environmental partnerships

"At ADCB, we aim to manage our business whilst actively promoting sustainable development goals and minimising our negative impact on social and environmental issues."

dedicated Relationship Managers and have their current financial circumstances, liquidity position, and short-term as well as long-term plans reviewed. This results in valuable information on how they can live a healthier, wealthier life whilst exploring how ADCB might help them achieve their financial goals.

Responsibly Managing our Business

Responsible business practices are essential for sustainable growth and long-term success. At ADCB, we aim to manage our business whilst actively promoting sustainable development goals and minimising our negative impact on social and environmental issues.

EMPOWERING OUR PEOPLE TO GROW AND SUCCEED BY PROMOTING UAE CULTURE AND HERITAGE

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 our Tamooha initiative, we pioneered a unique career structure with technology-enabled flexibility that gives Emirati women the opportunity to join the workforce whilst meeting their everyday life responsibilities in harmony with their cultural traditions and values. Our Emirati Graduate Development Programme continues to develop the career potential of UAE nationals with extensive training, job rotations, reviews and constructive feedback. Tamooha was recognised in the 2016 Gulf Customer Experience Awards for "Innovative approach to Emiratisation to deliver exceptional customer experience." Tamooha's innovative contribution to the UAE's economic development whilst advancing employment and diversity was also recognized in 2015 by the Abu Dhabi Sustainability Group.

ADCB has also sponsored the Sheikh Zayed Heritage Festival for the past four 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.

REDUCING OUR NEGATIVE ENVIRONMENTAL IMPACT

At ADCB, we actively seek to minimise the impact of our operations

12 million

*12 million sheets of paper saved from e-statements (AED 8.1 million)**

↑7%

7% increase year on year in paper recycling

on the environment, and continue to encourage environmental and social responsibility throughout our supply chain. Conservation steps undertaken in recent years within the Bank include the transition to paperless statements, more efficient use of electricity, and a waste recycling programme for paper, cans, plastic and electronic waste. Our efforts demonstrate our support for the UAE government's vision in regards to sustainability and the environment, and its commitment to the Paris Climate Agreement and UN Sustainable Development Goals. We also partner with like-minded organisations on environmental stewardship initiatives. In 2016, several of our strategic partnerships focused on energy efficiency and raising awareness about the environment.

ADCP PARTNERS WITH GE'S CURRENT TO DRIVE ENERGY EFFICIENCY

ADCP, a wholly owned subsidiary of the Bank, signed an agreement with GE's energy start-up Current, powered by GE, to drive energy efficiency and intelligent enterprises solutions across the projects ADCP manages in the UAE. The agreement marks a milestone in ADCP's focus on promoting sustainable development and introducing the highest standards in energy efficiency to the community management services it provides, to help reduce the carbon footprint of the built environment. The partnership aligns with the UAE Government's vision to promote sustainable development and reduce the carbon footprint of built environments.

"I LED THE WAY"

This initiative was held in May 2016 as part of the Dubai Efficient Lighting Week, formulated by the Dubai Supreme Energy Council to support the government's energy reduction objective. The initiative brought retailers and lighting manufacturers together to promote energy-efficient lighting and encourage people and businesses to switch to energy-efficient lights by offering discounted prices on LED lights.

ONGOING PARTNERSHIP WITH EWS-WWF

We have continued to raise awareness of important environmental issues in collaboration with our partner EWS-WWF and have facilitated raising significant donations for related causes through our ATM and Internet banking platforms. In 2016 we helped raise approximately AED 400,000 for EWS-WWF.

WORLD GREEN ECONOMY SUMMIT (WGES)

The WGES is a world-leading platform, held under the patronage of HH Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, and initiated by the Dubai Electricity & Water Authority. The summit facilitates the shift to a green economy for government, business, finance and civil society through sessions, panel discussions and business relationship networking opportunities. ADCB participated in the 2016 WGES as a sponsor in the Business Partner category and deepened our understanding of renewables, green energy-related projects and future financing opportunities.

*These numbers are estimations only, calculated from the average number of e-statement subscribers per month, annualised

Awards & Recognition

"Best Bank for Liquidity Management in the Middle East"
Global Finance

"Best Property Management Team – UAE" for ADCP
Capital Finance International (CFI)

"The Asian Banker CEO Leadership Achievement Award for the UAE"
Asian Banker

"Best Brand Initiative of the Year" across Asia, Middle East and Africa
Asian Banker

Human Resources team won in the category of 'Best Employee Engagement in Financial services'
Gulf Customer Experience Awards

"Best Islamic Retail Bank in UAE"
The Asset Financial Magazine

Tamooha won in the category of 'Innovative approach to Emiratisation to deliver exceptional customer experience'
Gulf Customer Experience Awards

"Best Cash Manager in the UAE"
Euromoney Cash Management Survey

"Five Star Cash Manager"
Euromoney

"Best Managed Bank in the UAE"
Asian Banker

"Islamic Bank of the Year" — Sharia Compliant Window

The Banker Magazine

"Best Transaction Service Bank in the Middle East"

Euromoney

"Best Retail Bank In the UAE"

Asian Banker

"Retail Innovation of the Year" for its introduction of the VoiceBiometrics initiative "ADCB VoicePass"

Asian Banking and Finance

Operational Excellence framework 'SIMPLean' won in the category 'Best Business Change or Transformation – Delivery of a great customer experience through change'

Gulf Customer Experience Awards

"Best Annual Report in the Middle East and South Asia" & "Best Non-Traditional Annual Report"

ARC Awards International

"Best Bank for Cash management in the UAE"

Global Finance

Customer Experience and Research won in the category of 'Best Insight and feedback – Listening to customers to create an impact'

Gulf Customer Experience Awards

"Islamic Banker of the Year"

The Asset Financial Magazine

the "Best Investor Relations Website in the Middle East"

Middle East Investor Relations Association (MEIRA)

Contact Centre won in the category of 'Best contact centre in the region'

Gulf Customer Experience Awards

"SME Bank of The Year" & "UAE Domestic Technology & Operations Bank of the Year"

Asian Banking and Finance

LEADING THROUGH

A vital transportation sector plays a crucial role in opening new pathways for the world into the UAE and the wider region.


ETIHAD
الاتحاد

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 Corporation (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, 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—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:

Awarded the Asian Banker CEO Leadership Achievement Award for the UAE for the period 2013–16 by Asian Banker; 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 has been Executive Director of the Operations Department of the Abu Dhabi Investment Authority (ADIA) since 31 May 2015. From 2008–2015, he was 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. 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:

Chairman—Oman & Emirates Investment Holding Company—Executive Committee

Vice Chairman—Oman & Emirates Investment Holding Company—Board

Member—The Financial Corporation (FINCORP) Board

Chairman—The Financial Corporation (FINCORP)—Audit Committee

Member—Abu Dhabi Global Market (Board)

Member—Abu Dhabi Global Market (Audit Committee)

Executive Director—Abu Dhabi Investment Authority (Operations Department)

Member—ADIA's Investment and Management Committees

Khalid Deemas Al Suwaidi
Non-Executive Director

Khalid Deemas Al Suwaidi was appointed by the Abu Dhabi Investment Council (ADIC) 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 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

Vice Chairman—Manazel Real Estate Company and Abu Dhabi National Takaful Company

Group 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.

Mr. Al Dhaheri is currently the Executive Director of Accounting & Financial Services Department, Abu Dhabi Investment Council.

Bachelor of Business Administration (International University of America)

ADCB Committee Memberships:
Chairman—Corporate Governance Committee

Member—Audit & Compliance Committee

External Appointments:
Chairman—Invest AD

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—Audit & Compliance Committee

External Appointments:
General Manager—The Private Office of Sheikh Suroor bin Mohammed Al Nahyan

Board Member—Alfalah Exchange Company, Abu Dhabi, UAE; Bank Alfalah 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

Sheikh Sultan bin Suroor Al Dhaheri
Non-Executive Director

Sheikh Sultan bin Suroor Al Dhaheri 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

Faisal Suhail Al Dhaheri
Non-Executive Director

Faisal Suhail Al Dhaheri was nominated by the Abu Dhabi Investment Council (ADIC) to join ADCB's Board of Directors in March 2016. He is a member of the strategy team of Abu Dhabi Investment Authority (ADIA). Mr. Al Dhaheri manages ADIA's alternative investments mandates, strategic asset allocation, and tactical hedges against strategic portfolios.

Prior to holding this position, Mr. Al Dhaheri served as a Senior Adviser within ADIA's Managing Director's Office spearheading a broad range of investment and organisational reforms.

Chartered Alternative Investment Analyst (CAIA Association)

Chartered Financial Analyst (CFA Institute)

Master of Arts in Mathematics (Boston University, Massachusetts, USA)

Bachelor of Arts in Mathematics (Boston University, Massachusetts, USA)

ADCB Committee Memberships:
Member—Risk & Credit Committee

External Appointments:
Member—The Zayed Bin Sultan Al Nahayan Charitable & Humanitarian Foundation Investment Committee

Aysha Al Hallami
Non-Executive Director

Aysha Al Hallami is currently a Research Specialist in the Strategy Unit of H.H. the Managing Director's Office at Abu Dhabi Investment Authority (ADIA). She is part of the Private Equity Strategy team that is responsible for ADIA's Private Equity allocation. 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

Private Equity and Venture Capital, Harvard Business School

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, UAE)

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.

Master of Civil Engineering (Northeastern University, USA)

Bachelor 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 Gerry 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

Executive Management Profiles

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.

Deepak Khullar
Group Chief Financial Officer

Deepak was appointed Group Chief Financial Officer in 2008 and is responsible for Group finance and strategy, 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).

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.

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.

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.

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. In 2016, Arup was named the Retail Banker of the Year In the Middle East by *The Asian Banker*, Singapore.

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 and a Master of Science in Risk Management from the Stern School of Business, New York University.

Ali Darwish
Group Head of Human Resources

Ali Darwish is a versatile leader with over 20 years of banking experience. A combination of interests in operational excellence, talent engagement and business strategy has accelerated his career through diverse positions in top financial institutions within the UAE. Ali's particular focus on human capital strategy enables him 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 is managing a multidisciplinary award winning HR team who keep service excellence at the heart of the HR value proposition.

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.

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 19 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.

Corporate Governance Report

ADCB adheres to the highest standards of corporate governance. In many respects, we are pioneers in our region, having 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, regulation, best practices and the external environment.

The following table shows the amounts paid to the Directors for their service on the Board and its Committees in 2016.

				Board[5]			Nomination, Compensation & HR Committee		
				Meetings: 8			Meetings: 6		
Members	Status	Year of appointment	Expiration of current term of office	Chairman/ Member	Sessions attended	Amount (AED)	Chairman/ Member	Sessions attended	Amount (AED)
Eissa Mohamed Al Suwaidi[2]	Non-Executive Director[1]	2008	2017	C	8	1,150,000	M	6	24,000
Mohamed Sultan Ghannoum Al Hameli[2]	Non-Executive Director[1]	2004	2019	VC	7	875,000	C	6	30,000
Ala'a Eraiqat	Executive Director	2009	N/A	M	8	0			
Khaled H Al Khoori[2]	Non-Executive Director	2012	2018	M	7	700,000			
Mohamed Darwish Al Khoori[2]	Non-Executive Director	2004	2018	M	8	700,000	M	6	24,000
Abdulla Khalil Al Mutawa[2]	Non-Executive Director	1997	2018	M	5	700,000	M	5	20,000
Mohamed Ali Al Dhaheri[2]	Non-Executive Director[1]	2007	2019	M	7	700,000			
Sheikh Sultan bin Suroor Al Dhaheri[2]	Non-Executive Director	2009	2018	M	7	700,000			
Khalid Deemas Al Suwaidi[2]	Non-Executive Director[1]	2009	2017	M	6	700,000			
Aysha Al Hallami[2]	Non-Executive Director[1]	2013	2019	M	7	700,000			
Faisal Suhail Al Dhaheri[2]	Non-Executive Director[1]	2016	2017	M[4]	6	0			
Omar Liaqat	Non-Executive Director[1]	2013	2016	M[3]	3	700,000			
Total						7,625,000			98,000

1 Elected by Abu Dhabi Investment Council;
2 Independent (assessed as per Bank policies);
3 Ceased to be a Member of the Board/Committee effective 6 March 2016;
4 Appointed as a Member of the Board/Board Committee effective 6 March 2016;

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

The Board

Membership, Committees and Meetings

The Board, which consists of 11 members, met eight times in 2016. 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 September to debate and refine 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 54 meetings in 2016. Memberships and chairmanships of the Board Committees are reviewed on a regular basis to ensure suitability and are rotated as needed.

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 applicable 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 2016, 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.

Board Risk & Credit Committee			Audit & Compliance Committee			Corporate Governance Committee			Board Committee meeting fees (AED, paid in 2016)	Total (AED)
Meetings: 35			Meetings: 9			Meetings: 4				
Chairman/ Member	Sessions attended	Amount (AED)	Chairman/ Member	Sessions attended	Amount (AED)	Chairman/ Member	Sessions attended	Amount (AED)		
C	33	165,000							189,000	1,339,000
M	23	92,000							122,000	997,000
M	33	132,000				M	3	12,000	144,000	844,000
*[6]	3	12,000	C	9	67,500				103,500	803,500
M[3] *[6]	4	16,000	M[4]	5	30,000				66,000	766,000
*[6]	2	8,000	M	8	48,000	C	4	20,000	76,000	776,000
						M	2	8,000	8,000	708,000
			M	8	48,000	M	4	16,000	64,000	764,000
M	27	108,000	M	8	48,000				156,000	856,000
M[4]	26	104,000							104,000	104,000
			M[3]	3	18,000	M[3]	1	4,000	22,000	722,000
		637,000			259,500			60,000	1,054,500	8,679,500

5 Board Member remuneration paid during 2016 (for the year 2015)
6 Non-BRCC members (who attended SBRCC meetings)

Board and Board Committee Agenda Items

	1st Quarter	2nd Quarter
Governance	• 2016 Annual General Assembly agenda • Management Committees' terms of reference • Reports from committee Chairmen, committee minutes and other reports • Capital Expenditure limits • Amendments to the Bank's Articles of Association • Outcome of the 2015/2016 Board Evaluation • Board's expenses summary for the year 2015 • Review of Independent directors • Benchmarking of Board fees	• Reports from committee Chairmen, committee minutes and other reports • NCHR and BACC related policy and terms of reference amendments • Delegation of authority over the Bank's Procurement policy • Basel Committee guidance on Corporate Governance principles for banks • Review of Corporate Governance policies • Conflict of interest update
Financial Performance, planning and controls	• 2015 financial results, including business performance by group • External Auditor presentation • Group CEO's evaluation for 2015 and KPIs for 2016	• Q1 financial results, including business performance by group • Capital Plan 2016-2018 • Liquidity Update • External auditor presentation
Group Chief Executive/ Business update	• Group CEO's update • Group Business Services (including technology, operations, customer experience, and business & control) update • Results of customer satisfaction survey (including NPS)	• Group CEO's update • Update on the mWallet Project • Wholesale Banking Group update • ADCP/ADCE update • HR Group update (including recruitment, training and development, and employee services)
HR Related/ Remuneration	• Employee engagement Survey • Recruitments • Medical Insurance • Appraisals and Variable pay	• Group Medical Insurance • Variable Pay effectiveness
Internal Controls	• Internal audit update (including financial budget, staff strength, training plan) • Re-appointment of statutory auditors • Audit plan for 2016 • Risk Assessment update • EIBOR Audit	• Report from BACC Chairman and Head of Compliance on outcome of Compliance review • Internal audit update • Whistle blower update • Audit Client survey • Internal quality assurance assessment review 2015 • ADAA recommendations on review of internal audit functions • Big 4 consultancy fees for the year 2015 • Evaluation of statutory auditor for 2015/re appointment for 2016 • Non audit fees for year 2015
Risk	• Risk update, including risk Appetite • Portfolio Risk Update • Operational Risk Appetite • Retail Portfolio Scorecard • Market Risk Valuation system • Risk Adjusted Return on Capital • Risk Appetite Breaches • Compliance Update	• Credit Policy • Reputational Risk Appetite • Portfolio Risk update • Compliance program review • Anti-Money Laundering • Sanctions programme and sanctions policies • Results of risk culture survey • ICAAP policy • Stress test methodology and remits • Compliance Update • Personal trading policy
Strategic Items	• Performance versus strategy • ADGM license • Competitor analysis – financial and strategic	• Three year capital plan and forecast • 2016 Strategy day

3rd Quarter	4th Quarter
• Reports from committee Chairmen, committee minutes and other reports • Updates to governance policies and terms of reference • Conflict of interest update • Code of Corporate Governance • Board terms of reference • Risk & Credit Committee terms of reference • Corporate Governance Committee terms of reference • Review of Corporate Governance policies	• Reports from committee Chairmen, committee minutes and other reports; • Conflict of interest update • Annual Report 2016 • Management Executive Committee – amendments to terms of reference • Review of Corporate Governance policies • 2017 Board agenda
• Q2 financial results, including business performance by group • Forecast for 2016	• Q3 financial results, including business performance by group
• Group CEO's update • Consumer Banking update • Market update	• Group CEO's update • 2017 funding plan • Treasury update
• Performance Recognition reward • Compensation plans • Emerging UAEN talent • Succession planning • Effectiveness of Variable pay plans	• Annual HR update • Variable pay planning • Remuneration strategy • Contribution of the Board Adviser
• Internal audit update • Central Bank examination report • Annual review of external auditors selection policy • Basel Committee guidelines: Internal control-third party review • External auditor selection policy review • Whistle blowing policy • Status of ADAA recommendations	• Internal audit update
• Risk update (including risk appetite statement) • Portfolio risk update • Risk appetite framework • Country prudential thresholds • Credit documentation policy • Stress test results • Compliance update • IT risk and security update • Compliance consultant review	• Compliance consultant review • Asset management compliance policy • ADCB India – appointment of statutory auditors • Compliance update
• Competitor analysis – financial and strategic • Performance versus strategy update	• 2017 budget

The Board's Agenda in 2016

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. Details of the agenda items discussed by the Board and its Committees during 2016 are set out on pages 96 and 97.

Other Practices and Policies

Directors' Independence and Management Reporting

During 2016, 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 2016, Sir Gerry attended 5 Board meetings, 3 Board Committee meetings (NCHR) and the Board strategy sessions. His background and experience enriches the Board's deliberations, particularly in the areas of strategy, Board reporting and effectiveness, performance assessments for senior management and assessment of risk appetite and rewards.

Board Oversight of Risk Management

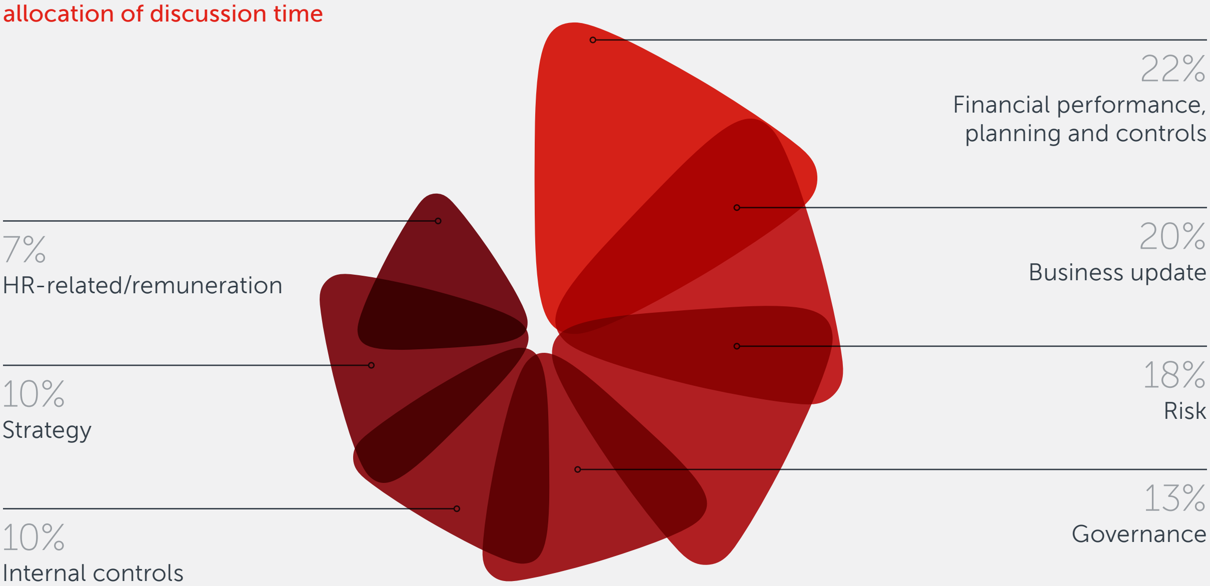
Risk management is a key part of ADCB's corporate governance framework.

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 risk strategy as appropriate for particular sectors, geographic regions and customer types. The BRCC also reviews the suitability and effectiveness of the Bank's risk 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 on page 110.

The Board and management also foster a culture of compliance. 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.

2016 Board of Directors' Meetings—allocation of discussion time



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 process and goals for the Bank's Board Performance Evaluation policy can be found on our website. When the most recent evaluation was completed in early 2016, the Board Corporate Governance Committee considered and discussed its outcomes. The overall review concluded that the Board and its Committees are operating effectively. However, the review resulted in some recommended actions which were implemented during 2016. In particular, the Board ensured that Board members received professional development in key areas including operational and credit risk.

Late in 2016, the Board appointed Sir Gerry Grimstone to conduct an independent evaluation of the Board's performance. The results will be reported to the Board Corporate Governance Committee and the Board early in 2017.

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 2016, the Abu Dhabi Investment Council held 58.08%* of the Bank's issued share capital and, consequently had the right to elect six Directors.

Diversity

In 2013, Aysha Al Hallami became the first woman to be appointed to 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 Board's Nomination, Compensation & HR Committee is aware of the need to structure the Board to ensure that it obtains an appropriate balance of skills, experience and knowledge as well as independence.

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

*Currently Abu Dhabi Investment Council holds 62.52% of the Bank's issued share capital, following the cancellation of the treasury shares, effective of 8 January 2017

Other Practices and Policies

Management Committees

Management has established the following committees:

Committee name	Number of meetings held in 2016	Responsibilities of the committee
Management Executive (MEC)	45	Most senior management committee; oversees all Bank businesses and operations
Senior Management (SMC)	4	Responsible for administration, change management, strategy, and project updates and dissemination of other information; pre-screens certain matters before MEC review
Assets & Liabilities (ALCO)	9	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)	53 (49 Credit related MRCCs and 4 Policy 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)	7	Reviews and approves project capital expenditures within delegated limits, and makes recommendations to the MEC and the Board on project capital expenditures above those limits
Liabilities & Initiatives (LICO)	6	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)	2	Acts as a forum for prior screening, discussion and recommendation of all human resources–related matters that are ultimately determined by the MEC
Financial Performance Management (FPMC)	7	Monitors financial performance of the Bank's business lines
International Operations & Alliances (IO&AC)	13	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, insurances and compliance.

Internal Controls

In 2016, 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 have been 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) and reappointed at the 2016 AGM. Local laws and bank policy restrict the external auditors' tenure to no more than three consecutive years and also restrict the tenure of any individual audit partner to no more than three consecutive years. Deloitte & Touche is paid on a fixed annual fee basis, as approved by the shareholders at the AGM. In 2016, the audit fees for the Bank and its subsidiaries excluding India operations amounted to AED 1,003,600, and fees for non-audit work amounted to AED 466,337. Non-audit work comprised: a comfort letter related to the Bank's Global Medium Term Note Programme, Prudential Returns for the Bank's Jersey Branch, and consultancy on tax matters.

01

Audit & Compliance Committee

Composition as at 31 December 2016:

Mohamed Darwish Al Khoori (Chairman), Aysha Al Hallami, Khalid Deemas Al Suwaidi, Mohamed Ali Al Dhaheri, and Abdulla Khalil Al Mutawa

Secretary: Rami Raslan

Statement from the Chairman of the Audit & Compliance Committee

Dear Shareholders,

During 2016, the Audit & Compliance Committee held nine meetings, during which the Committee:

- assessed the objectivity and effectiveness of the financial reporting and disclosure process. This included monitoring of the Bank's choice of accounting policies, principles and judgements. In particular, the Committee considered and approved the reclassification of the Bank's exposures to financial institutions;
- assessed the effectiveness of the external audit process and recommended the external auditors' re-appointment;
- oversaw the activities of the Bank's Compliance function. The Committee engaged external consultants to review and comment on the quality of the Bank's Compliance function (see further detail below);
- considered the performance, effectiveness and activities of the Bank's Internal Audit function, including the Internal Audit function's annual plan, budgeting, staffing and training activities and delivery against the plan;
- coordinated its activities with those of the Board Risk & Credit Committee and other Board Committees;
- reviewed and ensured the existence of an effective system of internal controls;
- reviewed, and discussed with management and the external auditors, the annual audited financial statements, and considered the soundness of the Bank's specific and general provisions. The Committee encouraged management's development of new models for assessment of appropriate levels of provisions;
- reviewed 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;
- evaluated the external auditors' qualifications, performance, independence and objectivity, including overseeing all of the external auditors' non-audit activities to ensure that their independence is not compromised. The Committee also reviewed the scope of work proposed by the external auditors for the year and ensured that the fees paid to the external auditors are appropriate for the type of work provided;
- reviewed the Committee's terms of reference and other policies sponsored by the Committee, such as the Bank's auditor rotation policy, the external auditor selection policy, the whistleblowing policy, the personal trading policy, the sanctions policy, the anti-money laundering policy and the procurement policy;
- ensured the adequate flow of information between the Committee, internal auditors, external auditors, the Bank's management and the Board;
- discussed risk management policies and practices with management; and,
- reported regularly to the Bank's Board of Directors.

During 2016, the Committee engaged a leading compliance consultant to review the Bank's compliance practices and functions. The outcome of the review was positive and showed that the Bank's Compliance function operates in line with best practices. The Committee will work with the Bank's Compliance Group during 2017 to implement the recommendations made during that review.

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 ensure suitable coordination of activities and discuss risk-related issues.

The Audit & Compliance Committee received confirmation from the Bank's Internal Audit Group 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 2016 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 2016 towards meeting its responsibilities.

Looking at 2017

The Committee's 2017 schedule envisages continued focus on the activities of Internal Audit, External Audit and Compliance and ensuring the adequacy of the Bank's internal controls and compliance activities. Amongst other things, the Committee will oversee (a) the adoption of IFRS 9, and assess its implications for the Bank's financials, and (b) the implementation of the compliance consultant's recommendations. 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

Reports of the Board Committee Chairmen

02

Corporate Governance Committee

Composition as at 31 December 2016:
Mohamed Ali Al Dhaheri (Chairman), Sheikh Sultan bin Suroor Al Dhaheri, Khalid Deemas Al Suwaidi, Khaled H Al Khoori
Secretary: Rami Raslan

Statement from the Chairman of the Corporate Governance Committee

Dear Shareholders,

During 2016, 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"**), the new UAE Commercial Companies law (the **"Companies Law"**) and regulations issued by Securities & Commodities Authorities (SCA) relating to Corporate Governance (the **"SCA Guidelines"**). We are pleased to report that the Bank's governance framework is substantially in line with the Basel Guidelines, the Companies Law and the SCA Guidelines. The Committee initiated actions to address areas in which our governance practices are not consistent with the Basel Guidelines, the Companies Law and the SCA Guidelines and will continue to address and monitor these developments during 2017. The Committee believes the Bank continues to operate a robust governance framework, appropriate for its size and status, but that there remains room for improvement as best practices continue to evolve.

The Committee also continued to assess the Bank's development in certain key governance areas. The Committee facilitates the Board Evaluation, including individual non-executive director self-assessments (undertaken annually by the Bank's Chairman), and considers feedback from the Bank's senior management on the performance of the Board. As a result of that assessment, the Committee ensured the implementation of certain actions and policy adjustments.

The Committee held four meetings over the course of 2016. Among other things, in 2016 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 and recommending amendments to the Bank's articles of association as a result of requirements of the Companies Law;
- assessing the outcome of the 2015 Board Evaluation and the adoption and monitoring of the action plan arising from it;
- preparing for the Board's Evaluation for 2016;
- reviewing and recommending amendments to the 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, vendor governance, risk governance framework and the Bank's internal control system;
- reviewing the Bank's sustainability activities and re-assessing the Bank's sustainability strategy;
- assessing the Directors' professional development requirements for 2016;
- reviewing sponsorships of corporate governance events;
- publishing corporate governance information, including information included in the Bank's annual report and on the Bank's website;
- monitoring for Directors' 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 2016 in the implementation of the Bank's corporate governance initiatives. 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 the Bank's corporate governance framework and to maintaining a strong governance culture.

Looking at 2017

The Committee's agenda for 2017 reflects our ongoing commitment to raising governance standards across the Bank. The Committee will continue to focus on key governance areas and will manage the Bank's Board Evaluation for 2016, review the results, and initiate any remedial actions. The Committee will also focus on governance culture and ethics. The Committee also intends to engage the services of an independent consultant to conduct a comprehensive review of the Bank's corporate governance framework. The aim of this exercise will be to benchmark the Bank's governance framework against international best practices to ensure that the Bank's governance practices can move 'to the next level' and to determine how far the Bank's governance culture has been embedded at all levels. The Committee expects that the UAE Central Bank will introduce new corporate governance regulations during 2017, based on the Basel Guidelines. The Committee will ensure that the Bank is ready to comply with those regulations once they are implemented.

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

03

Nomination, Compensation & HR Committee

Composition as at 31 December 2016:
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 2016, the Nomination, Compensation & HR Committee continued to focus on the Bank's Human Resources strategy and policies, remuneration strategy and effectiveness, Board nominations, Emiratisation and succession planning. The Committee met six times during 2016. In particular, the Committee:

- received regular updates from the Bank's Human Resources team;
- considered the Bank's Human Resources strategy;
- reviewed the Board's composition, including the nomination and appointment processes for Directors, the Board's election process and Directors' independence;
- oversaw the induction process for the Board's new Director (Faisal Suhail Al Dhaheri);
- assessed Directors' remuneration and fees;
- considered the performance evaluation and remuneration of the Bank's Group Chief Executive Officer;
- reviewed and supervised the operation of the Bank's remuneration framework, including fixed and variable pay, retention awards and performance recognition awards, and assessed the effectiveness of the Bank's remuneration strategy;
- considered succession plans for key executives;
- reviewed the Bank's key Human Resources policies;
- enhanced the Bank's Emiratisation strategy, and considered case studies and presentations by aspiring UAE nationals; and,
- considered and assessed the contributions of the Board Adviser to the Board's activities.

During 2016 the Committee oversaw the implementation by the Group's Human Resources team of a project designed to reduce complexity in the Bank's job grading and titles framework. As a result of this project, the Bank has defined a broader and more transparent career progression framework for staff members, while realigning employees' focus on core competencies and responsibilities.

In addition, the Bank's Emiratisation strategy and variable remuneration remained key focus areas during 2016. The Committee spent considerable time on management remuneration. In particular, the Committee commenced work with management to design appropriate KPIs to assess the effectiveness of the Bank's remuneration schemes. Applying those KPIs, the Committee was pleased to note that the remuneration schemes are meeting their objectives. Details of these KPIs are disclosed in the corporate governance section of this report. As a result of this exercise, the Committee continues to believe that the Bank's remuneration policies remain appropriate for the Bank's current size and status, and that the remuneration framework is in line with international best practices. In particular, the Committee continues to believe that the Bank's 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 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 aims to ensure that payments reward Bank-wide and Group-wide performance, and do not reward under-performance.

The Committee also engaged with the Bank's key shareholder over the Board's nominations processes.

The Committee considers that it made positive progress during 2016 towards meeting its responsibilities.

Looking at 2017

In 2017, the Committee will continue to focus on the Bank's Emiratisation strategy, further development of KPIs to assess the effectiveness of the Bank's remuneration schemes, and HR policies and activities.

During 2017 the Bank will commission an external consultant to assess the Bank's remuneration governance, as part of an overall assessment of the Bank's corporate governance framework. The outcomes of this assessment will be (where appropriate) adopted by the Committee during the course of the year.

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

Reports of the Board Committee Chairmen

04

Risk & Credit Committee

Composition as at 31 December 2016:
Eissa Mohamed Al Suwaidi (Chairman), Mohamed Sultan Ghannoum Al Hameli, Khaled H Al Khoori, Aysha Al Hallami, Faisal Suhail Al Dhaheri
Secretary: Rami Raslan

Statement from the Chairman of the Risk & Credit Committee

Dear Shareholders,

During 2016 the Risk & Credit Committee continued to focus on overseeing the Bank's risk strategy, risk appetite and risk analysis. 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 retained its involvement in evaluating high-level credit decisions, but again in 2016, the Committee used a greater proportion of its time on risk analysis and guidance rather than on making credit decisions. Whilst focusing on the Bank's current and future risk appetite and overseeing senior management's implementation of the risk strategy, the Committee also focused on monitoring prevailing market conditions, with a particular focus on stress testing.

The Committee held 35 meetings in 2016, during which it:

- reviewed risks in the Bank's asset portfolios;
- considered various risk policies, including policies relating to asset and liability management, credit documentation, reputational risk, corporate credit, management of deteriorating assets, SME provisions, retail credit, mortgages, information security, liquidity, compliance conduct risk and country risk;
- considered the Bank's operational risks and operational risk reporting, liquidity risk and credit risk;
- 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;
- considered the Bank's risk culture and risk control systems;
- examined the actual risks and control deficiencies in the Bank;
- analysed the formulas, inputs and assumptions used for various risk metrics including the "probability of default" concept;
- considered the Bank's concentration limits and tolerances in various sectors (such as GREs in Abu Dhabi, Dubai and the region, real estate, and hospitality) and countries, and in foreign exchange and derivative transactions;
- considered the Bank's business continuity plan management;
- 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 management;
- considered the Bank's capital adequacy assessment process, including its Internal capital adequacy assessment process (ICAAP) methodology; and,
- considered its agenda for 2017.

The Committee considers that it made positive progress during 2016 towards meeting its responsibilities.

Looking at 2017

The Committee's schedule in 2017 contemplates eight meetings focused exclusively on risk strategy and policy issues. In line with regulation of the Central Bank of UAE, the Committee will continue to give due importance to high-level credit decisions. However, the primary focus in 2017 will continue to be on oversight of the Bank's risk governance framework, risk appetite and strategy, in addition to monitoring and, where necessary, reacting to the prevailing market conditions.

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

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 practices. In this year's annual report, we have focused on giving readers a clearer picture of our performance, business model and strategy and have provided more detail about the Bank's remuneration practices and how the Board allocates its time. 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's Investor Relations department ensures 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 internal channels.

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 would like 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
- Directors' Share Dealing Policy
- Committee terms of reference

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 inducting new Directors and ensuring the professional development of all Board Members
- Matters reserved for the Board
- How we ensure Board Members are updated about important developments
- Retirement and re-election of Directors
- Remuneration of Directors for service on the Board and Board Committees
- The Board's Adviser
- Directors' independence
- Role of the Board Secretary
- Management committees
- Internal controls
- Audit arrangements
- Internal audits, regulation and supervision
- Diversity
- Succession planning
- Codes, standards and communications
- Our variable pay framework

ADCB Directors' Shareholdings as at 31st December 2016

	Shareholding in ADCB		
	As at 31 December 2015	As at 31 December 2016	Change in shareholding
Abdulla Khalil Al Mutawa	2,347,277	2,347,277	0
Ala'a Eraiqat*	2,624,871	2,328,757	296,114
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	146,265	54,373
Mohamed Sultan Ghannoum Al Hameli	0	0	0
Faisal Suhail Al Dhaheri	0	0	0
Sheikh Sultan bin Suroor Al Dhaheri	2,835,147	2,835,147	0

**Excluding: 621,404 restricted units in the Bank's LTIP scheme of which (1) 150,320 vested on 31 December 2016, (2) 174,549 will vest on 31 December 2017 subject to early vesting, and (3) 296,535 will vest on 31 December 2018 subject to early vesting.*

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 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** ***Basic Salary*** ***Allowances*** • Social allowance (UAE nationals) • Job-specific allowances (such as a teller allowance, remote-area allowance or shift allowance) ***Benefits based on band,*** such as: • Leave fare • Private medical insurance • Life insurance coverage • Education allowance • Annual leave	**2016 Key Management Fixed Pay** In 2016, Key Management (defined as the Group CEO and his direct reports) received fixed pay and cash benefits in an aggregate amount of AED 25.623 million.
Variable Pay 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** Individual award amounts are dependent on three things: • Individual performance • Business function performance • Bank overall performance For more information, see "ADCB's Variable Pay Framework & Governance—Key Facts," on page 108.	**2015 Variable Pay Awards** For performance in 2015, awards to employees in 2016 consisted of cash variable pay awards of AED 160.905 million and deferred compensation plan awards of AED 59.769 million. Key Management received AED 29.650 million in cash and AED 26.900 million in deferred compensation from the amounts set forth above.
Retention Scheme 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 from the award date	**Selection Criteria** • Incumbents in 'mission critical' positions • UAE nationals with exceptional growth potential	**2016 Retention Scheme Awards** In 2016, we awarded 2,250,000 shares with an aggregate value of AED 14.828 million. Awards were made to 78 employees, of whom 64% were UAE nationals.

ADCB's Bank-Wide Variable Pay Framework

The Variable Pay framework has been designed to align employees' interests with the long-term interests of Bank's shareholders and to incentivise higher performance, while avoiding excessive risk-taking. It also distinguishes amongst different functions of the Bank, to ensure alignment to the relevant market.

The NCHR Committee oversees the design, operation and effectiveness of the framework and allocation of awards, including overall amounts, distribution amongst business groups and actual awards to senior management (including material risk-takers and senior members of the Bank's control functions).

ADCB uses a balanced scorecard (BSC) approach to measuring performance, including the following KPI categories:

- Financial
- Customer Service (minimum 30% weightage)
- Risk
- Learning and Growth

Effectiveness of the variable pay framework

Effectiveness of the variable pay framework is monitored on an annual basis through a set of KPIs, including:

- Correlation between total variable pay pool and the Bank's Net Profits
- Correlation between individual performance and variable pay award
- Attrition rate for the employees awarded deferred variable pay as compared to the overall attrition rate
- Leadership Stability-Attrition rate at senior management level (top 100 executives) as compared to industry average for same level

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*
Defers variable pay award above specified threshold	*Yes*
Currency of deferred compensation	*Cash and shares*
Duration of deferral of variable pay	*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*
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 Shari'ah Advisory Lead.

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 listed 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 deep 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, FSSB Secretary

Mr. Kamran is Shari'ah Advisory Lead 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 2016

ADCB's investment in risk infrastructure and focus on disciplined risk management continued to pay off and impact results in 2016.

The operating conditions in 2016 continued to soften as seen by lower GDP growth rates and reduced public spending. However, ADCB's balance sheet and P&L continued to demonstrate resilience. Some 31 December 2016 highlights include:

- NPL ratio of 2.7%; lower than last year's
- Provision coverage of 129.9% remained conservatively cushioned
- Average portfolio quality has increased one notch
- Capital adequacy ratio of 18.92%, which is robust by international and regional standards
- LCR at 129% 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, standardised enterprise-wide stress tests, reverse 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.

In 2016, we focused on credit monitoring enhancement capabilities and worked to automate and improve the processes around credit monitoring. Several forums and internal reviews were conducted to identify and take action on portfolios showing enhanced credit risk. These proactive actions supported ADCB in maintaining its cost of risk at 0.83% under challenging macroeconomic conditions.

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 response to regulatory reporting requirements. We are also continually upgrading the Bank's risk infrastructure 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.

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 is well-diversified in 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 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 legal 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 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 significant cyberattack could cause serious 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 2016.

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. Concentration risk derives from increased exposure to large client groups.
Sources	Deteriorating macroeconomic conditions can affect ADCB's performance and credit risk profile. ADCB's credit portfolio can worsen due to quality of assets 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 2016	During 2016, our collective loan-impairment allowance balance was AED 3.19 billion 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%. The non-performing loan ratio dropped to 2.7% (compared with 3.0% in 2015), and provision coverage remained at a healthy 129.9% (from 128.5% in 2015). In 2016, the 20 largest customer exposures constituted 35.38% of gross loans (2015: 37.01%).
Specific risk-management process	Measurement—We measure the amount that could be lost if a customer or counterparty fails to make repayments. 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. 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 resulted in the portfolio rating improving by one notch in 2016. *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. 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 2016	During 2016, average trading value-at-risk (VaR) increased from December 2015.

Metrics	31/12/2016 (AED)
VaR 1d 99% Confidence Level	(5,150,996)
SVaR 1d 99% Confidence Level	(14,660,201)
Expected Shortfall (1d)	(8,829,019)
Credit Value Adjustment (CVA)	(36,666,187)
Earnings at Risk (EaR)	(351,310,451)
Economic Value of Equity (EVE)	(172,956,208)

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). 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. Management—Using risk limits approved by the MRCC, all limit breaches are reported according to their materiality to appropriate levels of authorities. *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. 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 2016	Survival horizons under stressed conditions and further drawdown of liquidity facilities are monitored and mandated to be at least 2 months under idiosyncratic stress. The Bank manages its LCR at levels higher than mandated by the Basel Committee. LCR as of the end of December 2016 is 129%.
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. 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. 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. *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 2016	The quality of capital remained stable in 2016. Our capital adequacy ratio was 18.92% at 31 December 2016 in spite of an increase in risk-weighted assets by AED 15.68 billion due to increase in loan volumes in 2016.
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). 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, limit dividend payouts, revise business plans or a combination of these. 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. *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 2016	There were no material operational losses in 2016.
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. 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. Monitoring—The Bank uses key indicators, risk thresholds, expected loss and other internal control activities to monitor operational risk. 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. *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 2016	There were no material incidents of regulatory non-compliance in 2016.
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. 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 2016	No material loss of confidential data or disruption of processes due to unavailability of our IT system was reported in 2016.
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. 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. 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, breach of law or regulation, 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 2016	There were no material reported incidents in 2016 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. 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. Management—ADCB's Risk Management function addresses the reputational risk associated with the Bank's businesses. It sets policy and provides guidance to avoid reputational risk relating to business engagements with, and lending to, clients in sensitive industry sectors. In addition ADCB ensures induction training for all new employees and regular refresher programs for all existing employees to ensure the Bank's policies and procedures are implemented well. The Bank uses a variety of surveys such as Risk Culture survey, employee engagement survey, internal and external NPS to regularly monitor the perception the staff, customers and other stakeholders have of the Bank. There is an independent oversight of all staff incentive programmes as well. All these control measures ensure the Bank's exposure to any reputational risk event is minimised.

Consolidated Financial Statements

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The Shareholders
Abu Dhabi Commercial Bank PJSC

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Abu Dhabi Commercial Bank PJSC, Abu Dhabi (the "Bank") which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key audit matters

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

Key audit matter	How the matter was addressed in our audit
Impairment of loans and advances to customers	
The assessment of the Group's determination of impairment allowances for loans and advances to customer requires management to make significant judgements over both timing of recognition and quantum of such impairment. The audit was focused on this matter due to the materiality of the balances (representing 61% of total assets) and the subjective nature of the calculations. In wholesale loans and advances, the material portion of impairment is individually calculated. There is a risk that management does not capture all information necessary and available to determine the best estimate of future cash flows and incurred loss at the reporting date. This is specifically relevant as a result of the limited amount of data available over future cash flows and the high volatility of underlying collateral values. There is also the risk that management does not identify impairment triggers in a timely matter for performing loans and may allow bias to influence the impairment allowance. For retail and performing wholesale loans and advances, the material portion of impairment is calculated on a modelled basis for portfolios. The inputs to these models are subject to management judgements and model overlays are required when management believes the parameters and calculations are not sufficient to cover specific risks. These overlays require significant judgement. We also identified a significant risk over the impairment allowance resulting from external factors, mainly the macro-economic and credit situation in the country, showing, among others, a prolonged period of low oil prices. In light of the economic background, there is the risk that the impairment model fails to have an appropriate rationale to calculate portfolio provisions.	Our audit procedures included the assessment of controls over the approval, recording and monitoring of loans, and evaluating the methodologies, inputs and assumptions used by the Bank in calculating collectively assessed impairments and assessing the adequacy of impairment allowances for individually assessed loans. We tested the design and operating effectiveness of relevant controls to determine which loans are impaired and allowances against those assets. These included testing: ▶ System-based and manual controls over the timely recognition of impaired loans; ▶ Controls over the impairment calculation models; and ▶ Governance controls, including reviewing key meetings that form part of the approval process for loan impairment allowances. We tested a sample of loans to assess whether impairment events had been identified in a timely manner. In addition, we also focused on individually significant exposures. We tested the assumptions underlying the impairment identification and quantification, valuation of underlying collateral and estimates of recovery on default. We paid particular attention to collective impairment methodologies, focusing specifically on mortgages, the commercial banking portfolios, and personal and business loans, either due to their relative size or the potential impact of changing inputs and assumptions. We also focused on portfolios that were potentially more sensitive to emerging economic trends.

Key audit matter	How the matter was addressed in our audit
Valuation of investment securities and derivatives	
The valuation of the Bank's financial instruments measured at fair value was a key area of audit focus due to their significance (14% of total assets). In addition, the valuation of certain instruments like derivatives remains a complex area, in particular when the fair value is established using a valuation technique due to the instrument's complexity or due to the lack of availability of market-based data. Those valuations involve significant judgements over the selection of an appropriate valuation methodology and inputs used in the models. Our audit focused on testing the valuation methodology of derivative financial instruments.	Our audit procedures included testing the design and operating effectiveness of relevant controls in the Bank's financial instruments valuation process. We also involved our valuation specialists to assess the valuation of derivatives and to review the accounting for qualifying hedging relationships including hedge designation and effectiveness assessment. For model-based valuations, we have compared observable inputs against independent sources and externally available market data to evaluate compliance with IFRS 13. We have also assessed the adequacy of the Bank's disclosures including the accuracy of the categorisation into the fair value measurement hierarchy and adequacy of the disclosure of the valuation techniques, significant unobservable inputs, changes in estimate occurring during the period and the sensitivity to key assumptions.
IT systems and controls over financial reporting	
We identified IT systems and controls over financial reporting as an area of focus because the Bank's financial accounting and reporting systems are vitally dependent on complex technology due to the extensive volume and variety of transactions which are processed daily and there is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. A particular area of focus related to logical access management and segregation of duties. The underlying principles are important because they ensure that changes to applications and data are appropriate, authorised and monitored. In particular, the incorporated key controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data. Our audit approach relies on automated controls and therefore procedures are designed to test access and control over IT systems.	Our audit procedures included: ▶ Reviewing major IT systems and applications including swift messaging; ▶ Reviewing general computer controls for key IT systems; ▶ Assessing IT security environment using our certified IT auditors; ▶ Focused on key controls testing on significant IT systems relevant to business processes; and ▶ Performed journal entry testing as stipulated by the International Standard on Auditing.

Other information

The Board of Directors and management are responsible for the other information. The other information comprises the annual report of the Bank but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report of the Bank, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

The Board of Directors and Board Audit & Compliance Committee are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities of the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- 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;
- the Bank has maintained proper books of account;
- the financial information included in the Directors' report is consistent with the Bank's books of account;
- note 41 to the consolidated financial statements of the Bank discloses purchased or investment in shares during the financial year ended 31 December 2016;
- 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;
- 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 2016 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 2016; and
- note 53 to the consolidated financial statements of the Bank discloses social contributions made during the financial year ended 31 December 2016.

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.)

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Mohammad Khamees Al Tah
Registration No. 717
31 January 2017
Abu Dhabi
United Arab Emirates

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 AED'000	2015 AED'000	2016 USD'000
Assets				
Cash and balances with central banks	5	**19,261,902**	20,180,277	**5,244,188**
Deposits and balances due from banks, net	6	**24,663,615**	22,381,921	**6,714,842**
Reverse-repo placements	7	**1,524,806**	4,256,277	**415,139**
Trading securities	8	**418,758**	62,261	**114,010**
Derivative financial instruments	9	**3,971,789**	4,001,908	**1,081,347**
Investment securities	10	**33,059,466**	20,863,607	**9,000,671**
Loans and advances to customers, net	11	**158,457,695**	146,250,462	**43,141,218**
Investment in associate	12	**204,977**	197,156	**55,806**
Investment properties	13	**659,776**	647,647	**179,629**
Other assets	14	**15,120,988**	8,571,640	**4,116,796**
Property and equipment, net	15	**926,685**	835,145	**252,296**
Intangible assets	16	**18,800**	18,800	**5,119**
Total assets		**258,289,257**	228,267,101	**70,321,061**
Liabilities				
Due to banks	17	**3,842,714**	1,691,793	**1,046,206**
Derivative financial instruments	9	**4,792,529**	4,741,180	**1,304,800**
Deposits from customers	18	**155,442,207**	143,526,296	**42,320,231**
Euro commercial paper	19	**8,728,533**	5,700,064	**2,376,404**
Borrowings	20	**38,015,030**	33,471,731	**10,349,858**
Other liabilities	21	**17,117,359**	10,403,234	**4,660,321**
Total liabilities		**227,938,372**	199,534,298	**62,057,820**
Equity				
Share capital	22	**5,198,231**	5,595,597	**1,415,255**
Share premium		**2,419,999**	3,848,286	**658,862**
Other reserves	23	**7,437,283**	5,656,564	**2,024,852**
Retained earnings		**11,295,372**	9,627,315	**3,075,244**
Capital notes	26	**4,000,000**	4,000,000	**1,089,028**
Equity attributable to equity holders of the Bank		**30,350,885**	28,727,762	**8,263,241**
Non-controlling interests		**–**	5,041	**–**
Total equity		**30,350,885**	28,732,803	**8,263,241**
Total liabilities and equity		**258,289,257**	228,267,101	**70,321,061**

These consolidated financial statements were approved by the Board of Directors and authorised for issue on 31 January 2017 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 2016

	Notes	2016 AED'000	2015 AED'000	2016 USD'000
Interest income	27	7,907,603	7,119,968	2,152,900
Interest expense	28	(2,411,589)	(1,481,601)	(656,572)
Net interest income		5,496,014	5,638,367	1,496,328
Income from Islamic financing	24	843,678	677,144	229,697
Islamic profit distribution	24	(138,519)	(109,712)	(37,713)
Net income from Islamic financing		705,159	567,432	191,984
Total net interest and Islamic financing income		6,201,173	6,205,799	1,688,312
Net fees and commission income	29	1,472,303	1,437,577	400,845
Net trading income	30	521,853	352,012	142,078
Net gains from investment properties	13	15,582	192	4,242
Other operating income	31	284,536	264,906	77,468
Operating income		8,495,447	8,260,486	2,312,945
Operating expenses	32	(2,795,862)	(2,826,938)	(761,192)
Operating profit before impairment allowances		5,699,585	5,433,548	1,551,753
Impairment allowances	33	(1,520,518)	(501,548)	(413,972)
Share in profit of associate	12	7,821	1,302	2,129
Profit before taxation		4,186,888	4,933,302	1,139,910
Overseas income tax expense		(29,820)	(6,233)	(8,119)
Net profit for the year		4,157,068	4,927,069	1,131,791
Attributed to:				
Equity holders of the Bank		4,148,651	4,924,244	1,129,499
Non-controlling interests		8,417	2,825	2,292
Net profit for the year		4,157,068	4,927,069	1,131,791
Basic earnings per share (AED/USD)	34	0.77	0.93	0.21
Diluted earnings per share (AED/USD)	34	0.77	0.92	0.21

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016 AED'000	2015 AED'000	2016 USD'000
Net profit for the year	4,157,068	4,927,069	1,131,791
Items that may be re-classified subsequently to the consolidated income statement			
Exchange difference arising on translation of foreign operations (Note 23)	(5,481)	(9,875)	(1,492)
Net movement in cash flow hedge reserve (Note 23)	(146,550)	14,340	(39,899)
Net movement in fair value of available-for-sale investments (Note 23)	114,197	(351,911)	31,091
	(37,834)	(347,446)	(10,300)
Items that may not be re-classified subsequently to the consolidated income statement			
Actuarial gains/(losses) on defined benefit obligation (Note 21)	1,573	(10,141)	428
Total comprehensive income for the year	4,120,807	4,569,482	1,121,919
Attributed to:			
Equity holders of the Bank	4,112,390	4,566,657	1,119,627
Non-controlling interests	8,417	2,825	2,292
Total comprehensive income for the year	4,120,807	4,569,482	1,121,919

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital AED'000	Share premium AED'000	Other reserves 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 2016	**5,595,597**	**3,848,286**	**5,656,564**	**9,627,315**	**4,000,000**	**28,727,762**	**5,041**	**28,732,803**
Net profit for the year	**–**	**–**	**–**	**4,148,651**	**–**	**4,148,651**	**8,417**	**4,157,068**
Other comprehensive (loss)/income for the year	**–**	**–**	**(37,834)**	**1,573**	**–**	**(36,261)**	**–**	**(36,261)**
Other movements (Note 23)	**–**	**–**	**(7,100)**	**(4,950)**	**–**	**(12,050)**	**–**	**(12,050)**
Dividends paid to equity holders of the Bank	**–**	**–**	**–**	**(2,339,204)**	**–**	**(2,339,204)**	**–**	**(2,339,204)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(13,458)**	**(13,458)**
Capital notes coupon paid (Note 34)	**–**	**–**	**–**	**(138,013)**	**–**	**(138,013)**	**–**	**(138,013)**
Cancellation of treasury shares (Note 23)	**(397,366)**	**(1,428,287)**	**1,825,653**	**–**	**–**	**–**	**–**	**–**
Balance at 31 December 2016	**5,198,231**	**2,419,999**	**7,437,283**	**11,295,372**	**4,000,000**	**30,350,885**	**–**	**30,350,885**
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 34)	–	–	–	(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

For the year ended 31 December 2016, the Board of Directors has proposed to pay cash dividend representing 40% 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 2016

	2016 AED'000	2015 AED'000	2016 USD'000
OPERATING ACTIVITIES			
Profit before taxation	**4,186,888**	4,933,302	**1,139,910**
Adjustments for:			
Depreciation on property and equipment, net (Note 15)	**144,813**	134,531	**39,426**
Amortisation of intangible assets (Note 16)	**–**	16,905	**–**
Net gains from investment properties (Note 13)	**(15,582)**	(192)	**(4,242)**
Impairment allowance on loans and advances, net (Note 43.6)	**1,689,913**	752,846	**460,091**
Share in profit of associate (Note 12)	**(7,821)**	(1,302)	**(2,129)**
Discount unwind (Note 43.6)	**(64,359)**	(126,033)	**(17,522)**
Net gains from disposal of available-for-sale investments (Note 31)	**(53,090)**	(17,028)	**(14,454)**
Recoveries on available-for-sale investments and other impairment allowances (Note 33)	**(31,798)**	1,268	**(8,657)**
Interest income on available-for-sale investments	**(629,703)**	(459,694)	**(171,441)**
Dividend income on available-for-sale investments (Note 31)	**(5,929)**	(9,867)	**(1,614)**
Interest expense on borrowings and euro commercial paper	**732,589**	548,484	**199,452**
Net (gains)/losses from trading securities (Note 30)	**(5,514)**	4,237	**(1,501)**
Ineffective portion of hedges – losses (Note 9)	**3,278**	13,720	**892**
Employees' incentive plan benefit expense (Note 25)	**34,304**	27,391	**9,340**
Cash flow from operating activities before changes in operating assets and liabilities	**5,977,989**	5,818,568	**1,627,551**
(Increase)/decrease in balances with central banks	**(775,245)**	755,800	**(211,066)**
Decrease in due from banks, net	**5,149,073**	4,693,794	**1,401,871**
Decrease in reverse-repo placements	**2,032,852**	485,337	**553,458**
Net movement in derivative financial instruments	**(49,024)**	(97,156)	**(13,347)**
Net (purchases)/proceeds from disposal of trading securities	**(350,983)**	133,101	**(95,558)**
Increase in loans and advances to customers, net	**(13,902,534)**	(14,981,028)	**(3,785,062)**
(Increase)/decrease in other assets	**(432,651)**	222,664	**(117,792)**
Increase in due to banks	**1,056,196**	344,696	**287,557**
Increase in deposits from customers	**11,917,003**	17,508,932	**3,244,488**
Increase in other liabilities	**594,541**	308,230	**161,867**
Net cash from operations	**11,217,217**	15,192,938	**3,053,967**
Overseas tax paid, net	**(15,724)**	(8,905)	**(4,281)**
Net cash from operating activities	**11,201,493**	15,184,033	**3,049,686**
INVESTING ACTIVITIES			
Recoveries on available-for-sale investments (Note 33)	**19,209**	10,853	**5,230**
Proceeds from redemption/disposal of available-for-sale investments	**9,240,329**	10,489,183	**2,515,744**
Net purchase of available-for-sale investments	**(21,551,793)**	(10,430,894)	**(5,867,627)**
Interest received on available-for-sale investments	**828,715**	656,729	**225,623**
Dividends received on available-for-sale investments (Note 31)	**5,929**	9,867	**1,614**
Net proceeds from disposals of investment properties (Note 13)	**3,453**	–	**941**
Net purchase of property and equipment, net	**(236,353)**	(163,488)	**(64,349)**
Net cash (used in)/from investing activities	**(11,690,511)**	572,250	**(3,182,824)**
FINANCING ACTIVITIES			
Net increase/(decrease) in euro commercial paper	**2,931,445**	(717,047)	**798,106**
Net proceeds from borrowings	**21,840,794**	31,858,747	**5,946,309**
Repayment of borrowings	**(17,295,347)**	(28,360,056)	**(4,708,779)**
Interest paid on borrowings	**(573,295)**	(501,331)	**(156,084)**
Dividends paid to equity holders of the Bank	**(2,339,204)**	(2,079,292)	**(636,865)**
Share buyback (Note 23)	**–**	(17,005)	**–**
Dividends paid to non-controlling interests	**(13,458)**	(8,181)	**(3,664)**
Purchase of employees' incentive plan shares (Note 23)	**(46,354)**	(50,195)	**(12,620)**
Capital notes coupon paid (Note 34)	**(138,013)**	(128,860)	**(37,575)**
Net cash from/(used in) financing activities	**4,366,568**	(3,220)	**1,188,828**
Net increase in cash and cash equivalents	**3,877,550**	15,753,063	**1,055,690**
Cash and cash equivalents at the beginning of the year	**30,773,569**	15,020,506	**8,378,320**
Cash and cash equivalents at the end of the year (Note 36)	**34,651,119**	30,773,569	**9,434,010**

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") 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 eight branches and three pay offices in the UAE, two branches in India, one offshore branch in Jersey, 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 expects to be fully compliant on or before the end of the grace period which expires on 30 June 2017 (as extended pursuant to Cabinet Resolution 35/F of 2016).

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

In the current year, the Group has applied a number of new and revised IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2016. The application of these new and revised IFRSs 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 14 Regulatory Deferral Accounts*
- Amendments to *IAS 1 Presentation of Financial Statements* relating to Disclosure initiative
- Amendments to *IFRS 11 Joint Arrangements* relating to accounting for acquisitions of interests in joint operations
- Amendments to *IAS 16 Property, Plant and Equipment* and *IAS 38 Intangible Assets* relating to clarification of acceptable methods of depreciation and amortisation
- Amendments to *IAS 27 Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements
- Amendments to *IFRS 10 Consolidated Financial Statements*, *IFRS 12 Disclosure of Interests in Other Entities* and *IAS 28 Investments in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities
- Annual Improvements to IFRSs 2012 — 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2016.

STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE

The Group has not early adopted any new and revised IFRSs 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
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 requiring 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 (revised versions in 2009, 2010, 2013 and 2014) issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing *IAS 39 Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas: **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised. **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.	1 January 2018
IFRS 15 Revenue from Contracts with Customers — In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, *IAS 11 Construction Contracts* and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition: Step 1: Identify the contract(s) with a customer. Step 2: Identify the performance obligations in the contract. Step 3: Determine the transaction price. Step 4: Allocate the transaction price to the performance obligations in the contract. Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	1 January 2018

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
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
Annual Improvements to IFRS Standards 2014 — 2016 Cycle amending IFRS 1, IFRS 12 and IAS 28	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017
Amendments to *IAS 12 Income Taxes* relating to the recognition of deferred tax assets for unrealised losses	1 January 2017
Amendments to *IAS 7 Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017
IFRIC 22 Foreign Currency Transactions and Advance Consideration — the interpretation addresses foreign currency transactions or parts of transactions where: ▶ there is consideration that is denominated or priced in a foreign currency; ▶ the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and ▶ the prepayment asset or deferred income liability is non-monetary.	1 January 2018
Amendments to *IFRS 2 Share-based Payment* regarding classification and measurement of share based payment transactions	1 January 2018
Amendments to *IFRS 4 Insurance Contracts* relating to different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	1 January 2018
Amendments to *IAS 40 Investment Property* stating that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.	1 January 2018
Amendments to *IFRS 15 Revenue from Contracts with Customers* to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	1 January 2018
Amendments to *IFRS 10 Consolidated Financial Statements* and *IAS 28 Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely

Management anticipates that these IFRSs 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 are currently being assessed by the management.

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 (IFRSs) issued by the International Accounting Standards Board (IASB).

IFRSs 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 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 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 their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid 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 IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under 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. A 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 a 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 a SPE.

Funds under 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.

Investment 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 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 equity method of accounting 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 the 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 equity method was discontinued and the fair value of the retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation of 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 of 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 consolidated income statement or consolidated other comprehensive income statement depending upon the nature of the asset or liability.

In the consolidated financial statements, the results and financial positions of branches and subsidiaries whose functional currency is not AED, are translated into the Group's presentation currency as follows:

(a) assets and liabilities at the rate of exchange prevailing at the statement of financial position date;

(b) income and expenses at the average rates of exchange for the reporting period; and

(c) all resulting exchange differences arising from the retranslation of opening assets and liabilities and 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 settlement date basis (other than derivative contracts). 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 market place. 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 when 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 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 and 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 either to deliver 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 has 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 and 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 settle either on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group'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) are continued 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, 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 takes 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 into pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or a liability nor based on 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 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 only offset 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 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. 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 per cent to 125 per cent. 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 from 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 and 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 whom 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 it 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 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 are 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, 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.

Investment 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 property 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 and investment property under development are 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 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 intangible	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.

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 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.

Remeasurements 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 consolidated income statement in the periods during which services are rendered by employees.

Pension and national insurance contributions for the UAE 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 and to respective pension funds for other GCC National employees.

(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 to either 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 and 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 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 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) 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 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. It is asset-backed trust certificates evidencing ownership of an asset or its usufruct (earnings or benefits) and complies with the principle of Shari'ah.

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 have already 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 and 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 values 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, future rental income etc.

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

	2016 AED'000	2015 AED'000
Cash on hand	**1,145,235**	917,855
Balances with central banks	**3,109,498**	2,869,993
Reserves maintained with central banks	**9,900,556**	9,745,626
Certificate of deposits with UAE Central Bank	**5,013,645**	6,641,250
Reverse-repo with Central Bank	**92,968**	5,553
Total cash and balances with central banks	**19,261,902**	20,180,277
The geographical concentration is as follows:		
Within the UAE	**19,106,421**	20,145,189
Outside the UAE	**155,481**	35,088
	19,261,902	20,180,277

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, NET

	2016 AED'000	2015 AED'000
Nostro balances	**724,047**	398,773
Margin deposits	**40,660**	524,324
Time deposits	**19,955,290**	13,843,958
Wakala placements	**360,000**	187,942
Loans and advances to banks	**3,686,987**	7,596,546
Gross deposits and balances due from banks	**24,766,984**	22,551,543
Less: Allowance for impairment (Note 43.6)	**(103,369)**	(169,622)
Total deposits and balances due from banks, net	**24,663,615**	22,381,921
The geographical concentration is as follows:		
Within the UAE	**10,098,340**	6,206,241
Outside the UAE	**14,668,644**	16,345,302
	24,766,984	22,551,543
Less: Allowance for impairment (Note 43.6)	**(103,369)**	(169,622)
	24,663,615	22,381,921

During the year, loans and advances to banks have been reclassified to "Deposits and balances due from banks, net" to better reflect the underlying nature of the business of the borrowers. Accordingly, comparative amounts pertaining to previous year were reclassified to conform to current year's presentation.

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 fair value of these swaps was AED Nil as at 31 December 2016 (31 December 2015 — net positive fair value of AED 479 thousand).

The Group entered into structured financing repurchase agreements whereby loans and advances to banks were pledged and held by counterparties as collateral. The risks and rewards relating to the loans pledged remains 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:

	2016		2015	
	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	**1,624,801**	**1,098,684**	1,720,801	1,181,421

7 REVERSE-REPO PLACEMENTS

	2016 AED'000	2015 AED'000
Banks and financial institutions	**1,524,806**	2,419,776
Customers	**–**	1,836,501
Total reverse-repo placements	**1,524,806**	4,256,277
The geographical concentration is as follows:		
Within the UAE	**–**	2,762,095
Outside the UAE	**1,524,806**	1,494,182
	1,524,806	4,256,277

The Group enters into reverse repurchase and collateral swap agreements under which bonds with fair value of AED 1,574,002 thousand (31 December 2015 — cash of AED 12,158 thousand and bonds with fair value of AED 4,386,217 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 (GMRA).

8 TRADING SECURITIES

	2016 AED'000	2015 AED'000
Bonds	**418,758**	62,261
The geographical concentration is as follows:		
Within the UAE	**141,138**	48,416
Outside the UAE	**277,620**	13,845
	418,758	62,261

Bonds represent investments mainly in banks and 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 includes forward foreign exchange contracts, interest rate futures, forward rate agreements, currency, commodity, 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 broker. 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 interest rate 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 only updates valuation inputs 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's 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 currency and interest rates. The Group uses forward foreign exchange contracts, cross currency interest rate swaps and interest rate swaps to hedge currency 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
2016			
Derivatives held or issued for trading			
Foreign exchange derivatives	**606,608**	**416,641**	**113,962,359**
Interest rate and cross currency swaps	**2,401,276**	**2,424,337**	**165,014,702**
Interest rate and commodity options	**256,446**	**225,476**	**14,707,345**
Forward rate agreements	**972**	**1,130**	**4,471,101**
Futures (exchange traded)	**10,612**	**1,290**	**20,353,204**
Commodity and energy swaps	**213,716**	**200,638**	**3,098,707**
Swaptions	**51,174**	**29,098**	**5,047,292**
Total derivatives held or issued for trading	**3,540,804**	**3,298,610**	**326,654,710**
Derivatives held as fair value hedges			
Interest rate and cross currency swaps	**352,416**	**973,647**	**52,411,284**
Derivatives held as cash flow hedges			
Interest rate and cross currency swaps	**43,658**	**187,205**	**7,152,434**
Forward foreign exchange contracts	**34,911**	**333,067**	**10,874,259**
Total derivatives held as cash flow hedges	**78,569**	**520,272**	**18,026,693**
Total derivative financial instruments	**3,971,789**	**4,792,529**	**397,092,687**
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 agreements	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

The notional amounts indicate the volume of outstanding contracts and are neither indicative of the market risk nor credit risk. Refer to Note 47 for market risk measurement and management.

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

	2016 AED'000	2015 AED'000
(Losses)/gains on the hedged items attributable to risk hedged	**(18,597)**	136,113
Gains/(losses) on the hedging instruments	**15,421**	(149,289)
Fair value hedging ineffectiveness	**(3,176)**	(13,176)
Cash flow hedging ineffectiveness	**(102)**	(544)
	(3,278)	(13,720)

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

Forecasted 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	Above 5 years AED'000	Total AED'000
2016	**(58,653)**	**(249,376)**	**37,508**	**(63,737)**	**(60,451)**	**(394,709)**
2015	(49,719)	(23,394)	(9,557)	23,131	–	(59,539)

As at 31 December 2016, the Group received cash collateral of AED 253,524 thousand (31 December 2015 — AED 76,674 thousand) and received bonds with fair value of AED 3,167 thousand (31 December 2015 — AED Nil) against positive fair value of derivative assets.

As at 31 December 2016, the Group placed cash collateral of AED 120,878 thousand (31 December 2015 — AED 600,980 thousand) and investment securities of AED 2,012,757 thousand (31 December 2015 — AED 1,367,440 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
2016				
Available-for-sale investments				
Quoted:				
Government securities	**3,556,811**	**2,356,584**	**3,275,588**	**9,188,983**
Bonds — Public sector	**5,383,401**	**456,788**	**1,336,649**	**7,176,838**
Bonds — Banks and financial institutions	**3,189,513**	**975,724**	**3,034,272**	**7,199,509**
Bonds — Corporate	**565,698**	**–**	**254,575**	**820,273**
Equity instruments	**548**	**–**	**–**	**548**
Mutual funds	**74,690**	**–**	**83,368**	**158,058**
Total quoted	**12,770,661**	**3,789,096**	**7,984,452**	**24,544,209**
Unquoted:				
Government securities	**8,178,003**	**–**	**–**	**8,178,003**
Equity instruments	**323,872**	**–**	**13,382**	**337,254**
Total unquoted	**8,501,875**	**–**	**13,382**	**8,515,257**
Total available-for-sale investments	**21,272,536**	**3,789,096**	**7,997,834**	**33,059,466**
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

(*) 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 swaps at 31 December 2016 was AED 269,512 thousand (31 December 2015 — net positive fair value AED 224,564 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 remains with the Group. The bonds placed as collateral are governed under Global Master Repurchase Agreements (GMRA). The following table reflects the carrying value of these bonds and the associated financial liabilities:

	2016		2015	
	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	**275,351**	**264,835**	3,304,381	3,152,676

Further, as at 31 December 2016, the Group pledged investment securities with fair value amounting to AED 2,028,708 thousand (31 December 2015 — AED 1,382,197 thousand) as collateral against margin calls. The risks and rewards on these pledged investments remains with the Group.

11 LOANS AND ADVANCES TO CUSTOMERS, NET

	2016 AED'000	2015 AED'000
Overdrafts (retail and corporate)	**5,689,706**	4,487,083
Retail loans	**29,661,611**	28,400,112
Corporate loans	**121,242,781**	111,442,577
Credit cards	**3,873,572**	3,517,946
Other facilities	**3,932,400**	4,578,009
Gross loans and advances to customers	**164,400,070**	152,425,727
Less: Allowance for impairment (Note 43.6)	**(5,942,375)**	(6,175,265)
Total loans and advances to customers, net	**158,457,695**	146,250,462

For reclassification of loans and advances to banks to "Deposits and balances due from banks, net", refer Note 6.

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

The Group hedges certain fixed rate and floating rate loans and advances to customers 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 2016 was AED 128,190 thousand (31 December 2015 — net negative fair value of AED 481 thousand).

The Group entered into structured financing repurchase agreements whereby loans and advances to customers were pledged and held by counterparties as collateral. The risks and rewards relating to the loans pledged remains 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:

	2016		2015	
	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	**322,814**	**165,697**	302,444	225,120

Further, the Group entered into a security lending and borrowing arrangement, under which loans and advances to customers with nominal value of AED 795,475 thousand were lent against high quality bonds with nominal value of AED 558,296 thousand. The risks and rewards relating to loans lent and bonds borrowed remains with respective counterparties. The arrangement is governed under the terms and conditions of Global Master Securities Lending Agreement (GMSLA).

12 INVESTMENT IN ASSOCIATE

Investment in associate represents 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 as at 31 December 2016 and 2015 are as follows:

Name of associate	Ownership interest	Country of incorporation	Principal activities
Four N Property LLC	35%	UAE	Residential facilities for lower income group

For balances and transactions with associate, refer Note 37.

13 INVESTMENT PROPERTIES

	AED'000
1 January 2015	615,778
Additions during the year	31,677
Revaluation of investment properties	192
1 January 2016	**647,647**
Additions during the year	**505**
Disposals during the year	**(4,401)**
Revaluation of investment properties	**16,025**
31 December 2016	**659,776**

Net gains from investment properties includes losses of AED 443 thousand (31 December 2015 – AED Nil) on disposals during the year.

Additions during the year include AED Nil (31 December 2015 – AED 31,677 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.

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 follow:

	2016 AED'000	2015 AED'000
Rental income	**49,435**	41,212
Direct operating expenses	**8,323**	4,994

14 OTHER ASSETS

	2016 AED'000	2015 AED'000
Interest receivable	**1,584,558**	1,079,214
Advance tax	**5,575**	7,241
Prepayments	**58,553**	55,083
Acceptances (Note 21)	**13,262,942**	7,168,716
Others	**209,360**	261,386
Total other assets	**15,120,988**	8,571,640

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						
As 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)
As at 1 January 2016	870,667	157,088	190,411	696,848	72,242	1,987,256
Exchange difference	**(83)**	**–**	**(55)**	**(110)**	**(23)**	**(271)**
Additions during the year	**294**	**47**	**3,648**	**3,102**	**229,422**	**236,513**
Transfers	**13,447**	**18,596**	**8,814**	**102,092**	**(142,949)**	**–**
Transfer to expenses	**–**	**–**	**–**	**–**	**(27)**	**(27)**
Disposals during the year	**–**	**–**	**(2,155)**	**(452)**	**–**	**(2,607)**
As at 31 December 2016	**884,325**	**175,731**	**200,663**	**801,480**	**158,665**	**2,220,864**
Accumulated depreciation						
As 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)
As at 1 January 2016	**338,866**	**121,391**	**153,926**	**537,928**	**–**	**1,152,111**
Exchange difference	**(23)**	**(1)**	**2**	**(121)**	**–**	**(143)**
Charge for the year	**38,457**	**11,521**	**11,119**	**83,716**	**–**	**144,813**
Transfers	**–**	**–**	**38**	**(38)**	**–**	**–**
Disposals during the year	**–**	**–**	**(2,152)**	**(450)**	**–**	**(2,602)**
As at 31 December 2016	**377,300**	**132,911**	**162,933**	**621,035**	**–**	**1,294,179**
Carrying amount						
As at 31 December 2016	**507,025**	**42,820**	**37,730**	**180,445**	**158,665**	**926,685**
As at 31 December 2015	531,801	35,697	36,485	158,920	72,242	835,145

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 2015	18,800	12,700	18,000	112,700	162,200
As at 31 December 2016	**18,800**	**12,700**	**18,000**	**112,700**	**162,200**
Accumulated amortisation					
As at 1 January 2015	–	12,700	18,000	95,795	126,495
Amortisation during the year	–	–	–	16,905	16,905
As at 1 January 2016	**–**	**12,700**	**18,000**	**112,700**	**143,400**
As at 31 December 2016	**–**	**12,700**	**18,000**	**112,700**	**143,400**
Carrying amount					
As at 31 December 2016	**18,800**	**–**	**–**	**–**	**18,800**
As at 31 December 2015	18,800	–	–	–	18,800

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 intangible	The value of core deposit intangible asset 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 2016 (2015 – 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 2016. Cash flows were extrapolated using a rate expected to be realized 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 capital asset pricing model using data from U.S. 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

	2016 AED'000	2015 AED'000
Vostro balances	**267,453**	282,666
Margin deposits	**245,402**	88,289
Time deposits	**3,329,859**	1,320,838
Total due to banks	**3,842,714**	1,691,793

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 fair value of these swaps at 31 December 2016 was AED Nil (31 December 2015 – net negative fair value of AED 1,562 thousand).

18 DEPOSITS FROM CUSTOMERS

	2016 AED'000	2015 AED'000
Time deposits	**84,044,103**	62,189,594
Current account deposits	**51,596,345**	51,713,778
Savings deposits	**12,644,918**	10,932,983
Murabaha deposits	**6,011,966**	17,628,523
Long-term government deposits	**411,313**	418,907
Margin deposits	**733,562**	642,511
Total deposits from customers	**155,442,207**	143,526,296

For Islamic deposits (excluding Murabaha deposits) included in the above table, refer 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 2016 was AED 88,191 thousand (31 December 2015 – net negative fair value of AED 32,953 thousand).

19 EURO COMMERCIAL PAPER

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

	2016 AED'000	2015 AED'000
Currency		
US dollar (USD)	**5,972,681**	2,294,750
Euro (EUR)	**1,309,526**	2,341,393
Great Britain pound (GBP)	**1,446,326**	543,636
Swiss franc (CHF)	**–**	453,223
Australian dollar (AUD)	**–**	67,062
Total euro commercial paper	**8,728,533**	5,700,064

The Bank hedges certain ECP for foreign currency exchange rate 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 2016 was AED 161,942 thousand (31 December 2015 – net negative fair value of AED 82,811 thousand).

At 31 December 2016, the effective interest rate on ECPs issued ranges between negative 0.03% p.a. to positive 1.76% p.a. (31 December 2015 – between negative 0.85% p.a. to positive 2.17% p.a.).

20 BORROWINGS

The details of borrowings as at 31 December 2016 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)	–	672,505	77,142	–	749,647
	Chinese renminbi (CNH)	157,452	350,729	–	–	508,181
	Euro (EUR)	–	164,183	46,691	73,796	284,670
	Malaysian ringgit (MYR)	576,215	–	–	–	576,215
	Swiss franc (CHF)	388,677	–	284,354	–	673,031
	UAE dirham (AED)	500,358	–	–	–	500,358
	Japanese yen (JPY)	47,263	47,647	–	–	94,910
	Hong Kong dollar (HKD)	–	–	294,740	103,451	398,191
	US dollar (USD)	3,203,777	7,686,977	3,096,121	2,749,226	16,736,101
		4,873,742	8,922,041	3,799,048	2,926,473	20,521,304
Bilateral loans – floating rate	US dollar (USD)	2,018,887	1,285,550	–	–	3,304,437
Syndicated loan – floating rate	US dollar (USD)	734,600	2,919,383	–	–	3,653,983
Certificate of deposits issued	Great Britain pound (GBP)	898,422	–	–	–	898,422
	Euro (EUR)	189,304	–	–	–	189,304
	Indian rupee (INR)	307,793	–	–	–	307,793
	US dollar (USD)	1,707,110	1,835,966	–	–	3,543,076
Subordinated notes – fixed rate	US dollar (USD)	–	–	–	3,702,602	3,702,602
	Swiss franc (CHF)	–	–	–	364,893	364,893
Borrowings through repurchase agreements	US dollar (USD)	956,327	370,556	–	202,333	1,529,216
		11,686,185	15,333,496	3,799,048	7,196,301	38,015,030

The Group hedges certain borrowings for foreign currency exchange rate 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 2016 was AED 954,122 thousand.

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 loan – floating rate	US dollar (USD)	–	1,465,125	–	–	1,465,125
Certificate of deposits 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
		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.

Interests are payable in arrears and the contractual coupon rates as at 31 December 2016 are as follows:

Instrument	CCY	Within 1 year	1–3 years	3–5 years	Over 5 years
Global medium term notes	AUD	–	Fixed rate of 4.75% p.a.	Fixed rate of 3.73% p.a.	–
	CNH	Fixed rate between 3.70% p.a. to 4.125% p.a.	Fixed rate between 3.85% p.a. to 4.50% p.a.	–	–
	EUR	–	Quarterly coupons with 46 basis points over Euribor	Quarterly coupons with 59 basis points over Euribor	Fixed rate of 0.75% p.a.
	MYR	Fixed rate of 4.30% p.a. to 5.35% p.a.	–	–	–
	CHF	Quarterly coupons with 110 basis points over CHF Libor	–	–	–
	AED	Fixed rate of 6.00% p.a.	–	–	–
	JPY	Fixed rate of 0.48% p.a.	Fixed rate of 0.68% p.a.	–	–
	HKD	–	–	Fixed rate between 2.30% p.a. to 2.86% p.a.	Fixed rate of 2.84% p.a.
	USD(*)	Fixed rate of 1.45% p.a. and quarterly coupons between 108 to 130 basis points over Libor	Fixed rate between 2.50% p.a. to 3.00% p.a.	Fixed rate of 2.63% p.a. and quarterly coupons with 73 basis points over Libor	Fixed rate between 4.30% p.a. to 5.12% p.a.
Bilateral loans – floating rate	USD	Quarterly/monthly coupons with 60 to 70 basis points over Libor	Monthly coupons with 68 to 80 basis points over Libor	–	–
Syndicated loan – floating rate	USD	Monthly coupons with 68 basis points over Libor	Quarterly coupons with 60 to 95 basis points over Libor	–	–
Certificate of deposits issued	GBP	Fixed rate between 0.69% p.a. to 0.93% p.a.	–	–	–
	EUR	Fixed rate between negative 0.013% p.a. to negative 0.05% p.a.	–	–	–
	INR	Fixed rate between 6.5% p.a. to 6.85% p.a.	–	–	–
	USD	Fixed rate between 1.39% p.a. to 1.81% p.a. and quarterly coupons with 76 basis points over Libor	Quarterly coupons with 114 basis points over Libor	–	–
Subordinated notes – fixed rate	USD	–	–	–	Fixed rate between 3.125% p.a. to 4.50% p.a.
	CHF	–	–	–	Fixed rate of 1.885% p.a.
Borrowings through repurchase agreements	USD	Fixed rate ranging from negative 0.25% p.a. to positive 1.50% p.a. and quarterly coupons between 130 to 145 basis points over Libor	Quarterly coupons between 130 to 145 basis points over Libor	–	Semi-annual coupons between negative 20 to negative 18 basis points over Libor

(*) includes AED 2,087,489 thousand 30 year accreting notes with yield ranging from 4.30% p.a. to 5.12% p.a. and are callable at the end of every 5th year from issue date.

The subordinated fixed rate notes qualify as Tier 2 subordinated loan capital for the first 5 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 1,457,121 thousand mature in 2023 but are callable after 5 years from the issuance date at the option of the Bank.

21 OTHER LIABILITIES

	2016 AED'000	2015 AED'000
Interest payable	**1,022,845**	506,502
Recognised liability for defined benefit obligation	**421,275**	384,677
Accounts payable and other creditors	**271,313**	291,506
Deferred income	**635,476**	626,360
Acceptances (Note 14)	**13,262,942**	7,168,716
Others	**1,503,508**	1,425,473
Total other liabilities	**17,117,359**	10,403,234

DEFINED BENEFIT OBLIGATION

The Group provides gratuity benefits to its eligible employees in UAE. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out in the last quarter of 2016 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: 4.00% p.a.

Salary increment rate: 2.50% p.a. till 2019 and 4.50% p.a. thereafter.

Demographic assumptions for mortality and retirement were used in valuing the liabilities and benefits under the plan.

The liability would be higher by AED 12,988 thousand had the discount rate used in the assumption been lower by 0.50% and the liability would be lower by AED 12,219 thousand had the discount rate used in the assumption been higher by 0.50%. Similarly, the liability would be higher by AED 13,001 thousand had the salary increment rate used in the assumption been higher by 0.50% and the liability would be lower by AED 12,350 thousand had the salary increment rate used in the assumption been lower by 0.50%.

The movement in defined benefit obligation is as follows:

	2016 AED'000	2015 AED'000
Opening balance	**384,677**	334,872
Net charge during the year(*)	**55,847**	68,121
Actuarial (gains)/losses on defined benefit obligation	**(1,573)**	10,141
Benefits paid	**(17,676)**	(28,457)
Closing balance	**421,275**	384,677

(*) recognised under "staff costs" in the consolidated income statement

DEFINED BENEFIT CONTRIBUTION

Under defined contribution plans, the Group pays contributions to Abu Dhabi Retirement Pensions and Benefits Fund for UAE National employees and to respective pension funds for other GCC National employees. The charge for the year in respect of these contributions is AED 28,863 thousand (2015 – AED 27,763 thousand). As at 31 December 2016, pension payable of AED 3,461 thousand has been classified under other liabilities – others (31 December 2015 – AED 5,905 thousand).

22 SHARE CAPITAL

	Authorised AED'000	Issued and fully paid 2016 AED'000	Issued and fully paid 2015 AED'000
Ordinary shares of AED 1 each	**5,595,597**	**5,198,231**	5,595,597

In December 2016, the Board of Directors approved cancellation of 397,366,172 shares which were acquired by the Bank during the buyback period (Note 23). The cancellation is effective from 8 January 2017 as the period of two years for the sale of purchased shares ended on 5 January 2017. The cancellation of treasury shares being a non-cash transaction has not been reflected in the consolidated statement of cash flows.

As at 31 December 2016, Abu Dhabi Investment Council held 62.523% (31 December 2015 – 58.083%) of the Bank's issued and fully paid up share capital.

DIVIDENDS

For the year ended 31 December 2016, the Board of Directors has proposed to pay cash dividend of AED 2,079,292 thousand, being AED 0.40 dividend per share and representing 40% of the paid up capital (31 December 2015 – AED 2,339,204 thousand, being AED 0.45 dividend per share and representing 45% 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

Reserves movement for the year ended 31 December 2016:

	Treasury shares AED'000	Employees' incentive plan shares, net AED'000	Statutory reserve AED'000
As at 1 January 2016	**(1,825,653)**	**(92,959)**	**2,797,799**
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	–	**(46,354)**	–
Fair value adjustments	–	**4,950**	–
Shares — vested portion (Note 25)	–	**34,304**	–
Cancellation of treasury shares (Note 22)	**1,825,653**	–	–
As at 31 December 2016	–	**(100,059)**	**2,797,799**
As 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	(17,005)	–	–
Transfer from retained earnings (Note 52)	–	–	105,645
As at 31 December 2015	(1,825,653)	(92,959)	2,797,799

For more information on reserves refer 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
2,797,799	**2,000,000**	**150,000**	**(73,260)**	**3,057**	**(100,219)**	**5,656,564**
–	**–**	**–**	**(5,481)**	**–**	**–**	**(5,481)**
–	**–**	**–**	**–**	**(314,683)**	**–**	**(314,683)**
–	**–**	**–**	**–**	**168,133**	**–**	**168,133**
–	**–**	**–**	**–**	**–**	**167,287**	**167,287**
–	**–**	**–**	**–**	**–**	**(53,090)**	**(53,090)**
–	**–**	**–**	**(5,481)**	**(146,550)**	**114,197**	**(37,834)**
–	**–**	**–**	**–**	**–**	**–**	**(46,354)**
–	**–**	**–**	**–**	**–**	**–**	**4,950**
–	**–**	**–**	**–**	**–**	**–**	**34,304**
–	**–**	**–**	**–**	**–**	**–**	**1,825,653**
2,797,799	**2,000,000**	**150,000**	**(78,741)**	**(143,493)**	**13,978**	**7,437,283**
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

24 ISLAMIC FINANCING

Islamic financing assets

	2016 AED'000	2015 AED'000
Murabaha	**2,589,031**	2,180,790
Ijara financing	**9,552,393**	6,749,806
Salam	**6,564,582**	5,303,398
Others	**169,878**	230,373
Gross Islamic financing assets	**18,875,884**	14,464,367
Less: Allowance for impairment	**(376,892)**	(191,169)
Net Islamic financing assets	**18,498,992**	14,273,198

Gross Ijara and related present value of the minimum Ijara payments

	2016 AED'000	2015 AED'000
Not later than one year	**1,018,822**	483,002
Later than one year but not later than 5 years	**4,868,456**	1,853,649
Later than 5 years	**6,068,848**	6,132,908
Gross Ijara	**11,956,126**	8,469,559
Less: Deferred income	**(2,403,733)**	(1,719,753)
Net Ijara	**9,552,393**	6,749,806
Net present value		
Not later than one year	**812,845**	384,998
Later than one year but not later than 5 years	**3,890,182**	1,477,280
Later than 5 years	**4,849,366**	4,887,528
Total net present value	**9,552,393**	6,749,806

Income from Islamic financing

	2016 AED'000	2015 AED'000
Murabaha	**101,525**	83,625
Ijara financing	**320,557**	226,074
Salam	**414,896**	359,588
Others	**6,700**	7,857
Total income from Islamic financing	**843,678**	677,144

Islamic deposits

	2016 AED'000	2015 AED'000
Current account deposits	**3,480,635**	2,646,781
Margin deposits	**40,556**	11,122
Mudaraba savings deposits	**5,840,816**	4,919,033
Mudaraba term deposits	**1,009,604**	1,280,738
Wakala deposits	**1,615,814**	1,363,893
Total Islamic deposits	**11,987,425**	10,221,567

Islamic profit distribution

	2016 AED'000	2015 AED'000
Mudaraba savings and term deposits	**51,937**	41,505
Wakala deposits	**37,973**	17,410
Sukuk	**48,609**	50,797
Total Islamic profit distribution	**138,519**	109,712

In November 2011, ADCB through its subsidiary ADCB Islamic Finance (Cayman) Limited (Sukuk company) issued a Shari'ah compliant financing arrangement – Sukuk amounting to USD 500,000 thousand (AED 1,836,500 thousand). The Sukuk carried a profit rate of 4.07% p.a. payable semi-annually and matured in November 2016. The Sukuk was listed on London Stock Exchange.

25 EMPLOYEES' INCENTIVE PLAN SHARES, NET

The Group operates Deferred Compensation Plan (the "Plan") to recognise and retain good 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 2016, the Group had five incentive plans in force as described below:

	1 January 2016	1 January 2016	1 January 2015	1 January 2015	January 1, 2014
Number of shares granted	2,075,000	4,096,402	1,795,000	3,840,968	1,665,000
Fair value of the granted shares at the grant date in AED thousand	13,674	26,995	12,619	27,002	10,823
Vesting date	31 December 2019	31 December 2018	31 December 2018	31 December 2017	31 December 2017

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:

	2016	2015
Opening balance	**6,727,404**	6,097,905
Shares granted during the year	**6,171,402**	5,635,968
Exercised during the year	**(3,670,727)**	(4,455,263)
Forfeited during the year	**(160,944)**	(551,206)
Closing balance	**9,067,135**	6,727,404
Amount of "Plan" cost recognised under "staff costs" in the consolidated statement of income (AED '000)	**34,304**	27,391

Total number of un-allotted shares under the Plan as at 31 December 2016 were 8,615,124 shares (31 December 2015 — 7,337,530 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 I 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 6 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 stipulate 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

	2016 AED'000	2015 AED'000
Loans and advances to banks	**477,720**	301,740
Loans and advances to customers	**6,791,680**	6,348,531
Available-for-sale investments	**632,233**	459,260
Trading securities	**5,970**	10,437
Total interest income	**7,907,603**	7,119,968

28 INTEREST EXPENSE

	2016 AED'000	2015 AED'000
Deposits from banks	**23,363**	7,212
Deposits from customers	**1,654,764**	919,506
Euro commercial paper	**97,024**	36,003
Borrowings	**636,438**	518,880
Total interest expense	**2,411,589**	1,481,601

29 NET FEES AND COMMISSION INCOME

	2016 AED'000	2015 AED'000
Fees and commission income		
Retail banking fees	**1,115,779**	1,014,470
Corporate banking fees	**560,200**	559,501
Fees from trust and other fiduciary activities	**156,447**	178,418
Brokerage fees	**16,831**	14,018
Other fees	**45,888**	41,775
Total fees and commission income	**1,895,145**	1,808,182
Fees and commission expenses	**(422,842)**	(370,605)
Net fees and commission income	**1,472,303**	1,437,577

30 NET TRADING INCOME

	2016 AED'000	2015 AED'000
Net gains from dealing in derivatives	**81,961**	64,145
Net gains from dealing in foreign currencies	**434,378**	292,104
Net gains/(losses) from trading securities	**5,514**	(4,237)
Net trading income	**521,853**	352,012

31 OTHER OPERATING INCOME

	2016 AED'000	2015 AED'000
Property management income	**150,017**	151,464
Rental income	**61,148**	53,220
Dividend income	**5,929**	9,867
Net gains from disposal of available-for-sale investments	**53,090**	17,028
Losses arising from retirement of hedges	**(8,598)**	(3,887)
Others	**22,950**	37,214
Total other operating income	**284,536**	264,906

32 OPERATING EXPENSES

	2016 AED'000	2015 AED'000
Staff expenses	**1,656,860**	1,689,427
Depreciation (Note 15)	**144,813**	134,531
Amortisation of intangible assets (Note 16)	**–**	16,905
Others	**994,189**	986,075
Total operating expenses	**2,795,862**	2,826,938

33 IMPAIRMENT ALLOWANCES

	2016 AED'000	2015 AED'000
Charge for the year	**1,689,913**	752,846
Recoveries during the year	**(137,597)**	(252,566)
Impairment allowance on loans and advances, net (Note 43.6)	**1,552,316**	500,280
Recoveries on available-for-sale investments	**(19,209)**	(10,853)
Impairment (release)/allowance – others	**(12,589)**	12,121
Total impairment allowances	**1,520,518**	501,548

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.

	2016 AED'000	2015 AED'000
Net profit for the year attributable to the equity holders of the Bank	**4,148,651**	4,924,244
Less: Coupon paid on capital notes (Note 26)	**(138,013)**	(128,860)
Net adjusted profit for the year attributable to the equity holders of the Bank (a)	**4,010,638**	4,795,384

	Number of shares in thousand	
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 buy back	**(397,366)**	(397,330)
Less: Weighted average number of shares resulting from Employees' incentive plan shares	**(17,115)**	(14,607)
Weighted average number of equity shares in issue during the year for basic earnings per share (b)	**5,181,116**	5,183,660
Add: Weighted average number of shares resulting from Employees' incentive plan shares	**17,115**	14,607
Weighted average number of equity shares in issue during the year for diluted earnings per share (c)	**5,198,231**	5,198,267
Basic earnings per share (AED) (a)/(b)	**0.77**	0.93
Diluted earnings per share (AED) (a)/(c)	**0.77**	0.92

35 OPERATING LEASE

GROUP AS LESSEE

Operating leases relates to leases of branch premises, offices and ATMs of the Group with lease terms mainly between 1 to 3 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.

	2016 AED'000	2015 AED'000
Payments recognised as an expense		
Minimum lease payments	**82,728**	68,472
Non-cancellable operating lease commitments		
Not later than one year	**43,822**	31,345
Later than one year but not later than 5 years	**78,278**	15,642
Later than 5 years	**2,833**	225
Total non-cancellable operating lease commitments	**124,933**	47,212

GROUP AS LESSOR

Operating leases relate to properties owned by the Group with varied lease terms, with an option to extend the lease term. All operating lease contracts contain 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.

	2016 AED'000	2015 AED'000
Non-cancellable operating lease receivables:		
Not later than one year	**22,932**	33,290
Later than one year but not later than 5 years	**35,196**	42,793
Later than 5 years	**35,531**	41,318
Total non-cancellable operating lease receivables	**93,659**	117,401

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:

	2016 AED'000	2015 AED'000
Cash and balances with central banks	**19,261,902**	20,180,277
Deposits and balances due from banks, net (excluding loans and advances to banks, net)	**21,079,997**	14,954,997
Reverse-repo placements	**1,524,806**	4,256,277
Due to banks	**(3,842,714)**	(1,691,793)
	38,023,991	37,699,758
Less: Cash and balances with central banks, deposits and balances due from banks, net and reverse-repo placements – with original maturity of more than 3 months	**(4,867,005)**	(7,364,126)
Add: Due to banks – with original maturity of more than 3 months	**1,494,133**	437,937
Total cash and cash equivalents	**34,651,119**	30,773,569

37 RELATED PARTY TRANSACTIONS

The Group enters into transactions with the 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 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, so 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 and related parties 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 62.523% (31 December 2015 – 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 their related parties AED'000	Key management AED'000	Associate and funds under management AED'000	Total AED'000
2016					
Balances:					
Deposits and balances due from banks	**8,365,227**	**–**	**–**	**–**	**8,365,227**
Trading securities	**27,660**	**–**	**–**	**–**	**27,660**
Derivative financial instruments – assets	**1,366,421**	**–**	**–**	**–**	**1,366,421**
Investment securities	**13,106,324**	**–**	**–**	**158,085**	**13,264,409**
Loans and advances to customers	**23,653,122**	**304,837**	**36,371**	**293,232**	**24,287,562**
Other assets	**113,542**	**1,230**	**–**	**6,618**	**121,390**
Due to banks	**90,949**	**–**	**–**	**–**	**90,949**
Derivative financial instruments – liabilities	**532,920**	**–**	**–**	**–**	**532,920**
Deposits from customers	**34,839,067**	**216,577**	**30,075**	**58,814**	**35,144,533**
Borrowings	**51,164**	**–**	**–**	**–**	**51,164**
Other liabilities	**220,116**	**1,252**	**9,555**	**636**	**231,559**
Capital notes	**4,000,000**	**–**	**–**	**–**	**4,000,000**
Commitments and contingent liabilities	**7,291,066**	**92,007**	**1,633**	**28,096**	**7,412,802**
Transactions:					
Interest, fees and other income	**491,222**	**11,407**	**1,216**	**56,816**	**560,661**
Interest expense	**334,390**	**1,578**	**293**	**4**	**336,265**
Derivative income	**62,168**	**–**	**–**	**–**	**62,168**
Share in profit of associate	**–**	**–**	**–**	**7,821**	**7,821**
Coupon paid on Capital notes	**138,013**	**–**	**–**	**–**	**138,013**
2015					
Balances:					
Deposits and balances due from banks	3,345,680	–	–	–	3,345,680
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	3,534,254	–	–	194,504	3,728,758
Loans and advances to customers	21,016,695	287,425	38,603	348,688	21,691,411
Other assets	181,227	2,266	352	10,245	194,090
Derivative financial instruments – liabilities	719,449	–	–	–	719,449
Due to banks	47,676	–	–	–	47,676
Deposits from customers	28,538,837	177,902	20,698	59,294	28,796,731
Other liabilities	37,574	426	8,182	–	46,182
Capital notes	4,000,000	–	–	–	4,000,000
Commitments and contingent liabilities	3,785,311	148,806	2,026	29,039	3,965,182
Transactions:					
Interest, fees and other income	305,040	9,954	1,088	48,864	364,946
Interest expense	234,477	210	155	4	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

As at 31 December 2016, Funds under management held 6,313,612 shares (31 December 2015: 6,743,997 shares) of the Bank. During the year, the Bank paid dividend of AED 2,903 thousand (2015: AED 1,937 thousand) to these Funds.

Remuneration of key management employees and Board of Directors fees and expenses during the year are as follows:

	2016 AED'000	2015 AED'000
Short-term benefits	**25,623**	25,536
Termination benefits	**2,292**	2,636
Variable pay benefits	**29,650**	30,375
	57,565	58,547
Board of Directors fees and expenses	**9,629**	7,909

In addition to the above, the key management personnel were granted long term deferred compensation including share based payments of AED 26,900 thousand (2015 — AED 27,625 thousand).

38 COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following commitments and contingent liabilities at 31 December:

	2016 AED'000	2015 AED'000
Letters of credit	**11,721,924**	7,397,227
Guarantees	**22,000,322**	20,688,203
Commitments to extend credit — Revocable (*)	**11,021,112**	10,140,076
Commitments to extend credit — Irrevocable	**13,656,251**	13,436,760
Total commitments on behalf of customers	**58,399,609**	51,662,266
Commitments for future capital expenditure	**307,268**	364,985
Commitments to invest in investment securities	**57,202**	89,182
Total commitments and contingent liabilities	**58,764,079**	52,116,433

(*) includes AED 7,032,650 thousand (31 December 2015: AED 6,860,860 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 Group's 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 of retail, wealth management, Islamic financing and investment in associate. 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 of business banking, cash management, trade finance, corporate finance, small and medium 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 and treasury	comprises of central treasury operations, management of the Group's investment portfolio and interest rate, currency and commodity derivative portfolio and Islamic financing. Investments and treasury undertakes the Group's funding and centralized 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 of 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 and treasury AED'000	Property management AED'000	Total AED'000
2016					
Net interest income	**2,557,455**	**1,730,381**	**1,096,797**	**111,381**	**5,496,014**
Net income from Islamic financing	**431,726**	**180,482**	**89,224**	**3,727**	**705,159**
Total net interest and Islamic financing income	**2,989,181**	**1,910,863**	**1,186,021**	**115,108**	**6,201,173**
Non-interest income	**963,611**	**668,334**	**413,995**	**248,334**	**2,294,274**
Operating expenses	**(1,781,678)**	**(701,123)**	**(197,110)**	**(115,951)**	**(2,795,862)**
Operating profit before impairment allowances	**2,171,114**	**1,878,074**	**1,402,906**	**247,491**	**5,699,585**
Impairment (allowances)/recoveries	**(942,934)**	**(596,793)**	**19,209**	**–**	**(1,520,518)**
Share in profit of associate	**7,821**	**–**	**–**	**–**	**7,821**
Profit before taxation	**1,236,001**	**1,281,281**	**1,422,115**	**247,491**	**4,186,888**
Overseas income tax expense	**–**	**(29,820)**	**–**	**–**	**(29,820)**
Net profit for the year	**1,236,001**	**1,251,461**	**1,422,115**	**247,491**	**4,157,068**
Capital expenditure					**236,858**
31 December 2016					
Segment assets	**73,885,539**	**105,660,754**	**78,147,077**	**595,887**	**258,289,257**
Segment liabilities	**51,659,677**	**80,948,903**	**95,283,613**	**46,179**	**227,938,372**
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

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	
	2016 AED'000	2015 AED'000	**2016 AED'000**	2015 AED'000
Consumer banking	**4,975,754**	4,795,767	**(1,022,962)**	(1,047,154)
Wholesale banking	**3,269,908**	3,373,491	**(690,711)**	(877,501)
Investments and treasury	**14,001**	(117,309)	**1,586,015**	1,813,162
Property management	**235,784**	208,537	**127,658**	111,493
Total operating income	**8,495,447**	8,260,486	**–**	–

GEOGRAPHICAL INFORMATION

The Group operates in two principal geographic areas i.e. Domestic and International. The United Arab Emirates is designated as domestic area which represents the operations of the Group that originates from the UAE branches and subsidiaries; and international area represents the operations of the Group that originates from its branches in India, Jersey and through its subsidiaries outside UAE. The information regarding Group's revenue and non-current assets by geographical location are detailed as follows:

	Domestic		International	
	2016 AED'000	2015 AED'000	**2016 AED'000**	2015 AED'000
Income				
Net interest and Islamic financing income	**6,198,091**	6,185,591	**3,082**	20,208
Non-interest income	**2,270,639**	2,041,837	**23,635**	12,850
Non-current assets				
Investment in associate	**204,977**	197,156	**–**	–
Investment properties	**659,776**	647,647	**–**	–
Property and equipment, net	**921,938**	830,136	**4,747**	5,009
Intangible assets	**18,800**	18,800	**–**	–

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
2016					
Assets					
Cash and balances with central banks	–	–	–	19,261,902	19,261,902
Deposits and balances due from banks, net	–	–	–	24,663,615	24,663,615
Reverse-repo placements	–	–	–	1,524,806	1,524,806
Trading securities	418,758	–	–	–	418,758
Derivative financial instruments	3,540,804	430,985	–	–	3,971,789
Investment securities	–	–	33,059,466	–	33,059,466
Loans and advances to customers, net	–	–	–	158,457,695	158,457,695
Other assets	–	–	–	15,062,435	15,062,435
Total financial assets	3,959,562	430,985	33,059,466	218,970,453	256,420,466
Liabilities					
Due to banks	–	–	–	3,842,714	3,842,714
Derivative financial instruments	3,298,610	1,493,919	–	–	4,792,529
Deposits from customers	–	–	–	155,442,207	155,442,207
Euro commercial paper	–	–	–	8,728,533	8,728,533
Borrowings	–	–	–	38,015,030	38,015,030
Other liabilities	–	–	–	16,057,147	16,057,147
Total financial liabilities	3,298,610	1,493,919	–	222,085,631	226,878,160
2015					
Assets					
Cash and balances with central banks	–	–	–	20,180,277	20,180,277
Deposits and balances due from banks, net	–	–	–	22,381,921	22,381,921
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 to customers, net	–	–	–	146,250,462	146,250,462
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

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 classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs include 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 OTC derivatives, commodity derivatives, foreign exchange spot and forward contracts, certain investment securities and borrowings.

These instruments are valued using the inputs observable in an active market. Valuation of the derivative financial instruments is made through 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 derivatives with options.

VALUATION TECHNIQUES USING SIGNIFICANT UNOBSERVABLE INPUTS — LEVEL 3

Financial instruments and investment properties 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.

Financial instruments under this category mainly includes private equity instruments and funds. The carrying values of these investments are adjusted as follows:

a) Private equity instruments — using the latest available net book value; and

b) 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.

Refer Note 13 in respect of valuation methodology used for investment properties.

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 Quoted market prices AED'000	Level 2 Observable inputs AED'000	Level 3 Significant unobservable inputs AED'000	Total fair value AED'000	Carrying value AED'000
2016						
Assets at fair value						
Trading securities	8	418,758	–	–	418,758	418,758
Derivative financial instruments	9	10,612	3,961,177	–	3,971,789	3,971,789
Investment securities	10					
Quoted		23,494,544	1,049,665	–	24,544,209	24,544,209
Unquoted		–	8,178,003	337,254	8,515,257	8,515,257
Investment properties	13	–	–	659,776	659,776	659,776
Total		23,923,914	13,188,845	997,030	38,109,789	38,109,789
Liabilities at fair value						
Derivative financial instruments	9	1,290	4,791,239	–	4,792,529	4,792,529
Liabilities at amortised cost						
Borrowings	20	17,228,384	20,671,150	–	37,899,534	38,015,030
Total		17,229,674	25,462,389	–	42,692,063	42,807,559
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		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		18,966,682	19,325,814	–	38,292,496	38,212,911

UNCONSOLIDATED STRUCTURED ENTITY

Level 1 financial instruments include the Bank's investments in certain Funds. The total carrying value of investments in these Funds as at 31 December 2016 was AED 158,085 thousand (31 December 2015 — AED 194,504 thousand). The Bank has also extended revocable overdraft facilities to these Funds amounting to AED 28,365 thousand (31 December 2015 — AED 28,365 thousand), out of which AED 1,188 thousand was utilised and outstanding as at 31 December 2016 (31 December 2015 — AED 244 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:

	2016 AED'000	2015 AED'000
Opening balance	**413,621**	378,216
Purchases, net	**4,130**	14,520
Disposals including capital refunds	**(50,623)**	(5,304)
Adjustment through comprehensive income	**(29,874)**	26,189
Closing balance	**337,254**	413,621

The purchases under Level 3 category represents capital contributions made during the year into private equity and funds under existing capital commitments.

Gain of AED 11,315 thousand was realised on disposal of Level 3 investments during the year (2015: AED Nil).

There were no transfers between Level 1 and Level 2 available-for-sale investments during 2016 and there is no change in valuation techniques used during the year.

The significant unobservable inputs used in the fair value measurement of the Group's investment properties are rental income and capitalization rates. Significant decrease in rental income, or increase in capitalization rates, in isolation would result in a significant lower fair value measurement. Generally, a change in the assumption used for rental income should be accompanied by a change in the assumption for capitalization rates in the same direction as 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 rest with the Board. This is managed through various Board level committees; namely Board Risk & Credit Committee (BRCC) and 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 management risk 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 authorized 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 for 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 BRCC. The risk function is independent of the origination, trading and sales function to ensure balance in risk reward decision 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.

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 BACC. The IAD 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 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 SME's. Management of these risks is based on internal models of assessment and score card based decisions complemented by internal portfolio analytics.

The Group controls credit risk by aggregating and monitoring credit exposures (both direct and indirect exposures) on the 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 measures 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 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 the macro economic conditions, the risk appetite of the Group, market data and internal skill sets and capabilities. They are regularly reviewed and modified to ensure they stay current, 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 2016 and 2015, 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 only 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	CRM AED'000	Maximum credit risk exposure AED'000
2016					
Deposits and balances due from banks, net	**24,663,615**	**–**	**24,663,615**	**–**	**24,663,615**
Reverse-repo placements	**1,524,806**	**–**	**1,524,806**	**1,524,806**	**–**
Derivative financial instruments	**3,971,789**	**–**	**3,971,789**	**2,512,087**	**1,459,702**
Investment securities	**33,059,466**	**2,695**	**33,062,161**	**–**	**32,566,301**
Loans and advances to customers, net	**158,457,695**	**47,378,497**	**205,836,192**	**118,272,602**	**87,563,590**
Other assets	**15,120,988**	**–**	**15,120,988**	**–**	**15,056,860**
Total	**236,798,359**	**47,381,192**	**284,179,551**	**122,309,495**	**161,310,068**
2015					
Deposits and balances due from banks, net	22,381,921	–	22,381,921	860	22,381,061
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 to customers, net	146,250,462	41,522,190	187,772,652	87,723,250	100,049,402
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

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 are based on the location of the counterparty or customer or the economic activity in which they are 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
2016								
Assets								
Deposits and balances due from banks, net	10,086,945	10,494,538	187,030	1,183,529	827,613	313,746	1,570,214	24,663,615
Reverse-repo placements	–	–	–	–	1,524,806	–	–	1,524,806
Derivative financial instruments	1,980,575	6,168	–	62,261	1,805,504	–	117,281	3,971,789
Investment securities	20,873,426	3,789,096	527,924	4,679,056	1,603,317	474,907	615,880	32,563,606
Loans and advances to customers, net	149,546,974	3,569,807	94,017	3,379,068	421,511	801	1,445,517	158,457,695
Other assets	9,531,950	376,384	9,655	1,857,813	308,288	2,920,411	52,359	15,056,860
Total assets	192,019,870	18,235,993	818,626	11,161,727	6,491,039	3,709,865	3,801,251	236,238,371
Commitment and contingent liabilities	37,707,647	2,037,393	210,924	2,404,408	3,624,923	1,139,044	256,853	47,381,192
2015								
Assets								
Deposits and balances due from banks, net	6,192,300	8,610,690	4,915	2,905,939	3,017,500	51,936	1,598,641	22,381,921
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 to customers, net	139,007,850	2,803,341	272,813	3,219,027	747,216	5,166	195,049	146,250,462
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

(b) Credit risk concentration by economic/industry sector

The economic activity sector composition of the loans and advances to customers is as follows:

	2016			2015		
	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	**207,906**	**–**	**207,906**	216,646	–	216,646
Energy	**98,138**	**410,237**	**508,375**	78,005	215,698	293,703
Trading	**4,117,854**	**1,302,085**	**5,419,939**	3,854,238	1,071,780	4,926,018
Real estate investment & hospitality	**56,682,307**	**1,387,668**	**58,069,975**	53,293,920	1,088,985	54,382,905
Transport	**2,019,289**	**1,584,562**	**3,603,851**	1,417,433	962,756	2,380,189
Personal	**40,429,267**	**236,162**	**40,665,429**	39,077,248	235,132	39,312,380
Government & public sector entities	**35,138,681**	**990,422**	**36,129,103**	32,822,161	258,258	33,080,419
Financial institutions (*)	**10,205,802**	**2,639,883**	**12,845,685**	9,864,452	2,456,281	12,320,733
Manufacturing	**2,239,667**	**1,645,144**	**3,884,811**	1,774,395	1,508,795	3,283,190
Services	**2,084,554**	**230,353**	**2,314,907**	1,591,190	187,590	1,778,780
Others	**678,063**	**72,026**	**750,089**	203,714	247,050	450,764
	153,901,528	**10,498,542**	**164,400,070**	144,193,402	8,232,325	152,425,727
Less: Allowance for impairment			**(5,942,375)**			(6,175,265)
Total loans and advances to customers, net			**158,457,695**			146,250,462

(*) includes investment companies

As at reporting date, the 20 largest customer loan exposures constitute 35.38% of the gross loans and advances to customers (31 December 2015 — 37.01%).

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
2016						
Assets						
Deposits and balances due from banks, net	**–**	**–**	**–**	**–**	**24,663,615**	**24,663,615**
Reverse-repo placements	**–**	**–**	**–**	**–**	**1,524,806**	**1,524,806**
Derivative financial instruments	**1,074,639**	**10,448**	**394,192**	**14,801**	**2,477,709**	**3,971,789**
Investment securities	**820,273**	**–**	**7,176,838**	**17,366,986**	**7,199,509**	**32,563,606**
Other assets	**11,356,547**	**314,820**	**612,320**	**195,217**	**2,577,956**	**15,056,860**
Total assets	**13,251,459**	**325,268**	**8,183,350**	**17,577,004**	**38,443,595**	**77,780,676**
Commitment and contingent liabilities	**29,547,460**	**4,594,988**	**3,003,226**	**1,156,399**	**9,079,119**	**47,381,192**
2015						
Assets						
Deposits and balances due from banks, net	–	–	–	–	22,381,921	22,381,921
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	35,623,438	59,454,834
Commitment and contingent liabilities	27,948,884	1,815,765	3,107,636	1,225,424	7,449,709	41,547,418

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 MRCC and MRC. The Group risk management practices and strategies are an integral part of business planning and budgeting process. All risk management areas are centralised under the Credit and Risk division.

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 the 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 is 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 various credit risk exposures 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 various credit risk exposures for the year ended 31 December 2016 was AED 164,856,273 thousand (31 December 2015 – AED 135,122,154 thousand).

Collateral held as security against impaired loans primarily relates to commercial and residential properties and securities. Where the estimated fair value of collateral held exceeds the outstanding loan, any excess on realisation is paid back to the customers and is not available for offset against other loans.

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 division 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 feed back and media reports.

Within the retail portfolios comprising of 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 reflects the level of contractual payments which 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 with the recommendations of 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 loans	Between 31 and 90 days past due
Past due and impaired	Over 91 days past due

The classification of loans and advances to customers by days past due are as follows:

	2016 AED'000	2015 AED'000
Neither past due nor impaired	156,862,836	144,402,392
Past due but not impaired	2,937,273	3,189,229
Past due and impaired	4,599,961	4,834,106
	164,400,070	152,425,727
Less: Allowance for impairment	(5,942,375)	(6,175,265)
Loans and advances to customers, net	158,457,695	146,250,462

Analysis of the age of past due but not impaired loans as at the end of the reporting period is as follows:

	2016 AED'000	2015 AED'000
31–60 days	2,168,307	2,514,110
More than 60 days	768,966	675,119
Total past due but not impaired loans	2,937,273	3,189,229

Exposure to credit risk by internal risk grades

The Group uses an internal grading system which employs ten 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 while 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, 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 to customers, net that are neither past due nor impaired and derivative financial assets as at 31 December:

	2016		2015	
	Loans and advances to customers, net AED'000	Derivative financial assets AED'000	Loans and advances to customers, net AED'000	Derivative financial assets AED'000
Internal risk grades				
Grades 1 to 4	69,786,621	3,884,351	48,488,878	3,771,580
Grades 5 to 6	43,787,697	87,326	54,452,178	230,328
Grade 7	8,765,784	112	9,191,443	–
Ungraded – including retail loans	34,522,734	–	32,269,893	–
	156,862,836	3,971,789	144,402,392	4,001,908

External credit ratings

The table below presents the external credit ratings as at December 31 of the Group's deposits and balances due from banks, gross, reverse-repo placements and available-for-sale bond securities based on Standard & Poor's rating scale. Bond issuer level ratings are used in case ratings are not available at issuance level. Wherever Standard & Poor's ratings are not available, comparable Fitch or Moody's equivalent ratings scale is used.

	2016			2015		
	Deposits and balances due from banks, gross AED'000	Reverse-repo placements AED'000	Available-for-sale bonds AED'000	Deposits and balances due from banks, gross AED'000	Reverse-repo placements AED'000	Available-for-sale bonds AED'000
Ratings						
AAA to AA–	1,984,049	–	6,941,123	1,057,894	925,594	5,114,768
A+ to A–	17,230,632	1,524,806	6,194,170	10,892,268	1,376,402	6,327,081
BBB+ to BBB–	3,252,390	–	6,779,436	6,323,654	117,780	6,344,134
BB+ to B–	1,907,404	–	2,558,913	4,119,360	–	1,194,583
CCC+ to C–	–	–	–	26	–	–
UAE Sovereigns	–	–	9,863,410	–	–	720,796
Unrated	392,509	–	226,554	158,341	1,836,501	604,050
	24,766,984	1,524,806	32,563,606	22,551,543	4,256,277	20,305,412

UAE Sovereigns and unrated available-for-sale bond securities internal ratings with comparable external ratings are as follows:

	Internal Rating	External Rating	2016 AED'000	2015 AED'000
UAE Sovereigns	Grade 2 to 3	AA to A	9,863,410	720,796
Unrated	Grade 3 to 5	A to BB+	226,554	604,050
			10,089,964	1,324,846

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 a Group's asset 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 level.

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 loans and advances to corporate, commercial, high net worth individual and banks 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 includes the Group's aggregate exposure to the customer, viability of the customer's business model and their 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 customers, 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

Loan 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 realizing 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:

	2016			2015		
	Individual impairment AED'000	Collective impairment AED'000	Total AED'000	Individual impairment AED'000	Collective impairment AED'000	Total AED'000
Opening balance	3,375,998	2,968,889	6,344,887	3,856,796	2,920,947	6,777,743
Charge for the year	1,464,214	225,699	1,689,913	704,616	48,230	752,846
Recoveries during the year	(137,597)	–	(137,597)	(252,566)	–	(252,566)
Net charge for the year	1,326,617	225,699	1,552,316	452,050	48,230	500,280
Discount unwind	(64,359)	–	(64,359)	(126,033)	–	(126,033)
Net amounts written-off	(1,786,884)	–	(1,786,884)	(806,219)	–	(806,219)
Currency translation	(49)	(167)	(216)	(596)	(288)	(884)
Closing balance	**2,851,323**	**3,194,421**	**6,045,744**	3,375,998	2,968,889	6,344,887

Allocation of impairment allowance on loans and advances to customers and banks is as follows:

	2016			2015		
	Individual impairment AED'000	Collective impairment AED'000	Total AED'000	Individual impairment AED'000	Collective impairment AED'000	Total AED'000
Loans and advances to customers (Note 11)	2,851,323	3,091,052	5,942,375	3,375,998	2,799,267	6,175,265
Loans and advances to banks (Note 6)	–	103,369	103,369	–	169,622	169,622
Total impairment allowance on loans and advances	**2,851,323**	**3,194,421**	**6,045,744**	3,375,998	2,968,889	6,344,887

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 to 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 division, which uses derivative instruments like interest rate swaps and cross currency interest rate 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 certificate of deposits and reverse repo.

The off-balance sheet gap represents the net notional amounts of the off-balance sheet financial instruments, such as interest rate and cross currency 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 as at 31 December 2016 is 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.

	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	5,106,613	–	–	–	–	14,155,289	19,261,902
Deposits and balances due from banks, net	23,456,909	582,296	1,059	–	–	623,351	24,663,615
Reverse-repo placements	1,524,806	–	–	–	–	–	1,524,806
Trading securities	418,758	–	–	–	–	–	418,758
Derivative financial instruments	3,035,420	27,556	1,291	–	–	907,522	3,971,789
Investment securities	11,136,292	1,115,803	1,877,216	5,570,319	12,863,976	495,860	33,059,466
Loans and advances to customers, net	102,808,107	21,978,078	983,007	10,263,812	29,265,091	(6,840,400)	158,457,695
Investment in associate	–	–	–	–	–	204,977	204,977
Investment properties	–	–	–	–	–	659,776	659,776
Other assets	80,218	–	–	–	–	15,040,770	15,120,988
Property and equipment, net	–	–	–	–	–	926,685	926,685
Intangible assets	–	–	–	–	–	18,800	18,800
Total assets	147,567,123	23,703,733	2,862,573	15,834,131	42,129,067	26,192,630	258,289,257
Liabilities and equity							
Due to banks	2,924,638	280,000	370,623	–	–	267,453	3,842,714
Derivative financial instruments	3,797,437	1,781	–	–	–	993,311	4,792,529
Deposits from customers	72,031,911	18,245,571	12,408,630	4,010,122	5,823,325	42,922,648	155,442,207
Euro commercial paper	4,194,486	2,583,440	1,950,607	–	–	–	8,728,533
Borrowings	14,624,830	2,408,763	1,807,246	8,757,859	10,416,332	–	38,015,030
Other liabilities	31,677	–	–	–	–	17,085,682	17,117,359
Equity	–	–	–	–	–	30,350,885	30,350,885
Total liabilities and equity	97,604,979	23,519,555	16,537,106	12,767,981	16,239,657	91,619,979	258,289,257
On-balance sheet gap	49,962,144	184,178	(13,674,533)	3,066,150	25,889,410	(65,427,349)	–
Off-balance sheet gap	(4,800,276)	(5,202,216)	(317,368)	6,154,031	4,165,829	–	–
Total interest rate sensitivity gap	45,161,868	(5,018,038)	(13,991,901)	9,220,181	30,055,239	(65,427,349)	
Cumulative interest rate sensitivity gap	45,161,868	40,143,830	26,151,929	35,372,110	65,427,349	–	

Non-interest bearing items under loans and advances to customers, net include mainly loan loss provisions.

The Group's interest rate sensitivity position based on contractual repricing arrangements as 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	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, net	20,365,863	1,437,654	349,253	–	–	229,151	22,381,921
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 to customers, net	102,371,373	14,114,374	2,232,211	8,870,446	25,961,856	(7,299,798)	146,250,462
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 to customers, 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 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 their 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 division 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;
- Conducting regularly liquidity stress testing of the Group's liquidity position under a variety of scenarios covering both normal and more severe market conditions with well defined triggers and suggested actions;
- 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 the UAE and internally approved management triggers for liquidity risk;
- Monitoring Basel-III based NSFR liquidity risk ratio as a measure of long term liquidity stress and maintaining the ratio above the management approved threshold; and
- Conducting regular enterprise wide liquidity stress test which estimates liquidity requirements under idiosyncratic and systemic stress conditions. The enterprise wide stress test incorporates diverse liquidity triggers like currency de-peg, failure of a major local bank, credit rating downgrades in addition to regular stress cash flow analysis.

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 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

The Group has established several early warning indicators for liquidity risk in line with the Central Bank of the UAE requirements and monitors them regularly. Some of the key early warning indicators are as follows:

- Credit rating downgrade
- Decline in stock price
- Widening credit-default-swap levels
- Rising retail/wholesale funding costs
- Increased collateral calls

The Group has also established a breach management and escalation process with clear definition of roles and responsibilities.

TOOLS FOR LIQUIDITY MANAGEMENT

The Group through its Treasury division 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 program.

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. The Group's Treasury division 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 programs;
- Monitoring the stickiness of 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 certificate of deposit with 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 overnight rate at a spread of 150 basis points;
- Overdraft facility beyond the cash reserves at overnight spread of 300 basis points; and
- Repo facility against CDs at 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, Bank can borrow from 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 were utilised and outstanding at the end of the year.

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 summarizes 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 'less than 3 months' 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. Investment securities in equities and mutual funds with no maturity are included in 'over 3 years'.

The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The maturity profile of the assets and liabilities as at 31 December 2016 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
Assets						
Cash and balances with central banks	19,261,902	–	–	–	–	19,261,902
Deposits and balances due from banks, net	21,694,052	494,560	1,179,112	1,117,394	178,497	24,663,615
Reverse-repo placements	1,524,806	–	–	–	–	1,524,806
Trading securities	418,758	–	–	–	–	418,758
Derivative financial instruments	3,577,372	6,711	23,842	107,728	256,136	3,971,789
Investment securities	2,559,515	1,115,803	1,919,397	8,594,384	18,870,367	33,059,466
Loans and advances to customers, net	17,701,538	2,519,066	2,810,152	21,344,744	114,082,195	158,457,695
Investment in associate	–	–	–	–	204,977	204,977
Investment properties	–	–	–	659,776	–	659,776
Other assets	8,586,173	6,220,217	201,466	113,132	–	15,120,988
Property and equipment, net	–	–	–	–	926,685	926,685
Intangible assets	–	–	–	–	18,800	18,800
Total assets	75,324,116	10,356,357	6,133,969	31,937,158	134,537,657	258,289,257
Liabilities and equity						
Due to banks	3,192,091	280,000	370,623	–	–	3,842,714
Derivative financial instruments	3,375,505	273,986	306,268	286,344	550,426	4,792,529
Deposits from customers	114,534,445	18,250,019	12,412,350	4,010,122	6,235,271	155,442,207
Euro commercial paper	4,194,486	2,583,440	1,950,607	–	–	8,728,533
Borrowings	3,310,229	3,938,361	4,437,595	15,333,496	10,995,349	38,015,030
Other liabilities	10,453,470	5,944,548	184,933	113,132	421,276	17,117,359
Equity	–	–	–	–	30,350,885	30,350,885
Total liabilities and equity	139,060,226	31,270,354	19,662,376	19,743,094	48,553,207	258,289,257
Balance sheet liquidity gap	(63,736,110)	(20,913,997)	(13,528,407)	12,194,064	85,984,450	–
Off-balance sheet						
Financial guarantees and irrevocable commitments	1,986,474	2,073,031	1,502,320	6,876,685	3,145,407	15,583,917

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
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, net	17,166,344	1,022,458	891,978	3,301,141	–	22,381,921
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 to customers, net	15,229,305	2,338,779	3,693,351	19,214,497	105,774,530	146,250,462
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 table below summarizes the maturity profile of the Group's financial liabilities as at 31 December 2016 and 2015 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 "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
2016							
Liabilities							
Due to banks	**3,842,714**	**3,859,662**	**3,200,015**	**282,557**	**377,090**	**–**	**–**
Derivative financial instruments	**4,792,529**	**3,873,255**	**3,345,536**	**360,939**	**227,028**	**251,144**	**(311,392)**
Deposits from customers	**155,442,207**	**157,460,668**	**115,369,820**	**18,383,402**	**12,649,285**	**4,211,579**	**6,846,582**
Euro commercial paper	**8,728,533**	**8,756,624**	**4,198,566**	**2,590,704**	**1,967,354**	**–**	**–**
Borrowings	**38,015,030**	**47,910,490**	**3,570,904**	**4,110,051**	**4,687,354**	**16,641,356**	**18,900,825**
Total financial liabilities	**210,821,013**	**221,860,699**	**129,684,841**	**25,727,653**	**19,908,111**	**21,104,079**	**25,436,015**
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

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 foreign currency swaps, options currency etc. 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
2016								
Assets								
Cash and balances with central banks	12,442,019	6,664,063	–	–	–	–	155,820	19,261,902
Deposits and balances due from banks, net	1,800,481	19,484,771	485,547	12,304	540,549	25	2,339,938	24,663,615
Reverse-repo placements	–	1,524,806	–	–	–	–	–	1,524,806
Trading securities	–	418,758	–	–	–	–	–	418,758
Derivative financial instruments	1,256,420	2,650,981	365	–	244	–	63,779	3,971,789
Investment securities	243,784	28,807,910	3,083,936	99,359	–	–	824,477	33,059,466
Loans and advances to customers, net	137,642,396	19,814,901	43,023	1	7	–	957,367	158,457,695
Investment in associate	204,977	–	–	–	–	–	–	204,977
Investment properties	659,776	–	–	–	–	–	–	659,776
Other assets	1,304,183	13,527,265	101,431	6,622	10,988	3,684	166,815	15,120,988
Property and equipment, net	921,977	–	–	–	–	–	4,708	926,685
Intangible assets	18,800	–	–	–	–	–	–	18,800
Total assets	156,494,813	92,893,455	3,714,302	118,286	551,788	3,709	4,512,904	258,289,257
Liabilities and equity								
Due to banks	1,611,120	2,199,155	–	–	8	–	32,431	3,842,714
Derivative financial instruments	1,850,394	2,886,563	1,194	–	–	–	54,378	4,792,529
Deposits from customers	90,539,715	54,348,820	3,078,875	41,765	939,653	9	6,493,370	155,442,207
Euro commercial paper	–	5,972,681	1,309,526	–	1,446,326	–	–	8,728,533
Borrowings	500,358	32,469,415	473,974	1,037,924	898,422	576,215	2,058,722	38,015,030
Other liabilities	4,213,737	12,617,699	71,343	4,913	461	3,684	205,522	17,117,359
Equity	31,055,648	(704,763)	–	–	–	–	–	30,350,885
Total liabilities and equity	129,770,972	109,789,570	4,934,912	1,084,602	3,284,870	579,908	8,844,423	258,289,257
Net balance sheet position	26,723,841	(16,896,115)	(1,220,610)	(966,316)	(2,733,082)	(576,199)	(4,331,519)	–
Net off-balance sheet position	980,821	(11,876,456)	102,050	962,821	2,276,172	576,215	6,978,377	–
Net FX open position	27,704,662	(28,772,571)	(1,118,560)	(3,495)	(456,910)	16	2,646,858	–

	AED AED'000	USD AED'000	EUR AED'000	CHF AED'000	GBP AED'000	MYR AED'000	Others AED'000	Total AED'000
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, net	3,832,116	14,905,000	531,275	12,670	38,580	102	3,062,178	22,381,921
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 to customers, net	120,873,185	24,553,824	12,549	–	16,689	–	794,215	146,250,462
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	–

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) which 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, while optimizing 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 division, 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 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 have 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 the senior management and discussed by 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 and 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 the 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 hundred 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 31 December is as below:

	2016 AED'000	2015 AED'000
Daily value at risk (VaR at 99% — 1 day)		
Overall risk	**(5,151)**	(3,228)
Average VaR	**(5,754)**	(6,714)

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 level of risks in managing the trading book.

SENSITIVITY ANALYSIS

To overcome the VaR limitations mentioned under statistical measure 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 committee for their 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) — which would have an impact on the Group's consolidated income statement:

Price Shock in percentage	2016 +5% AED'000	2016 –5% AED'000	2015 +5% AED'000	2015 –5% AED'000
USD-AUD	**109**	**606**	1,122	(227)
EUR-USD	**2,194**	**2,744**	2,536	3,195
GBP-USD	**(3,762)**	**(265)**	193	214
USD-JPY	**(294)**	**566**	6,541	3,839
USD-CHF	**770**	**125**	1,367	(786)
USD-INR	**(10,918)**	**12,063**	(10,614)	12,606

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:

	2016 +25% AED'000	2016 –25% AED'000	2015 +25% AED'000	2015 –25% AED'000
AED	**(26,876)**	**33,214**	(17,319)	23,349
USD	**577**	**(1,015)**	10,215	(9,471)

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:

	2016 +25 bps AED'000	2016 –25 bps AED'000	2015 +25 bps AED'000	2015 –25 bps AED'000
Sensitivity of net interest income	**95,861**	**(95,862)**	88,701	(88,123)

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 three lines of defence concept.

Each business group, as an integral part of their first line of defence responsibilities, is responsible for identifying and managing risks that arise from their 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. 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 organization. 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 authorized 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 Group, Senior Management Committees and the Board Risk Committee.

As the third line of defence, 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 Committee.

49 FOREIGN CURRENCY BALANCES

Net assets amounting to Indian rupee equivalent of AED 206,829 thousand (31 December 2015 — AED 202,732 thousand) held in India are subject to the exchange control regulations of India.

50 TRUST ACTIVITIES

As at 31 December 2016, the net asset value of the funds under the management of the Group amounted to AED 2,928,980 thousand (31 December 2015 — AED 2,161,522 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%	2012	Bahrain	Trust activities.
ITMAM Services LLC	100%	2013	UAE	Transaction processing and back office support for the Group.
Abu Dhabi Commercial Enterprises LLC	100%	2013	Qatar	Engineering services.
Omicron Capital (Cayman) Limited	100%	2014	Cayman Islands	Treasury financing activities.
ADCB Structuring I (Cayman) Limited	100%	2016	Cayman Islands	Treasury financing activities.
ADCB Structuring II (Cayman) Limited	100%	2016	Cayman Islands	Treasury financing activities.

(*) These subsidiaries are dormant.

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

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of the United Arab Emirates. 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 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 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 Bank currently uses the approach defined below for Pillar 1 reporting:

Credit risk: 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 assess and measure various material risks, 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 the 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 requirement, capital should comprise of 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 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 includes 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, treasury shares, 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 form 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), 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:

	2016 AED'000	2015 AED'000
Tier 1 capital		
Share capital (Note 22)	**5,198,231**	5,595,597
Share premium	**2,419,999**	3,848,286
Other reserves (Note 23)	**7,423,305**	5,656,564
Retained earnings	**11,052,553**	9,627,315
Non-controlling interests	**–**	5,041
Capital notes (Note 26)	**4,000,000**	4,000,000
Less: Intangible assets (Note 16)	**(18,800)**	(18,800)
Less: Investment in associate (Note 12)	**(102,489)**	(98,578)
Total tier 1 capital	**29,972,799**	28,615,425
Tier 2 capital		
Collective impairment allowance on loans and advances	**2,115,655**	1,966,431
Cumulative changes in fair value (Note 23)	**6,290**	–
Subordinated notes (Note 20)	**4,217,314**	4,226,037
Less: Investment in associate (Note 12)	**(102,488)**	(98,578)
Total tier 2 capital	**6,236,771**	6,093,890
Total regulatory capital	**36,209,570**	34,709,315
Risk-weighted assets		
Credit risk	**169,252,435**	157,314,517
Market risk	**8,343,579**	5,652,368
Operational risk	**13,741,466**	12,689,402
Total risk-weighted assets	**191,337,480**	175,656,287
Capital adequacy ratio	**18.92%**	19.76%
Tier 1 ratio	**15.66%**	16.29%
Tier 2 ratio	**3.26%**	3.47%

The capital adequacy ratio was above the minimum requirement of 12% for 31 December 2016 (31 December 2015 – 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. Transfer to statutory reserve for the year is no longer required as the reserve has reached 50% of the paid-up share capital (31 December 2015 – AED 105,645 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. Transfer to legal reserve for the year is no longer required as the reserve has reached 50% of the paid-up share capital (31 December 2015 – AED 150,432 thousand). The legal reserve is not available for distribution.

(c) General 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 SOCIAL CONTRIBUTIONS

The Group made the following social contributions during the year:

	2016 AED'000	2015 AED'000
Donations	**6,019**	3,689
Sponsorships	**5,922**	4,371
Total social contributions	**11,941**	8,060

54 LEGAL PROCEEDINGS

The Group is involved in various legal proceedings and claims arising in the ordinary course of business. While 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.