

Consolidated Financial Statements

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INDEPENDENT AUDITOR'S REPORT

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

Report on the consolidated financial statements

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

Other matter

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

Report on other legal and regulatory requirements

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

- i) we have obtained all the information we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements of the Bank have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iii) the Bank has maintained proper books of account;
- iv) the financial information included in the Directors' report is consistent with the Bank's books of account;
- v) note 41 to the consolidated financial statements of the Bank discloses purchases or investment in shares during the financial year ended 31 December 2015;
- vi) note 37 to the consolidated financial statements of the Bank discloses material related party transactions, the terms under which they were conducted and principles of managing conflict of interests;
- vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2015 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2015; and
- viii) note 54 to the consolidated financial statements of the Bank discloses social contributions made during the year ended 31 December 2015.

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

Deloitte & Touche (M.E.)



Mutasem M. Dajani
Registration No. 726
31 January 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

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

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



Eissa Al Suwaidi
Chairman



Ala'a Eraiqat
Group Chief Executive Officer



Deepak Khullar
Group Chief Financial Officer

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2015

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

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

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

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1 ACTIVITIES AND AREAS OF OPERATIONS

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

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

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

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

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

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

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

STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE

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

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after	116
Amendments to IFRS 7 – Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied	117
IFRS 7 – Financial Instruments: Disclosures – additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied	
IFRS 9 – Financial Instruments (2009) issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 Financial Instruments (2010) revised in October 2010 includes the requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement.	1 January 2018	
IFRS 9 – Financial Instruments (2013) was revised in November 2013 to incorporate a hedge accounting chapter and permit the early application of the requirements for presenting in other comprehensive income the own credit gains or losses on financial liabilities designated under the fair value option without early-applying the other requirements of IFRS 9.		
Finalised version of IFRS 9 (IFRS 9 Financial Instruments [2014]) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition.		
IFRS 9 (2009) and IFRS 9 (2010) were superseded by IFRS 9 (2013), and IFRS 9 (2010) also superseded IFRS 9 (2009). IFRS 9 (2014) supersedes all previous versions of the standard. The various standards also permit various transitional options. Accordingly, entities can effectively choose which parts of IFRS 9 they apply, meaning they can choose to apply: (1) the classification and measurement requirements for financial assets, (2) the classification and measurement requirements for both financial assets and financial liabilities, (3) the classification and measurement requirements and the hedge accounting requirements provided that the relevant date of the initial application is before 1 February 2015.		
IFRS 15 – Revenue from Contracts with Customers provides a single, principles-based five-step model to be applied to all contracts with customers.	1 January 2018	
IFRS 16 – Leases specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019	
IFRS Annual Improvements cycle 2012 – 2014 that includes amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.	1 January 2016	
Amendments to IAS 16 and IAS 38 to clarify the acceptable methods of depreciation and amortisation.	1 January 2016	
Amendments to IFRS 11 to clarify accounting for acquisitions of interests in joint operations.	1 January 2016	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 BASIS OF PREPARATION

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

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

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

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

3.2 MEASUREMENT

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

3.3 FUNCTIONAL AND PRESENTATION CURRENCY

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

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

3.4 USE OF ESTIMATES AND JUDGEMENTS

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

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

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

3.5 BASIS OF CONSOLIDATION

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

Subsidiaries

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

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

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

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

- ▶ the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- ▶ potential voting rights held by the Bank;
- ▶ rights arising from other contractual arrangements; and
- ▶ any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time the decision needs to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

Changes in the Bank's ownership interests in existing subsidiaries

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

When the Bank loses control of a subsidiary, a gain or loss is recognised in the consolidated income statement and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to income statement or transferred to another category of equity as specified/permitted by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

Special purpose entities

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

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

Funds management

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

Investment in associate

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

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

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

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

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

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

Joint arrangements

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

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

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

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3.6 FOREIGN CURRENCIES

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

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

In the consolidated financial statements, the assets, including related goodwill where applicable, and liabilities of branches and subsidiaries whose functional currency is not AED are translated into the Group's presentation currency at the rate of exchange prevailing at the statement of financial position date. The income and expense items of branches and subsidiaries whose functional currency is not AED are translated into AED at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end, are recognised in other comprehensive income and accumulated in equity under 'foreign currency translation reserve' (Note 23).

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

3.7 FINANCIAL INSTRUMENTS

Initial recognition

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

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

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

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

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

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

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

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

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

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

Held-to-maturity

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

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

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

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

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

Available-for-sale

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

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

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

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

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

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

Loans and receivables

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

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

Loan impairment

Refer to credit risk management section – Note 43.6.

Financial liabilities and equity

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

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

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

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

Debt issued and other borrowed funds

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

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

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

Mandatory convertible securities

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

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Other financial liabilities

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

Reclassification of financial assets

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

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

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

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

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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

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

Financial liabilities

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

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

Offsetting

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

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

3.8 SALE AND REPURCHASE AGREEMENTS

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

3.9 SECURITIES BORROWING AND LENDING

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

3.10 CASH AND CASH EQUIVALENTS

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

3.11 AMORTISED COST MEASUREMENT

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

3.12 FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

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

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

3.13 DERIVATIVES

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index.

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

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

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

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

3.14 HEDGE ACCOUNTING

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

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

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Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the changes in fair value of both the derivative and the hedged item attributable to hedged risk are recognised in the consolidated income statement and the carrying amount of the hedged item is adjusted accordingly. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point to the carrying value of a hedged item for which the effective interest method is used is amortised in the consolidated income statement as part of the recalculated effective interest rate over the period to maturity or derecognition.

Cash flow hedges

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

Any cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement from other comprehensive income.

Net investment hedges

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

Hedge effectiveness testing

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

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

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

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement in "net gains on dealing in derivatives" under Net trading income (Note 30).

3.15 TREASURY SHARES AND CONTRACTS ON OWN SHARES

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

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

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

3.16 FINANCIAL GUARANTEES

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

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

3.17 ACCEPTANCES

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

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

3.18 COLLATERAL REPOSSESSED

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

3.19 LEASING

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

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

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

3.20 INVESTMENT PROPERTIES

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

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

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

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

3.21 PROPERTY AND EQUIPMENT

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

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

Estimated useful lives are as follows:

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

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the consolidated income statement.

3.22 CAPITAL WORK IN PROGRESS

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

3.23 INTANGIBLE ASSETS

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

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

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

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

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Estimated useful lives are as follows:

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

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

3.24 BORROWING COSTS

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

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

3.25 BUSINESS COMBINATIONS AND GOODWILL

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

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

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

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

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

3.26 IMPAIRMENT OF NON-FINANCIAL ASSETS

At each consolidated statement of financial position date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

3.27 EMPLOYEE BENEFITS

(i) Employees' end-of-service benefits

(a) Defined benefit plan

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

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

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

The Group provides end-of-service benefits for its expatriate employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

(b) Defined contribution plan

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

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

(ii) Termination benefits

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

(iii) Short-term employee benefits

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

(iv) Employees' incentive plan shares

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

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

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

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

3.28 PROVISIONS AND CONTINGENT LIABILITIES

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

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

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

Contingent liabilities, which include certain guarantees and letters of credit, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control, or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

3.29 SEGMENT REPORTING

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

3.30 TAXATION

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

3.31 REVENUE AND EXPENSE RECOGNITION

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

(i) Interest income and expense

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

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

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

(ii) Dividend income

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

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(iii) Fee and commission income

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

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

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

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

(b) Fee income from providing transaction services

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

3.32 ISLAMIC FINANCING

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

Murabaha financing

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

Ijara financing

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

Mudaraba

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

Salam

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

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

Wakala

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

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

Sukuk

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

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

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

IMPAIRMENT LOSSES ON LOANS AND ADVANCES

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

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

IMPAIRMENT OF AVAILABLE-FOR-SALE INVESTMENTS

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

VALUATION OF FINANCIAL INSTRUMENTS

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

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

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

FAIR VALUATION OF INVESTMENT PROPERTIES

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

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

CONSOLIDATION OF FUNDS

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

5 CASH AND BALANCES WITH CENTRAL BANKS

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

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

6 DEPOSITS AND BALANCES DUE FROM BANKS

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

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

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7 REVERSE-REPO PLACEMENTS

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

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

8 TRADING SECURITIES

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

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

9 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

- 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');
- 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
- it is settled at a future date.

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

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

Forward and futures transactions

Currency forwards represent commitments to purchase foreign and domestic currencies, including non-deliverable forward transactions (i.e. the transaction is net settled). Foreign currency and interest rate futures are contractual obligations

to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price established in an organised financial market. The credit risk for futures contracts is negligible as they are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate based on a notional principal amount.

Swap transactions

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

Option transactions

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

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

Fair value measurement models

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

Derivatives held or issued for trading purposes

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

Derivatives held or issued for hedging purposes

The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in exchange and interest rates. The Group uses forward foreign exchange contracts, cross-currency swaps and interest rate swaps to hedge exchange rate and interest rate risks. In all such cases, the hedging relationship and objectives including details of the hedged item and hedging instrument are formally documented and the transactions are accounted for based on the type of hedge.

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

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

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

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

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

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

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

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

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

10 INVESTMENT SECURITIES

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

(*) Gulf Cooperation Council

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

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

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

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

11 LOANS AND ADVANCES, NET

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

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

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

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

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

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12 INVESTMENT IN ASSOCIATE

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

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

Details of the investment in associate are as follows:

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

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

13 INVESTMENT PROPERTIES

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

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

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

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

FAIR VALUATIONS

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

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

The valuation methodologies considered by external valuers include:

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

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

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

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

14 OTHER ASSETS

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

15 PROPERTY AND EQUIPMENT, NET

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

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16 INTANGIBLE ASSETS

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

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

GOODWILL

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

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

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

OTHER INTANGIBLE ASSETS

Customer relationships Customer relationship intangible assets represent the value attributable to the business expected to be generated from customers that existed as at the acquisition date. In determining the fair value of customer relationships, credit card and Wealth Management customers were considered separately, given their differing risk profiles, relationships and loyalty. These relationships are expected to generate material recurring income in the form of interest, fees and commission.

Core deposit intangibles The value of core deposit intangible assets arises from the fact that the deposit base of the Group represents a cheaper source of funding than wholesale or money market funding. The spread between the cost of deposit funding and the cost of wholesale/money market funding represents the value of the core deposit intangible.

IMPAIRMENT ASSESSMENT OF GOODWILL

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

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

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

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

17 DUE TO BANKS

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

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

18 DEPOSITS FROM CUSTOMERS

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

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

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

19 EURO COMMERCIAL PAPER

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

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

The Bank hedges certain ECP for foreign currency exchange risk through foreign exchange swap contracts and designates these instruments as cash flow hedges. The net negative fair value of these hedge contracts as at 31 December 2015 was AED 82,811 thousand (31 December 2014 – net negative fair value of AED 166,883 thousand).

ECPs are issued at a discount and the discount rate ranges between 0.04% p.a. and 2.17% p.a. and negative discount rate ranges between 0.68% p.a. and 0.85% p.a. (31 December 2014 – 0.08% p.a. to 0.77% p.a.).

For maturity analysis of ECP borrowings, refer to Note 45.

20 BORROWINGS

The details of borrowings as at 31 December 2015 are as follows:

Instrument	Currency	Within 1 year AED'000	1–3 years AED'000	3–5 years AED'000	Over 5 years AED'000	Total AED'000
Global Medium-Term Notes	Australian dollar (AUD)	–	–	679,758	–	679,758
	Chinese renminbi (CNH)	–	167,032	–	–	167,032
	Euro (EUR)	–	–	48,314	–	48,314
	Malaysian ringgit (MYR)	–	598,227	–	–	598,227
	Swiss franc (CHF)	–	388,677	–	–	388,677
	Turkish lira (TRY)	46,821	–	–	–	46,821
	UAE dirham (AED)	–	504,164	–	–	504,164
	Japanese yen (JPY)	130,562	45,896	46,192	–	222,650
	Hong Kong dollar (HKD)	–	–	151,181	–	151,181
	US dollar (USD)	–	4,586,299	7,988,737	2,014,940	14,589,976
		177,383	6,290,295	8,914,182	2,014,940	17,396,800
Islamic Sukuk notes	US dollar (USD)	1,841,406	–	–	–	1,841,406
Bilateral loans – floating rate	US dollar (USD)	550,950	2,751,371	–	–	3,302,321
Syndicated loans – floating rate	US dollar (USD)	–	1,465,125	–	–	1,465,125
Certificates of deposit issued	Great Britain pound (GBP)	636,355	–	–	–	636,355
	Hong Kong dollar (HKD)	236,708	–	–	–	236,708
Subordinated notes – fixed rate	US dollar (USD)	–	–	–	3,662,417	3,662,417
	Swiss franc (CHF)	–	–	–	371,382	371,382
Borrowings through repurchase agreements	US dollar (USD)	3,284,750	1,274,467	–	–	4,559,217
Total borrowings		6,727,552	11,781,258	8,914,182	6,048,739	33,471,731

The Group hedges certain borrowings for foreign currency exchange risk and interest rate risk using either interest rate or cross-currency swaps and designates these swaps as either fair value or cash flow hedges. The net negative fair value of these swaps as at 31 December 2015 was AED 870,826 thousand.

The details of borrowings as at 31 December 2014 are as follows:

Instrument	Currency	Within 1 year AED'000	1–3 years AED'000	3–5 years AED'000	Over 5 years AED'000	Total AED'000
Global Medium-Term Notes	Australian dollar (AUD)	–	–	758,763	–	758,763
	Chinese renminbi (CNH)	–	172,950	–	–	172,950
	Euro (EUR)	–	–	–	53,905	53,905
	Malaysian ringgit (MYR)	784,575	733,731	–	–	1,518,306
	Swiss franc (CHF)	564,468	388,677	–	–	953,145
	Turkish lira (TRY)	–	60,127	–	–	60,127
	UAE dirham (AED)	–	513,270	–	–	513,270
	Japanese yen (JPY)	–	176,913	46,189	–	223,102
	US dollar (USD)	–	1,889,547	7,651,107	1,631,530	11,172,184
		1,349,043	3,935,215	8,456,059	1,685,435	15,425,752
Islamic Sukuk notes	US dollar (USD)	–	1,863,609	–	–	1,863,609
Bilateral loans – floating rate	US dollar (USD)	1,469,200	1,831,011	–	–	3,300,211
Subordinated notes – floating rate	US dollar (USD)	1,058,855	–	–	–	1,058,855
	– fixed rate	US dollar (USD)	–	–	3,709,770	3,709,770
	Swiss franc (CHF)	–	–	–	372,813	372,813
Borrowings through repurchase agreements	US dollar (USD)	4,589,111	–	–	–	4,589,111
Total borrowings		8,466,209	7,629,835	8,456,059	5,768,018	30,320,121

The Group hedges certain borrowings for foreign currency exchange risk and interest rate risk using either interest rate or cross-currency swaps and designates these swaps as either fair value or cash flow hedges. The net negative fair value of these swaps as at 31 December 2014 was AED 484,870 thousand.

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GLOBAL MEDIUM-TERM NOTES

Interest on Global Medium-Term Notes is payable in arrears and the contractual coupon rates as at 31 December 2015 are as follows:

Currency	Within 1 year	1–3 years	3–5 years	Over 5 years
AUD	–	–	Fixed rate of 4.75% p.a.	–
CNH	–	Fixed rate between 3.70% p.a. and 4.125% p.a.	–	–
EUR	–	–	Quarterly coupons with 59 basis points over EURIBOR	–
MYR	–	Fixed rate between 4.30% p.a. and 5.35% p.a.	–	–
CHF	–	Quarterly coupons with 110 basis points over CHF LIBOR	–	–
TRY	Fixed rate of 12.75% p.a.	–	–	–
AED	–	Fixed rate of 6.00% p.a.	–	–
JPY	Fixed rate of 0.41% p.a. and 0.81% p.a.	Fixed rate of 0.48% p.a.	Fixed rate of 0.68% p.a.	–
HKD	–	–	Fixed rate between 2.30% p.a. and 2.46% p.a.	–
USD(*)	–	Fixed rate of 2.50% p.a. and quarterly coupons between 108 and 130 basis points over LIBOR	Fixed rate between 2.63% p.a. and 3.00% p.a. and quarterly coupons with 73 basis points over LIBOR	Fixed rate between 4.52% p.a. and 5.12% p.a.

(*) Include AED 1,424,629 thousand 30-year accreting notes with yield ranging from 4.52% p.a. to 5.12% p.a. and are callable at the end of every fifth year from issue date.

ISLAMIC SUKUK NOTES

The Sukuk carries a profit rate of 4.071% p.a. payable semi-annually (Note 24).

BILATERAL FLOATING RATE LOANS

Monthly coupons with 60 to 80 basis points over LIBOR.

Quarterly coupons with 70 basis points plus LIBOR.

SYNDICATED FLOATING RATE LOANS

Monthly coupon with 68 basis points over LIBOR.

Quarterly coupons with 60 basis points over LIBOR.

CERTIFICATES OF DEPOSIT ISSUED

Fixed rate of 0.43 % p.a. to 0.90 % p.a.

SUBORDINATED FIXED RATE NOTES

Interest on the subordinated fixed rate notes is payable half-yearly in arrears and the contractual coupon rates as at 31 December 2015 are as follows:

Currency	Over 5 years
USD	Fixed rate 3.125% p.a. to 4.50% p.a.
CHF	Fixed rate 1.885% p.a.

The subordinated fixed rate notes qualify as Tier 2 subordinated loan capital for the first five-year period till 2018 and thereafter are amortised at the rate of 20% per annum until 2023 for capital adequacy calculation (Note 52). This has been approved by the Central Bank of the UAE. Subordinated notes of AED 1,453,412 thousand mature in 2023 but are callable after five years from the issuance date at the option of the Bank.

BORROWINGS THROUGH REPURCHASE AGREEMENTS

Fixed rate ranging from 0.66% p.a. to 0.92% p.a.

Quarterly coupons between 130 and 145 basis points over LIBOR and include repo against loans of AED 1,406,541 thousand.

21 OTHER LIABILITIES

	2015 AED'000	2014 AED'000
Interest payable	506,502	368,254
Recognised liability for defined benefit obligations	384,677	334,872
Accounts payable and other creditors	291,506	248,441
Deferred income	626,360	566,150
Acceptances (Note 14)	7,168,716	2,906,420
Others	1,425,473	1,380,775
Total other liabilities	10,403,234	5,804,912

DEFINED BENEFIT OBLIGATIONS

The Group provides gratuity benefits to its eligible employees in the UAE. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out in the last quarter of 2015 by a registered actuary in the UAE. The present value of the defined benefit obligation and the related current and past service cost were measured using the Projected Unit Credit Method.

Key assumptions used in the actuarial valuation are as follows:

Discount rate: 4.50% p.a.

Salary increment rate: 4.50% p.a.

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

The liability would be higher by AED 5,654 thousand had the discount rate used in the assumption been lower by 0.25%, and the liability would be lower by AED 5,486 thousand had the discount rate used in the assumption been higher by 0.25%. Similarly, the liability would be higher by AED 11,657 thousand had the salary increment rate used in the assumption been higher by 0.50%, and the liability would be lower by AED 9,329 thousand had the salary increment rate used in the assumption been lower by 0.50%.

The movement in defined benefit obligation is as follows:

	2015 AED'000	2014 AED'000
Opening balance	334,872	256,102
Net charge during the year (*)	68,121	69,935
Actuarial losses on defined benefit obligation	10,141	25,887
Benefits paid	(28,457)	(17,052)
Closing balance	384,677	334,872

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

DEFINED BENEFIT CONTRIBUTION

The Group also pays contributions to the Abu Dhabi Retirement Pensions and Benefits Fund in respect of its UAE and GCC national employees, and these are treated as defined contribution plans. The charge for the year in respect of these contributions is AED 27,763 thousand (2014 – AED 26,611 thousand). As at 31 December 2015, pension payable of AED 5,905 thousand has been classified under other liabilities – others (31 December 2014 – AED 5,023 thousand).

22 SHARE CAPITAL

	Authorised AED'000	Issued and fully paid	
		2015 AED'000	2014 AED'000
Ordinary shares of AED 1.00 each	5,595,597	5,595,597	5,595,597

As at 31 December 2015, Abu Dhabi Investment Council held 58.083% (31 December 2014 – 58.083%) of the Bank's issued and fully paid-up share capital.

TREASURY SHARES

During the year, the Bank bought back 2,613,353 (2014 – 2,011,108) ordinary shares from certain shareholders at a total cash consideration of AED 17,005 thousand (2014 – AED 11,691 thousand); these shares are held as Treasury shares as at 31 December 2015 (Note 23) and are expected to be cancelled eventually. The total number of shares bought back by the Bank as at 31 December 2015 was 397,366,172 (31 December 2014 – 394,752,819). This buyback programme of up to 10% of the Bank's shares was approved by the Securities & Commodities Authority, Central Bank of the UAE and the Bank's shareholders.

DIVIDENDS

For the year ended 31 December 2015, the Board of Directors has proposed to pay cash dividends of AED 2,339,204 thousand, being AED 0.45 dividends per share and representing 45% of the paid-up capital net of shares bought back (31 December 2014 – AED 2,079,292 thousand, being AED 0.40 dividends per share and representing 40% of the paid-up capital net of shares bought back). This is subject to the approval of the shareholders in the Annual General Meeting.

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23 OTHER RESERVES, NET OF TREASURY SHARES

Reserves movement for the year ended 31 December 2015:

	Treasury shares AED'000	Employees' incentive plan shares, net AED'000	Statutory reserve AED'000
Balance at 1 January 2015	(1,808,648)	(66,099)	2,692,154
Exchange difference arising on translation of foreign operations	-	-	-
Net fair value changes on cash flow hedges	-	-	-
Net fair value changes reclassified to consolidated income statement	-	-	-
Net fair value changes on available-for-sale investments	-	-	-
Net fair value changes released to consolidated income statement on disposal of available-for-sale investments	-	-	-
Total other comprehensive (loss)/gain for the year	-	-	-
Shares purchased	-	(50,195)	-
Fair value and other adjustments	-	(4,056)	-
Shares – vested portion (Note 25)	-	27,391	-
Share buyback (Note 22)	(17,005)	-	-
Transfer from retained earnings (Note 52)	-	-	105,645
Balance at 31 December 2015	(1,825,653)	(92,959)	2,797,799
Balance at 1 January 2014	(1,818,969)	(57,438)	2,287,181
Exchange difference arising on translation of foreign operations	-	-	-
Net fair value changes on cash flow hedges	-	-	-
Net fair value changes reclassified to consolidated income statement	-	-	-
Net fair value changes on available-for-sale investments	-	-	-
Net fair value changes released to consolidated income statement on disposal of available-for-sale investments	-	-	-
Total other comprehensive loss for the year	-	-	-
Shares purchased	-	(31,459)	-
Fair value and other adjustments	-	(6,511)	-
Shares – vested portion (Note 25)	-	29,309	-
Share buyback (Note 22)	(11,691)	-	-
Net movement in Treasury shares on disposal of Fund subsidiaries (Note 53)	22,012	-	-
Transfer from retained earnings (Note 52)	-	-	404,973
Balance at 31 December 2014	(1,808,648)	(66,099)	2,692,154

For more information on reserves refer to Note 52.

Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Foreign currency translation reserve AED'000	Cash flow hedge reserve AED'000	Cumulative changes in fair values AED'000	Total AED'000
2,647,367	2,000,000	150,000	(63,385)	(11,283)	251,692	5,791,798
-	-	-	(9,875)	-	-	(9,875)
-	-	-	-	(204,994)	-	(204,994)
-	-	-	-	219,334	-	219,334
-	-	-	-	-	(334,883)	(334,883)
-	-	-	-	-	(17,028)	(17,028)
-	-	-	(9,875)	14,340	(351,911)	(347,446)
-	-	-	-	-	-	(50,195)
-	-	-	-	-	-	(4,056)
-	-	-	-	-	-	27,391
-	-	-	-	-	-	(17,005)
150,432	-	-	-	-	-	256,077
2,797,799	2,000,000	150,000	(73,260)	3,057	(100,219)	5,656,564
2,242,394	2,000,000	150,000	(59,686)	40,800	351,158	5,135,440
-	-	-	(3,699)	-	-	(3,699)
-	-	-	-	(425,416)	-	(425,416)
-	-	-	-	373,333	-	373,333
-	-	-	-	-	(77,265)	(77,265)
-	-	-	-	-	(22,201)	(22,201)
-	-	-	(3,699)	(52,083)	(99,466)	(155,248)
-	-	-	-	-	-	(31,459)
-	-	-	-	-	-	(6,511)
-	-	-	-	-	-	29,309
-	-	-	-	-	-	(11,691)
-	-	-	-	-	-	22,012
404,973	-	-	-	-	-	809,946
2,647,367	2,000,000	150,000	(63,385)	(11,283)	251,692	5,791,798

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24 ISLAMIC FINANCING

Islamic financing assets			Income from Islamic financing		
	2015 AED'000	2014 AED'000		2015 AED'000	2014 AED'000
Murabaha	2,456,265	2,299,930	Murabaha	83,625	69,744
Ijara financing	6,749,806	4,170,654	Ijara financing	226,074	219,694
Mudaraba	32,390	138,534	Mudaraba	4,433	13,753
Salam	5,303,398	4,420,019	Salam	359,588	308,424
Others	197,983	126,776	Others	3,424	5,818
Gross Islamic financing assets	14,739,842	11,155,913	Total income from Islamic financing	677,144	617,433
Less: Allowance for impairment	(197,885)	(143,219)			
Net Islamic financing assets	14,541,957	11,012,694			

Gross Ijara and related present value of the minimum Ijara payments			Islamic deposits		
	2015 AED'000	2014 AED'000		2015 AED'000	2014 AED'000
Less than one year	483,002	539,238	Current account deposits	2,646,781	2,543,875
Between one year and five years	1,853,649	2,323,031	Margin deposits	11,122	13,281
More than five years	6,132,908	2,839,809	Mudaraba savings deposits	4,919,033	4,198,219
Gross Ijara	8,469,559	5,702,078	Mudaraba term deposits	1,280,738	1,374,575
Less: Deferred income	(1,719,753)	(1,531,424)	Wakala deposits	1,363,893	1,249,479
Net Ijara	6,749,806	4,170,654	Total Islamic deposits	10,221,567	9,379,429

Net present value			Islamic profit distribution		
	2015 AED'000	2014 AED'000		2015 AED'000	2014 AED'000
Less than one year	384,998	291,323	Mudaraba savings and term deposits	41,505	44,042
Between one year and five years	1,477,280	1,608,619	Wakala deposits	17,410	14,780
More than five years	4,887,528	2,270,712	Sukuk	50,797	53,274
Total net present value	6,749,806	4,170,654	Total Islamic profit distribution	109,712	112,096

In November 2011, ADCB, through its subsidiary ADCB Islamic Finance (Cayman) Limited (Sukuk company), issued a Shari'ah-compliant financing arrangement – a Sukuk amounting to USD 500,000 thousand (AED 1,836,500 thousand). The Sukuk carries an expected profit rate of 4.071% p.a. payable semi-annually and is due to mature in November 2016. The Sukuk is listed on the London Stock Exchange.

25 EMPLOYEES' INCENTIVE PLAN SHARES, NET

The Group operates a Deferred Compensation Plan (the "Plan") to recognise and retain high-performing employees. Under the Plan, the employees are granted shares of the Bank when they meet the vesting conditions at a price prevailing at the grant date. These shares are acquired and held by a subsidiary of the Bank until vesting conditions are met. The Group's Nomination, Compensation and HR Committee determines and approves the shares to be granted to employees based on the Group's key performance indicators.

For the year ended 31 December 2015, the Group had four incentive plans in force as described below:

	1 January 2015	1 January 2015	1 January 2014	1 January 2014
Number of shares granted	1,795,000	3,840,968	1,665,000	3,562,631
Fair value of the granted shares at the grant date in AED thousand	12,619	27,002	10,823	23,157
Vesting date	31 December 2018	31 December 2017	31 December 2017	31 December 2016

Vesting conditions – Three/four years' service from the grant date or meeting special conditions during the vesting period (death, disability, retirement, termination or achieving the budgeted performance).

The movement of plan shares is as follows:

	2015	2014
Opening balance	6,097,905	9,055,462
Shares granted during the year	5,635,968	5,227,631
Exercised during the year	(4,455,263)	(7,852,213)
Forfeited during the year	(551,206)	(332,975)
Closing balance	6,727,404	6,097,905
Amount of "Plan" cost recognised under "staff costs" in the consolidated statement of income (AED'000)	27,391	29,309

Total number of un-allotted shares under the Plan as at 31 December 2015 were 7,337,530 shares (31 December 2014 – 5,980,963 shares). These un-allotted shares include forfeited shares and shares purchased for future plans. The Group's Nomination, Compensation and HR Committee's intention is to include these shares in the next incentive plan scheme.

26 CAPITAL NOTES

In February 2009, the Department of Finance, Government of Abu Dhabi, subscribed to ADCB's Tier 1 regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "Notes").

The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date. Redemption is only at the option of the Bank. The Notes are direct, unsecured, subordinated obligations of the Bank and rank *pari passu* without any preference among themselves, and the rights and claims of the Note holders will be subordinated to the claims of Senior Creditors. The Notes bore interest at the rate of 6% per annum payable semi-annually until February 2014, and bear a floating interest rate of six-month EIBOR plus 2.3% per annum thereafter. However, the Bank may at its sole discretion elect not to make a coupon payment. The Note holders do not have a right to claim the coupon, and an election by the Bank not to service the coupon is not considered an event of default. In addition, there are certain circumstances ("non-payment event") under which the Bank is prohibited from making a coupon payment on a relevant coupon payment date.

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

27 INTEREST INCOME

	2015 AED'000	2014 AED'000
Loans and advances to banks	198,537	205,025
Loans and advances to customers	6,451,734	5,655,249
Available-for-sale investments	459,260	502,991
Trading securities	10,437	4,690
Total interest income	7,119,968	6,367,955

28 INTEREST EXPENSE

	2015 AED'000	2014 AED'000
Deposits from banks	7,212	7,595
Deposits from customers	919,506	764,315
Euro commercial paper	36,003	30,977
Borrowings	518,880	485,896
Total interest expense	1,481,601	1,288,783

29 NET FEES AND COMMISSION INCOME

	2015 AED'000	2014 AED'000
Fees and commission income		
Retail banking fees	1,014,470	858,126
Corporate banking fees	559,501	502,584
Fees from trust and other fiduciary activities	178,418	119,792
Brokerage fees	14,018	40,328
Other fees	41,775	47,942
Total fees and commission income	1,808,182	1,568,772
Fees and commission expenses	(370,605)	(325,824)
Net fees and commission income	1,437,577	1,242,948

30 NET TRADING INCOME

	2015 AED'000	2014 AED'000
Net gains from dealing in derivatives	64,145	23,958
Net gains from dealing in foreign currencies	292,104	284,959
Net (losses)/gains from trading securities	(4,237)	98,071
Net trading income	352,012	406,988

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31 OTHER OPERATING INCOME

	2015 AED'000	2014 AED'000
Net gains from disposal of available-for-sale investments	17,028	22,201
Property management income	151,464	138,791
Rental income	53,220	65,971
Dividend income	9,867	26,513
Losses arising from retirement of hedges	(3,887)	–
Other income	37,214	19,147
Total other operating income	264,906	272,623

32 OPERATING EXPENSES

	2015 AED'000	2014 AED'000
Staff expenses	1,689,427	1,464,359
Depreciation (Note 15)	134,531	132,008
Amortisation of intangible assets (Note 16)	16,905	25,990
Others	986,075	940,703
Total operating expenses	2,826,938	2,563,060

33 IMPAIRMENT ALLOWANCES

	2015 AED'000	2014 AED'000
Charge for the year	752,846	1,040,551
Recoveries during the year	(252,566)	(229,352)
Impairment allowance on loans and advances, net (Note 43.6)	500,280	811,199
Net impairment recoveries on available-for-sale investments	(10,853)	(48,952)
Impairment allowance – others	12,121	–
Total impairment allowances	501,548	762,247

34 EARNINGS PER SHARE

BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Bank and the weighted average number of equity shares outstanding. Diluted earnings per share is calculated by adjusting the weighted average number of equity shares outstanding for the dilutive effects of potential equity shares held on account of employees' incentive plan and Treasury shares arising on consolidation of fund subsidiaries.

	2015 AED'000	2014 AED'000
Net profit for the year attributable to the equity holders of the Bank	4,924,244	4,049,731
Less: Coupon paid on capital notes	(128,860)	(186,393)
Net adjusted profit for the year attributable to the equity holders of the Bank (a)	4,795,384	3,863,338

	Number of shares in thousands	
Weighted average number of shares in issue throughout the year	5,595,597	5,595,597
Less: Weighted average number of Treasury shares arising on buyback	(397,330)	(392,797)
Less: Weighted average number of Treasury shares arising on consolidation of funds	–	(1,849)
Less: Weighted average number of shares resulting from employees' incentive plan shares	(14,607)	(14,030)
Weighted average number of equity shares in issue during the year for basic earnings per share (b)	5,183,660	5,186,921
Add: Weighted average number of Treasury shares arising on consolidation of funds	–	1,849
Add: Weighted average number of shares resulting from employees' incentive plan shares	14,607	14,030
Weighted average number of equity shares in issue during the year for diluted earnings per share (c)	5,198,267	5,202,800
Basic earnings per share (AED) (a)/(b)	0.93	0.74
Diluted earnings per share (AED) (a)/(c)	0.92	0.74

35 OPERATING LEASE

GROUP AS LESSEE

Operating leases relate to leases of branch premises, offices and ATMs of the Group with lease terms mainly between one and three years. The Group has the option to renew the lease agreements but not the option to purchase the leased premises at the expiry of the lease periods.

	2015 AED'000	2014 AED'000
Payments recognised as an expense		
Minimum lease payments	68,472	64,080
Non-cancellable operating lease commitments		
Not later than one year	31,345	54,051
Later than one year but not later than five years	15,642	37,909
Later than five years	225	242
Total non-cancellable operating lease commitments	47,212	92,202

GROUP AS LESSOR

Operating leases relate to the investment properties owned by the Group with varied lease terms, with an option to extend the lease term. All operating lease contracts contain a market-review clause in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Rental incomes earned by the Group from its investment properties and direct operating expenses arising on the investment properties for the year are set out in Note 13.

	2015 AED'000	2014 AED'000
Non-cancellable operating lease receivables:		
Not later than one year	33,290	25,943
Later than one year but not later than five years	42,793	11,702
Later than five years	41,318	32,250
Total non-cancellable operating lease receivables	117,401	69,895

36 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following statement of financial position amounts:

	2015 AED'000	2014 AED'000
Cash and balances with central banks	20,180,277	15,092,192
Deposits and balances due from banks	14,954,997	13,189,412
Reverse-repo placements	4,256,277	2,830,049
Due to banks	(1,691,793)	(4,089,019)
	37,699,758	27,022,634
Less: Cash and balances with central banks, deposits and balances due from banks and reverse-repo placements – with original maturity of more than three months	(7,364,126)	(12,095,955)
Add: Due to banks – with original maturity of more than three months	437,937	93,827
Total cash and cash equivalents	30,773,569	15,020,506

37 RELATED-PARTY TRANSACTIONS

The Group enters into transactions with its parent and its related entities, associate, funds under management, Directors, senior management and their related entities and the Government of Abu Dhabi (ultimate controlling party and its related entities) in the ordinary course of business at commercial interest and commission rates.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the Directors, Chief Executive Officer and his direct reports.

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

Details of all transactions in which a Director and/or related parties might have actual or potential conflicts of interest are provided to the Board of Directors (the "Board") for its review and approval. Where a Director is interested, that Director neither participates in the discussions nor votes on such matters. The Bank's policy is, as far as possible, to engage in transactions with related parties only on arm's-length terms and in accordance with relevant laws and regulations. The Board Secretariat maintains a conflicts register which is regularly reviewed by the Board Corporate Governance Committee. In addition, the Board maintains awareness of other commitments of its Directors and senior management. The Bank has implemented a Directors' conflict of interest policy and, for senior management, a Code of Conduct. As a result of written declarations submitted by each of the Board Members, the Board satisfies itself that the other commitments of the Directors do not conflict with their duties or that, where conflicts arise, the Board is sufficiently aware and policies are in place to minimise the risks.

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PARENT AND ULTIMATE CONTROLLING PARTY

Abu Dhabi Investment Council holds 58.083% (31 December 2014 – 58.083%) of the Bank's issued and fully paid-up share capital (Note 22). Abu Dhabi Investment Council was established by the Government of Abu Dhabi pursuant to law No. 16 of 2006, and so the ultimate controlling party is the Government of Abu Dhabi.

Related-party balances and transactions included in the consolidated statement of financial position and consolidated income statement are as follows:

	Ultimate controlling party and its related parties AED'000	Directors and related parties AED'000	Key managers AED'000	Associate AED'000	Total AED'000
31 December 2015					
Balances					
Deposits and balances due from banks	3,335,134	–	–	–	3,335,134
Reverse-repo placements	2,762,095	–	–	–	2,762,095
Trading securities	44,699	–	–	–	44,699
Derivative financial instruments – assets	1,709,379	–	–	–	1,709,379
Investment securities	3,651,862	–	–	–	3,651,862
Loans and advances, net	21,027,485	287,425	38,603	348,444	21,701,957
Other assets	191,378	2,266	352	94	194,090
Derivative financial instruments – liabilities	719,449	–	–	–	719,449
Due to banks	47,676	–	–	–	47,676
Deposits from customers	28,551,301	177,902	20,698	46,830	28,796,731
Other liabilities	37,574	426	–	–	38,000
Capital notes	4,000,000	–	–	–	4,000,000
Commitments and contingent liabilities	3,813,431	148,806	2,026	919	3,965,182
Transactions					
Interest, fees and other income	336,568	9,954	1,088	17,336	364,946
Interest expense	234,481	210	155	–	234,846
Derivative income	142,663	–	–	–	142,663
Share in profit of associate	–	–	–	1,302	1,302
Coupon paid on capital notes	128,860	–	–	–	128,860
31 December 2014					
Balances					
Deposits and balances due from banks	3,885,550	–	–	–	3,885,550
Trading securities	37,393	–	–	–	37,393
Derivative financial instruments – assets	1,699,305	–	–	–	1,699,305
Investment securities	3,537,875	–	–	–	3,537,875
Loans and advances, net	18,175,112	160,825	35,335	397,644	18,768,916
Other assets	481,349	1,413	191	104	483,057
Derivative financial instruments – liabilities	896,649	–	–	–	896,649
Deposits from customers	25,118,497	121,837	35,249	37,106	25,312,689
Other liabilities	23,976	540	–	–	24,516
Capital notes	4,000,000	–	–	–	4,000,000
Commitments and contingent liabilities	6,895,317	121,637	300	919	7,018,173
Transactions					
Interest, fees and other income	397,223	9,091	1,192	28,540	436,046
Interest expense	269,554	90	111	–	269,755
Derivative income	528,562	–	–	–	528,562
Coupon paid on capital notes	186,393	–	–	–	186,393

As at 31 December 2015, funds under management held 6,743,997 shares (31 December 2014 – 5,469,873 shares) of the Bank. During the year, the Bank paid dividend of AED 1,937 thousand (2014 – AED 2,270 thousand) to these funds.

Remuneration of Key Management employees and Board of Directors fees and expenses during the year are as follows:

	2015 AED'000	2014 AED'000
Short-term benefits	25,536	25,995
Termination benefits	2,636	2,657
Variable pay benefits	30,375	30,450
	58,547	59,102
Board of Directors fees and expenses	7,909	7,556

In addition to the above, the Key Management personnel were granted long-term deferred compensation including share-based payments of AED 27,625 thousand (2014 – AED 25,425 thousand).

38 COMMITMENTS AND CONTINGENT LIABILITIES

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

	2015 AED'000	2014 AED'000
Letters of credit	7,397,227	6,411,361
Guarantees	20,688,203	17,418,872
Commitments to extend credit – revocable (*)	10,140,076	10,809,547
Commitments to extend credit – irrevocable	13,436,760	12,687,831
Total commitments on behalf of customers	51,662,266	47,327,611
Commitments for future capital expenditure	364,985	137,736
Commitments to invest in investment securities	89,182	71,750
Total commitments and contingent liabilities	52,116,433	47,537,097

(*) Includes AED 6,860,860 thousand (31 December 2014 – AED 6,276,388 thousand) for undrawn credit card limits.

CREDIT-RELATED COMMITMENTS

Credit-related commitments include commitments to extend credit, standby letters of credit and guarantees which are designed to meet the requirements of the Bank's customers. Irrevocable commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. Revocable commitments to extend credit represent commitments to make loan and advances and revolving credits which can be cancelled by the Bank unconditionally without any contractual obligations. Commitments generally have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

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

Commitments and contingent liabilities which have been entered into on behalf of customers and for which there are corresponding obligations from customers are not included in assets and liabilities. The Bank's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to the Bank's normal credit approval processes.

39 OPERATING SEGMENTS

The Group has four reportable segments as described below. These segments offer different products and services and are managed separately based on the Group's management and internal reporting structure. The Group's Management Executive Committee (the Chief Operating Decision Maker "CODM") is responsible for allocation of resources to these segments, whereas the Performance Management Committee, based on delegation from CODM, reviews the performance of these segments on a regular basis.

The following summary describes the operations in each of the Group's reportable segments:

Consumer Banking	comprises retail, Wealth Management and Islamic financing. It includes loans, deposits and other transactions and balances with retail customers, and corporate and private accounts of high-net-worth individuals and funds management activities.
Wholesale Banking	comprises business banking, cash management, trade finance, corporate finance, small and medium-size enterprise financing, investment banking, Indian operations, Islamic financing, infrastructure and asset finance, Government and public enterprises. It includes loans, deposits and other transactions and balances with corporate customers.
Investments & Treasury	comprises central Treasury operations, management of the Group's investment portfolio and interest rate, the currency and commodity derivative portfolio, and Islamic financing. Investments & Treasury undertakes the Group's funding and centralised risk management activities through borrowings, issue of debt securities and use of derivatives for risk management. It also undertakes trading and corporate finance activities and investing in liquid assets such as short-term placements, corporate and government debt securities.
Property Management	comprises real estate management and engineering service operations of subsidiaries – Abu Dhabi Commercial Properties LLC, Abu Dhabi Commercial Engineering Services LLC, and rental income of ADCB.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Performance Management Committee. Segment profit is used to measure performance, as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's-length basis.

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The following is an analysis of the Group's revenue and results by operating segment for the year ended:

	Consumer Banking AED'000	Wholesale Banking AED'000	Investments & Treasury AED'000	Property Management AED'000	Total AED'000
2015					
Net interest income	2,493,272	1,656,724	1,393,896	94,475	5,638,367
Net income from Islamic financing	362,122	162,771	40,059	2,480	567,432
Total net interest and Islamic financing income	2,855,394	1,819,495	1,433,955	96,955	6,205,799
Non-interest income	893,219	676,495	261,898	223,075	2,054,687
Operating expenses	(1,730,726)	(765,803)	(218,433)	(111,976)	(2,826,938)
Operating profit before impairment allowances	2,017,887	1,730,187	1,477,420	208,054	5,433,548
Impairment (allowances)/recoveries	(684,406)	172,005	10,853	–	(501,548)
Share in profit of associate	1,302	–	–	–	1,302
Profit before taxation	1,334,783	1,902,192	1,488,273	208,054	4,933,302
Overseas income tax expense	–	(6,233)	–	–	(6,233)
Net profit for the year	1,334,783	1,895,959	1,488,273	208,054	4,927,069
Capital expenditure					163,488
31 December 2015					
Segment assets	69,845,328	94,301,998	63,465,784	653,991	228,267,101
Segment liabilities	43,486,000	67,541,312	88,484,442	22,544	199,534,298
2014					
Net interest income	1,982,181	1,243,355	1,744,875	108,761	5,079,172
Net income from Islamic financing	314,458	146,852	44,027	–	505,337
Net interest and Islamic financing income	2,296,639	1,390,207	1,788,902	108,761	5,584,509
Non-interest income	921,817	596,609	181,989	244,474	1,944,889
Operating expenses	(1,577,370)	(685,952)	(198,366)	(101,372)	(2,563,060)
Operating profit before impairment allowances	1,641,086	1,300,864	1,772,525	251,863	4,966,338
Impairment (allowances)/recoveries	(663,024)	(148,175)	48,952	–	(762,247)
Profit before taxation	978,062	1,152,689	1,821,477	251,863	4,204,091
Overseas income tax expense	–	(2,707)	–	–	(2,707)
Net profit for the year	978,062	1,149,982	1,821,477	251,863	4,201,384
Capital expenditure					144,965
31 December 2014					
Segment assets	63,216,688	83,717,761	56,460,659	624,355	204,019,463
Segment liabilities	37,316,795	51,210,978	89,055,962	16,895	177,600,630

OTHER DISCLOSURES

The following is the analysis of the total operating income of each segment between income from external parties and inter-segment.

	External		Inter-segment	
	2015 AED'000	2014 AED'000	2015 AED'000	2014 AED'000
Consumer Banking	4,795,767	4,333,210	(1,047,154)	(1,114,754)
Wholesale Banking	3,373,491	3,029,740	(877,501)	(1,042,924)
Investments & Treasury	(117,309)	(78,026)	1,813,162	2,048,917
Property Management	208,537	244,474	111,493	108,761
Total	8,260,486	7,529,398	-	-

GEOGRAPHICAL INFORMATION

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

	Domestic		International	
	2015 AED'000	2014 AED'000	2015 AED'000	2014 AED'000
Income				
Net interest and Islamic financing income	6,137,848	5,533,625	67,951	50,884
Non-interest income	2,025,515	1,767,640	29,172	177,249
Non-current assets				
Investment in associate	197,156	195,854	-	-
Investment properties	647,647	615,778	-	-
Property and equipment, net	830,136	801,746	5,009	4,442
Intangible assets	18,800	35,705	-	-

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40 FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL INSTRUMENTS

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IAS 39.

	Held-for-trading AED'000	Hedging derivatives AED'000	Available-for-sale AED'000	Amortised cost AED'000	Total AED'000
31 December 2015					
Assets					
Cash and balances with central banks	-	-	-	20,180,277	20,180,277
Deposits and balances due from banks	-	-	-	14,954,997	14,954,997
Reverse-repo placements	-	-	-	4,256,277	4,256,277
Trading securities	62,261	-	-	-	62,261
Derivative financial instruments	3,579,900	422,008	-	-	4,001,908
Investment securities	-	-	20,863,607	-	20,863,607
Loans and advances, net	-	-	-	153,677,386	153,677,386
Other assets	-	-	-	8,516,557	8,516,557
Total financial assets	3,642,161	422,008	20,863,607	201,585,494	226,513,270
Liabilities					
Due to banks	-	-	-	1,691,793	1,691,793
Derivative financial instruments	3,555,579	1,185,601	-	-	4,741,180
Deposits from customers	-	-	-	143,526,296	143,526,296
Euro commercial paper	-	-	-	5,700,064	5,700,064
Borrowings	-	-	-	33,471,731	33,471,731
Other liabilities	-	-	-	9,386,292	9,386,292
Total financial liabilities	3,555,579	1,185,601	-	193,776,176	198,517,356
31 December 2014					
Assets					
Cash and balances with central banks	-	-	-	15,092,192	15,092,192
Deposits and balances due from banks	-	-	-	13,189,412	13,189,412
Reverse-repo placements	-	-	-	2,830,049	2,830,049
Trading securities	199,599	-	-	-	199,599
Derivative financial instruments	4,045,205	243,301	-	-	4,288,506
Investment securities	-	-	21,651,838	-	21,651,838
Loans and advances, net	-	-	-	140,562,498	140,562,498
Other assets	-	-	-	4,486,014	4,486,014
Total financial assets	4,244,804	243,301	21,651,838	176,160,165	202,300,108
Liabilities					
Due to banks	-	-	-	4,089,019	4,089,019
Derivative financial instruments	4,041,821	958,246	-	-	5,000,067
Deposits from customers	-	-	-	126,011,227	126,011,227
Euro commercial paper	-	-	-	6,375,284	6,375,284
Borrowings	-	-	-	30,320,121	30,320,121
Other liabilities	-	-	-	4,898,867	4,898,867
Total financial liabilities	4,041,821	958,246	-	171,694,518	176,694,585

41 FAIR VALUE HIERARCHY

FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

QUOTED MARKET PRICES — LEVEL 1

Financial instruments are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions.

VALUATION TECHNIQUES USING OBSERVABLE INPUTS — LEVEL 2

Financial instruments and investment properties classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs includes financial instruments such as swaps and forwards which are valued using market standard pricing techniques and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

The category includes derivative financial instruments such as certain OTC derivatives, commodity derivatives, and foreign exchange spot and forward contracts.

These instruments are valued using the inputs observable in an active market. Valuation of the derivative financial instruments is made through a discounted cash flow method using the applicable yield curve for the duration of the instruments for non-optional derivatives and standard option pricing models such as Black-Scholes and other valuation models for optional derivatives.

VALUATION TECHNIQUES USING SIGNIFICANT UNOBSERVABLE INPUTS — LEVEL 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

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

- a) Private equity instruments — using the latest available net book value; and
- b) Private funds — based on the net asset value provided by the fund manager.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

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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.

		Level 1	Level 2	Level 3		
	Notes	Quoted market prices AED'000	Observable inputs AED'000	Significant unobservable inputs AED'000	Total fair value AED'000	Carrying value AED'000
31 December 2015						
Assets at fair value						
Trading securities	8	62,261	–	–	62,261	62,261
Derivative financial instruments	9	1,335	4,000,573	–	4,001,908	4,001,908
Investment securities	10					
Quoted		19,298,541	753,336	–	20,051,877	20,051,877
Unquoted		–	398,109	413,621	811,730	811,730
Investment properties	13	–	–	647,647	647,647	647,647
Total assets at fair value		19,362,137	5,152,018	1,061,268	25,575,423	25,575,423
Liabilities at fair value						
Derivative financial instruments	9	1,045	4,740,135	–	4,741,180	4,741,180
Liabilities at amortised cost						
Borrowings	20	18,965,637	14,585,679	–	33,551,316	33,471,731
Total liabilities		18,966,682	19,325,814	–	38,292,496	38,212,911
31 December 2014						
Assets at fair value						
Trading securities	8	199,599	–	–	199,599	199,599
Derivative financial instruments	9	2,536	4,285,970	–	4,288,506	4,288,506
Investment securities	10					
Quoted		19,384,244	935,205	–	20,319,449	20,319,449
Unquoted		–	954,173	378,216	1,332,389	1,332,389
Investment properties	13	–	615,778	–	615,778	615,778
Total assets at fair value		19,586,379	6,791,126	378,216	26,755,721	26,755,721
Liabilities at fair value						
Derivative financial instruments	9	146	4,999,921	–	5,000,067	5,000,067
Liabilities at amortised cost						
Borrowings	20	19,335,562	11,222,753	–	30,558,315	30,320,121
Total liabilities		19,335,708	16,222,674	–	35,558,382	35,320,188

UNCONSOLIDATED STRUCTURED ENTITY

Level 1 and Level 3 financial instruments include the Bank's investments in certain Funds. The total carrying value of investments in these Funds as at 31 December 2015 was AED 194,504 thousand (31 December 2014 – AED 165,835 thousand). The Bank has also extended revocable overdraft facilities to these Funds amounting to AED 28,365 thousand (31 December 2014 – AED 50,030 thousand), out of which AED 244 thousand was utilised and outstanding as at 31 December 2015 (31 December 2014 – AED 35,632 thousand). The maximum exposure to loss in these Funds is equal to the carrying value of the investments and credit risk carried in the facilities extended.

The Group's OTC derivatives in the trading book are classified as Level 2 as they are valued using inputs that can be observed in the market.

Reconciliation showing the movement in fair values of Level 3 available-for-sale investments is as follows:

	2015 AED'000	2014 AED'000
Opening balance	378,216	316,588
Purchases, net	14,520	60,494
Disposals including capital refunds	(5,304)	(24,950)
Adjustment through comprehensive income	26,189	26,845
Transfer out	–	(761)
Closing balance	413,621	378,216

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

No gains/losses were realised on disposal of Level 3 investments during 2015 (2014 – net gain of AED 20,429 thousand was included under other operating income [Note 31] in the consolidated income statement).

There were no transfers between Level 1 and Level 2 during 2015, and there was no change in valuation techniques during the year.

During the year, the Management has transferred investment properties from Level 2 to Level 3 classification. The reclassification is done due to slowdown in the real estate market and reduction in transaction volumes in the UAE. Therefore, whilst arriving at the estimated market values, the valuers have used their market knowledge and professional judgement and have not only relied on historical comparable transactions. In these circumstances, there is a greater degree of uncertainty than that which exists in a more active market in estimating market values of investment properties. Refer to Note 13 in respect of the valuation methodology used.

The significant unobservable inputs used in the fair value measurement of the Group's investment properties are rental income and capitalisation rates. Significant decrease in rental income, or increase in capitalisation rates, in isolation would result in a significantly lower fair value measurement. Generally, a change in the assumption used for rental income should be accompanied by a change in the assumption for capitalisation rates, in the same way that increase in rental income increases the expectations of the seller to earn from the investment property. Therefore, the effects of these changes partially offset each other.

42 RISK MANAGEMENT

Risk governance structure emphasises and balances strong central oversight and control of risk with clear accountability for and ownership of risk within each business unit. Under the Group's approach to risk governance, the business primarily owns the risk that it generates and is equally responsible for assessing risk, designing and implementing controls, and monitoring and reporting their ongoing effectiveness to safeguard the Group from exceeding its risk appetite.

Ultimate responsibility for setting out risk appetite and effective management of risk rests with the Board. This is managed through various Board-level committees, namely the Board Risk & Credit Committee (BRCC) and the Board Audit & Compliance Committee (BACC), which ensure that risk-taking authority and policies are cascaded down from the Board to the appropriate business units.

Acting within the authority delegated by the Board, the BRCC has overall responsibility for oversight and review of credit, market, operational, liquidity, fraud and reputational risks. It periodically reviews and monitors compliance with the Group's overall risk appetite and makes recommendations thereon to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Group's risk management systems and controls, overseeing the risk management committees and ensuring that the Group's risk governance is supportive of prudent risk-taking at all levels in the Group.

The BRCC receives, on a regular basis, portfolio-level briefings from the Group Chief Risk Officer along with regular reports on risk management, including our portfolio trends, policy parameters, key risk indicators, results of stress testing and changes to the assumptions, liquidity measures, capital adequacy and planning, and also is authorised to investigate or seek any information relating to any activity within its terms of reference. The BRCC also conducts 'deep dive' reviews on a rolling basis of different sections of the consolidated group risk information report.

The Management Executive Committee (MEC) has primary responsibility for implementing, overseeing and taking ownership of the enforcement of risk strategy and internal control directives laid down by the Board and Board Committees.

The management-level committees also actively manage risk, particularly the Assets and Liabilities Management Committee (ALCO), Management Risk & Credit Committee (MRCC) and Management Recoveries Committee (MRC). The Risk Management function headed by the Group's Chief Risk Officer reports independently to the BRCC. The Risk function is independent of the Origination, Trading and Sales function to ensure that balance in risk-reward decisions is not compromised and to ensure transparency of decisions in accordance with laid-down standards and policies. The Risk function exercises control over credit, market, short-term liquidity, operational and compliance risk.

The BACC provides assistance to the Board to fulfil its duties to ensure and oversee the Group's financial statements, independence and performance of the Group's external and internal auditors, compliance with legal and regulatory requirements, and internal policies and internal control over financial reporting.

The Internal Audit Division (IAD) aims to apply a systematic and disciplined approach to evaluating and improving the effectiveness of the Group's risk management, control and governance processes. The IAD reports directly to the BACC. The IAG consists of a team of auditors, whose tasks are, among other things, to evaluate the quality of the Group's lending portfolio, controls in operational processes and the integrity of the Group's information systems and databases. The IAD auditors, alongside the Compliance department, also ensure that transactions undertaken by the Group are conducted in compliance with applicable legal and regulatory requirements, and in accordance with the Group's internal procedures, thereby minimising the risk of fraudulent, improper or illegal practices.

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43 CREDIT RISK MANAGEMENT

Credit risk is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation.

The Group's Risk function follows the approaches listed below for credit risk management, depending on the type of customer.

Individual account management — These accounts are managed by a relationship manager and a credit manager. This category includes customers of wholesale banking and financial institutions. Risk management is conducted through expert analysis backed up by tools to support decision-making based on internal models of risk assessment.

Portfolio management — This category generally includes individuals, sole proprietorships and partnerships, and certain smaller SMEs. Management of these risks is based on internal models of assessment and scorecard-based decisions complemented by internal portfolio analytics.

The Group controls credit risk by aggregating and monitoring credit exposures (both direct and indirect exposures) on loans and advances, investment securities, non-funded exposures and due from banks. The Group sets transaction

limits for specific counterparties and continually assesses the creditworthiness of counterparties. The Group sets and monitors country, industry, product and tenor risks and uses its own internal rating models for assigning customer ratings which measure the degree of risk of a customer. Each rating corresponds to a certain probability of default. The Group has various internal rating models for different customer segments.

In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

The Group-wide credit policies and standards are approved by the BRCC. These govern all delegated lending authorities and include policies, standards, metrics, strategies and procedures specific to each of the different business segments, and are decided based on macroeconomic conditions, the risk appetite of the Group, market data and internal skill sets and capabilities. They are regularly reviewed and modified to ensure that they stay current and relevant and protect the Group's interest in changing operating conditions. In addition to Group-wide policies, there are underwriting standards set for each portfolio segment.

43.1 ANALYSIS OF MAXIMUM EXPOSURE TO CREDIT RISK

The following table presents the maximum exposure of credit risk for on- and off-balance-sheet financial instruments as at 31 December 2015 and 2014, after allowance for impairment and netting where appropriate and after taking into account any collateral held or other credit risk mitigants (CRMs).

The gross exposure to credit risk for on-balance-sheet items is their carrying value. For financial guarantees recorded off-balance-sheet, the gross exposure to credit risk is the maximum amount that the Group would have to pay if the guarantees were to be called upon. For loans and other credit-related commitments that are irrevocable over the life of the respective facilities, the gross exposure to credit risk is the full amount of the committed facilities.

The analysis of credit risk under this section includes only financial instruments subject to credit risk. Other financial assets such as trading portfolio which are exposed to market risk have been excluded. Where financial instruments are recorded at fair value, the amounts shown below represent the current credit exposure but not the maximum risk exposure that could arise in the future as a result of changes in fair values.

	On-balance-sheet AED'000	Off-balance-sheet AED'000	Gross credit risk exposure AED'000	CRMs AED'000	Maximum credit risk exposure AED'000
31 December 2015					
Deposits and balances due from banks	14,954,997	–	14,954,997	–	14,954,997
Reverse-repo placements	4,256,277	–	4,256,277	4,256,277	–
Derivative financial instruments	4,001,908	–	4,001,908	3,559,661	442,247
Investment securities	20,863,607	25,228	20,888,835	–	20,330,640
Loans and advances, net	153,677,386	41,522,190	195,199,576	87,724,110	107,475,466
Other assets	8,571,640	–	8,571,640	–	8,509,316
Total	206,325,815	41,547,418	247,873,233	95,540,048	151,712,666
31 December 2014					
Deposits and balances due from banks	13,189,412	–	13,189,412	–	13,189,412
Reverse-repo placements	2,830,049	–	2,830,049	2,814,042	16,007
Derivative financial instruments	4,288,506	–	4,288,506	3,569,466	719,040
Investment securities	21,651,838	–	21,651,838	–	21,106,963
Loans and advances, net	140,562,498	36,518,064	177,080,562	80,186,990	96,893,572
Other assets	4,551,844	–	4,551,844	–	4,464,055
Total	187,074,147	36,518,064	223,592,211	86,570,498	136,389,049

43.2 CONCENTRATION OF CREDIT RISK

Concentration of credit risk arises when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities or operate in the same geographical areas or economic sectors that would impact their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The analysis of credit risk concentrations presented below is based on the location of the counterparty or customer or the economic activity in which it is engaged.

(a) Credit risk concentration by geographical sector

	Domestic (UAE) AED'000	Other GCC countries AED'000	Other Arab countries AED'000	Asia AED'000	Europe AED'000	USA AED'000	Rest of the world AED'000	Total AED'000
31 December 2015								
Assets								
Deposits and balances due from banks	5,602,428	7,031,123	3,794	79,905	2,166,817	51,096	19,834	14,954,997
Reverse-repo placements	2,762,095	–	–	–	1,494,182	–	–	4,256,277
Derivative financial instruments	2,148,499	6,446	18,137	60,774	1,748,708	–	19,344	4,001,908
Investment securities	8,827,837	1,585,466	1,232,926	4,134,947	2,570,783	1,219,978	733,475	20,305,412
Loans and advances, net	139,597,722	4,382,908	273,934	6,045,061	1,597,899	6,006	1,773,856	153,677,386
Other assets	5,903,786	220,182	674	63,391	62,832	2,142,083	116,368	8,509,316
Total assets	164,842,367	13,226,125	1,529,465	10,384,078	9,641,221	3,419,163	2,662,877	205,705,296
Commitment and contingent liabilities	33,670,414	1,510,973	219,349	2,854,262	2,218,901	885,465	188,054	41,547,418
31 December 2014								
Assets								
Deposits and balances due from banks	7,179,030	3,125,209	254	1,223,719	1,357,472	272,029	31,699	13,189,412
Reverse-repo placements	–	–	–	–	2,830,049	–	–	2,830,049
Derivative financial instruments	2,389,700	945	–	67,324	1,810,587	98	19,852	4,288,506
Investment securities	8,849,893	3,377,627	282,309	2,515,361	2,591,767	2,819,635	670,371	21,106,963
Loans and advances, net	126,196,706	3,637,006	234,954	8,144,498	1,377,743	191,650	779,941	140,562,498
Other assets	3,909,232	352,151	4,416	99,063	51,041	31,238	16,914	4,464,055
Total assets	148,524,561	10,492,938	521,933	12,049,965	10,018,659	3,314,650	1,518,777	186,441,483
Commitment and contingent liabilities	29,972,847	1,828,170	219	2,259,062	1,998,724	311,217	147,825	36,518,064

(b) Credit risk concentration by economic/industry sector

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

	31 December 2015			31 December 2014		
	Within the UAE AED'000	Outside the UAE AED'000	Total AED'000	Within the UAE AED'000	Outside the UAE AED'000	Total AED'000
Economic activity sector						
Agriculture	216,646	–	216,646	208,394	–	208,394
Energy	78,005	215,698	293,703	1,470,512	1,910,712	3,381,224
Trading	3,854,238	1,071,780	4,926,018	3,142,931	332,680	3,475,611
Real estate investment & hospitality	53,293,920	1,088,985	54,382,905	48,234,134	594,872	48,829,006
Transport	1,417,433	962,756	2,380,189	1,373,193	815,998	2,189,191
Personal	39,077,248	235,132	39,312,380	33,951,440	269,626	34,221,066
Government & public sector entities	32,822,161	258,258	33,080,419	30,468,754	241,041	30,709,795
Financial institutions (*)	10,468,266	9,449,013	19,917,279	10,212,055	9,873,561	20,085,616
Manufacturing	1,774,395	1,508,795	3,283,190	1,466,266	1,007,843	2,474,109
Services	1,591,190	187,590	1,778,780	1,090,550	130,530	1,221,080
Other	203,714	247,050	450,764	323,302	221,847	545,149
	144,797,216	15,225,057	160,022,273	131,941,531	15,398,710	147,340,241
Less: Allowance for impairment			(6,344,887)			(6,777,743)
Total loans and advances, net			153,677,386			140,562,498

(*) Includes investment companies.

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The industry sector composition of other exposures is as follows:

	Commercial and business AED'000	Personal AED'000	Public sector AED'000	Government AED'000	Banks and financial institutions AED'000	Total AED'000
31 December 2015						
Assets						
Deposits and balances due from banks	–	–	–	–	14,954,997	14,954,997
Reverse-repo placements	–	–	–	1,836,501	2,419,776	4,256,277
Derivative financial instruments	1,068,352	1,469	640,607	15,505	2,275,975	4,001,908
Investment securities	674,302	–	6,007,236	5,320,904	8,302,970	20,305,412
Other assets	7,481,474	326,789	300,665	157,592	242,796	8,509,316
Total assets	9,224,128	328,258	6,948,508	7,330,502	28,196,514	52,027,910
Commitment and contingent liabilities	27,948,884	1,815,765	3,107,636	1,225,424	7,449,709	41,547,418
31 December 2014						
Assets						
Deposits and balances due from banks	–	–	–	–	13,189,412	13,189,412
Reverse-repo placements	–	–	–	–	2,830,049	2,830,049
Derivative financial instruments	1,268,933	8,186	768,675	–	2,242,712	4,288,506
Investment securities	452,790	–	4,503,279	5,626,109	10,524,785	21,106,963
Other assets	3,449,752	254,976	130,058	425,053	204,216	4,464,055
Total assets	5,171,475	263,162	5,402,012	6,051,162	28,991,174	45,878,985
Commitment and contingent liabilities	22,643,864	1,025,182	5,794,211	376,910	6,677,897	36,518,064

As at reporting date, the 20 largest customer loan exposures constitute 35.26% of the gross loans and advances (31 December 2014 – 37.04%).

43.3 CREDIT RISK MANAGEMENT OVERVIEW

Organisational framework

The risk management structure of the Group is clearly established with well-defined roles and responsibilities as explained in Note 42.

The committees responsible for managing credit risk are the MRCC and the MRC. The Group risk management practices and strategies are an integral part of business planning and the budgeting process. All risk management areas are centralised under the Credit & Risk Division.

The BRCC is responsible for approving high-value credits and is responsible for the approval of credit policies and processes in line with growth, risk management and strategic objectives. In addition, the Group manages credit exposure by obtaining collaterals where appropriate and limiting the duration of exposure. Credit risk in respect of derivative financial instruments is limited to those with positive fair values.

Regular audits of business units and the Group's credit processes are undertaken by the Internal Audit and Compliance divisions.

43.4 CREDIT RISK MEASUREMENT AND MITIGATION POLICIES

Loans and advances to customers are the main source of credit risk, although the Group can also be exposed to other forms of credit risk through, for example, loans to banks, loan commitments and debt securities. The Group's risk management policies and processes are designed to identify and analyse risk, to set appropriate risk appetite and to monitor the risks and adherence to limits by means of reliable and timely data. The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties (Note 43.5).

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits where appropriate.

Collateral

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, fixed deposits and guarantees. Estimates of fair value of the collateral (including shares) are updated on a regular basis. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The principal collateral types for loans and advances are:

- ▶ cash and marketable securities;
- ▶ mortgages over residential and commercial properties;
- ▶ charges over business assets such as premises, inventory and accounts receivable;
- ▶ charges over financial instruments such as debt securities and equities; and
- ▶ guarantees.

The estimated fair value of collateral and other security enhancements held against loans and advances to customers and banks for the year ended 31 December 2015 was AED 135,122,154 thousand (31 December 2014 – AED 130,582,750 thousand).

Derivatives

The Group maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. positive fair value of assets),

which in relation to derivatives is a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers together with potential exposures from market movements.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risks arising from the Group's market transactions on any single day.

Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of statement of financial position assets and liabilities, as transactions are usually settled on a gross basis, hence the impact of netting in practice is immaterial.

However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a year, as it is affected by each transaction subject to the arrangement.

43.5 PORTFOLIO MONITORING AND IDENTIFYING CREDIT RISK

Credit Risk Management is actively involved in identifying and monitoring credit risk on loans. It monitors the portfolio through system-generated MIS and periodic reviews giving due consideration to industry/general economic trends, market feedback and media reports.

Within the retail portfolios comprising homogeneous assets, statistical techniques are deployed to monitor potential weaknesses within a particular portfolio. The approach is consistent with the Group's policy of raising a specific impairment allowance as soon as objective evidence of impairment is identified. Retail accounts are classified according to specified categories of arrears status (days-past-due buckets), which reflect the level of contractual payments that are overdue on a loan.

The probability of default increases with the number of contractual payments missed, thus raising the associated impairment requirement. In the event where a decision is taken to write off a loan, the account is moved to legal recovery function. However, in certain cases, an account may be charged off directly from a performing status, such as in the case of insolvency or death.

In the Wholesale Banking portfolio, the Group will more frequently participate in debt restructuring agreements as part of the business support process. Debt restructuring agreements may include actions to facilitate recovery of the principal and interest outstanding and may include rate negotiation, relaxing payment schedules, etc.

Exposure to credit risk by days past due

The Group's risk classification of loans and advances, which is in adherence to the recommendations of the Central Bank of the United Arab Emirates guidelines, is as follows:

Risk Category	
Neither past due nor impaired	Up to 30 days past due
Past due but not impaired	Between 31 and 90 days past due
Past due and impaired	Over 91 days past due

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

	2015 AED'000	2014 AED'000
Neither past due nor impaired	151,998,938	140,470,227
Past due but not impaired	3,189,229	2,259,015
Past due and impaired	4,834,106	4,610,999
	160,022,273	147,340,241
Less: Allowance for impairment	(6,344,887)	(6,777,743)
Loans and advances, net	153,677,386	140,562,498

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

	2015 AED'000	2014 AED'000
31-60 days	2,514,110	980,353
More than 60 days	675,119	1,278,662
Total past due but not impaired loans	3,189,229	2,259,015

Exposure to credit risk by internal risk grades

The Group uses an internal grading system which employs 10 grades that categorise the Group's wholesale and high-net-worth (HNW) customers based on various qualitative and quantitative factors such as borrower financial strength, industry risk factors, management quality, operational efficiency, company standing, liquidity, capital structure, peer group analysis, etc. Some of these grades are further sub-classified with a plus or a minus sign. Lower grades are indicative of a lower likelihood of default. Credit grades 1-7 are assigned to performing customers or accounts whilst credit grades 8-10 are assigned to non-performing or defaulting customers.

Credit ratings are used by the Group to decide the maximum lending amount per customer group and also to set minimum pricing thresholds. Retail customers or individual borrowers are not assigned a credit rating under this structure. However, the Retail Banking division uses behaviour scoring for its customers.

The internal credit grade system is not intended to replicate external credit grades, but as factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a worse internal credit grade.

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The following table represents credit quality of loans and advances, net, that are neither past due nor impaired and derivative financial assets as at December 31:

	2015		2014	
	Loans and advances, net AED'000	Derivative financial assets AED'000	Loans and advances, net AED'000	Derivative financial assets AED'000
Internal risk grades				
Grades 1 to 4	55,156,235	3,771,580	39,030,401	3,896,924
Grades 5 to 6	55,381,367	230,328	63,757,473	390,479
Grade 7	9,191,443	–	11,539,533	1,103
Ungraded – including retail loans	32,269,893	–	26,142,820	–
	151,998,938	4,001,908	140,470,227	4,288,506

External credit ratings

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

	2015			2014		
	Deposits and balances due from banks AED'000	Reverse-repo placements AED'000	Available-for-sale bonds AED'000	Deposits and balances due from banks AED'000	Reverse-repo placements AED'000	Available-for-sale bonds AED'000
Ratings						
AAA to AA–	802,543	925,594	5,114,768	1,663,961	435,606	5,982,840
A+ to A–	10,195,647	1,376,402	6,327,081	5,370,166	2,394,443	8,372,359
BBB+ to BBB–	3,060,057	117,780	6,344,134	5,265,768	–	4,349,496
BB+ to B–	792,596	–	1,194,583	772,057	–	741,088
CCC+ to C–	26	–	–	–	–	–
Unrated	104,128	1,836,501	1,324,846	117,460	–	1,661,180
	14,954,997	4,256,277	20,305,412	13,189,412	2,830,049	21,106,963

As at 31 December 2015, unrated available-for-sale bonds include Government bonds of AED 720,796 thousand (31 December 2014 – AED 1,155,283 thousand).

43.6 IDENTIFICATION OF IMPAIRMENT

At each reporting date, the Group assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to an asset of the Group such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group.

The Group considers evidence of impairment for loans and advances and investment securities measured at amortised cost at both individual and collective levels.

Individually assessed loans and advances

Impairment losses for individually assessed loans are determined by an evaluation of objective evidence relating to each exposure on a case-by-case basis. This procedure is applied to all classified corporate, commercial, high-net-worth individual and bank loans and advances which are individually significant accounts or are not subject to a portfolio-based approach. Specific factors considered by management when determining allowance for impairment on significant individual loans and advances include the Group's aggregate exposure to the customer, viability of the customer's business model and its capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations, the amount and timing of expected receipts and recoveries, likely dividend available on liquidation or bankruptcy, extent of other creditors' commitments ranking ahead of, or *pari passu* with, the Group, likelihood of other creditors continuing to support the company, realisable value of security (or other credit mitigants) and likelihood of successful repossession and likely deduction of any costs involved in recovery of amounts outstanding.

The amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows excluding future credit losses but including amounts recoverable from guarantees and collateral, discounted at the loan's original effective interest rate, when it became delinquent under the contract. The amount of the loss is recognised using an allowance account and is included in the consolidated income statement line – impairment allowances.

The Group's policy requires regular review of the level of impairment allowances on individual facilities, regular valuation of the collateral and consideration of its enforceability. Impaired loans continue to be classified as impaired unless they are fully current and the collection of scheduled interest and principal is considered probable.

Collectively assessed loans and advances

Impairment is assessed on a collective basis in two circumstances:

- ▶ to cover losses which may have been incurred but have not yet been identified on loans subject to individual assessment; and
- ▶ for homogenous groups of loans that are not considered individually significant.

Incurred but not yet identified loss on individual loans

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics based on industry, product or loan rating for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group may have incurred as a result of events occurring before the reporting date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. As soon as information becomes available which identifies losses on individual loans within the group of the customer, those loans are excluded from collective impairment assessment and assessed on an individual basis. The management of the Group assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of loans which may be impaired but not identified as of the reporting date.

In assessing collective impairment, the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

The collective impairment allowance is determined after taking into account factors such as historical loss experience in portfolios of similar credit risk characteristics, past restructurings, estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against individual loans and management's judgement based on experience as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by management for each identified portfolio.

Homogenous groups of loans and advances

Statistical methods are used to determine impairment losses on a collective basis for homogenous groups of loans that are not considered individually significant, because individual loan assessment is impracticable. Losses in these groups of loans are recorded on individual basis when individual loans are written off, at which point they are removed from the group.

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

All unsecured retail loans falling under similar overdue categories are assumed to carry similar credit risk and an allowance for impairment is taken on a portfolio basis. In cases of secured loans where the Group possesses collateral (mortgage) the realisable value of the collateral is taken into consideration in assessing the allowance for impairment.

Write-off of loans and advances

Loans and advances (and the related impairment allowance) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised loan, when the proceeds from realising the security have been received. All retail loans (except mortgages) are written off at 181 days past due based on approved write-off policies. However, recovery efforts continue on these loans.

The movement in individual and collective impairment allowance on loans and advances is as follows:

	2015			2014		
	Individual impairment AED'000	Collective impairment AED'000	Total AED'000	Individual impairment AED'000	Collective impairment AED'000	Total AED'000
Opening balance	3,856,796	2,920,947	6,777,743	4,250,195	2,639,752	6,889,947
Charge for the year	704,616	48,230	752,846	714,991	325,560	1,040,551
Recoveries during the year	(252,566)	–	(252,566)	(229,352)	–	(229,352)
Net charge for the year	452,050	48,230	500,280	485,639	325,560	811,199
Discount unwind/others	(126,033)	–	(126,033)	(160,011)	(44,245)	(204,256)
Net amounts written-off	(806,219)	–	(806,219)	(718,638)	–	(718,638)
Currency translation	(596)	(288)	(884)	(389)	(120)	(509)
Closing balance	3,375,998	2,968,889	6,344,887	3,856,796	2,920,947	6,777,743

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Reversal of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the consolidated income statement in the period in which it occurs.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. The Group enters into derivative contracts with financial institutions and corporates which are of satisfactory credit standing as per the Group's independent credit assessment. Credit risk in derivatives is mitigated through limit control and master netting agreements as explained in Note 43.4.

Off-balance sheet

The Group applies the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

43.7 RENEGOTIATED LOANS

The contractual terms of a loan may be modified for a number of reasons, and not limited to credit deterioration of the customer. When determining whether a renegotiated loan should be derecognised and a new loan be recognised, the Group performs a quantitative and qualitative evaluation of whether the changes to the original contractual terms result in a substantially different financial instrument, in which case an existing loan is derecognised and the renegotiated loan is recognised at fair value. For loans under credit deterioration, irrespective of whether the loan is derecognised on renegotiation, it remains disclosed at same risk grade until there is sufficient evidence of improvement.

44 INTEREST RATE RISK FRAMEWORK, MEASUREMENT AND MONITORING

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

Overall interest rate risk positions are managed by the Group's Treasury department, which uses derivative instruments like interest rate swaps and currency swaps to manage the overall interest rate risk arising from the Group's interest bearing financial instruments.

Financial assets and liabilities exposed to interest rate risk are financial assets and financial liabilities with either a fixed or a floating contractual rate of interest. A significant portion of the Group's loans and advances, deposits and balances due from banks, investment securities, deposits from customers, due to banks, borrowings and capital notes fall under this category.

Financial assets that are not subject to any interest rate risk mainly comprise of investments in equity investments, cash and balances with central banks excluding certificates of deposit and reverse repo.

The off-balance sheet gap represents the net notional amounts of the off-balance sheet financial instruments, such as interest rate swaps which are used to manage interest rate risk.

The Group uses financial simulation tools to periodically measure and monitor interest rate sensitivity. The results are analysed and monitored by the Asset and Liability Committee (ALCO).

The Group's interest rate sensitivity position based on contractual repricing arrangements at 31 December 2015 was as follows. Derivative financial instruments (other than those designated in a hedge relationship) and trading book assets and liabilities (excluding non-interest bearing) are included in the 'less than 3 months' column at their fair value. Derivative financial instruments designated in a hedge relationship are included according to their contractual next re-pricing tenor bucket.

31 December 2015	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non- interest bearing items AED'000	Total AED'000
Assets							
Cash and balances with central banks	3,877,603	1,300,000	1,469,200	–	–	13,533,474	20,180,277
Deposits and balances due from banks	14,006,224	550,000	–	–	–	398,773	14,954,997
Reverse-repo placements	4,146,087	110,190	–	–	–	–	4,256,277
Trading securities	62,261	–	–	–	–	–	62,261
Derivative financial instruments	2,930,189	59,257	13,035	14,779	348	984,300	4,001,908
Investment securities	2,710,931	2,095,029	1,799,232	5,764,041	7,936,179	558,195	20,863,607
Loans and advances, net	108,731,012	15,002,028	2,581,464	8,870,446	25,961,856	(7,469,420)	153,677,386
Investment in associate	–	–	–	–	–	197,156	197,156
Investment properties	–	–	–	–	–	647,647	647,647
Other assets	76,656	–	–	–	–	8,494,984	8,571,640
Property and equipment, net	–	–	–	–	–	835,145	835,145
Intangible assets	–	–	–	–	–	18,800	18,800
Total assets	136,540,963	19,116,504	5,862,931	14,649,266	33,898,383	18,199,054	228,267,101
Liabilities and equity							
Due to banks	1,162,570	173,097	73,460	–	–	282,666	1,691,793
Derivative financial instruments	3,638,300	20,274	–	85	14,141	1,068,380	4,741,180
Deposits from customers	68,647,987	13,793,142	16,836,605	4,079,116	148,735	40,020,711	143,526,296
Euro commercial paper	3,199,655	1,408,901	1,091,508	–	–	–	5,700,064
Borrowings	12,665,540	292,738	1,917,582	4,011,062	14,584,809	–	33,471,731
Other liabilities	25,700	–	–	–	–	10,377,534	10,403,234
Equity	–	–	–	–	–	28,732,803	28,732,803
Total liabilities and equity	89,339,752	15,688,152	19,919,155	8,090,263	14,747,685	80,482,094	228,267,101
On-balance-sheet gap	47,201,211	3,428,352	(14,056,224)	6,559,003	19,150,698	(62,283,040)	–
Off-balance-sheet gap	(144,450)	1,896,915	(7,411,791)	5,727	5,653,599	–	–
Total interest rate sensitivity gap	47,056,761	5,325,267	(21,468,015)	6,564,730	24,804,297	(62,283,040)	–
Cumulative interest rate sensitivity gap	47,056,761	52,382,028	30,914,013	37,478,743	62,283,040	–	–

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

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For the year ended 31 December 2015

The Group's interest rate sensitivity position based on contractual repricing arrangements at 31 December 2014 was as follows:

31 December 2014	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non- interest bearing items AED'000	Total AED'000
Assets							
Cash and balances with central banks	769,812	1,400,000	1,375,000	-	-	11,547,380	15,092,192
Deposits and balances due from banks	9,642,911	2,218,661	567,972	-	-	759,868	13,189,412
Reverse-repo placements	1,704,217	1,125,832	-	-	-	-	2,830,049
Trading securities	199,599	-	-	-	-	-	199,599
Derivative financial instruments	3,033,279	2,274	1,356	8,071	-	1,243,526	4,288,506
Investment securities	2,238,686	2,173,425	3,259,543	7,059,929	6,375,380	544,875	21,651,838
Loans and advances, net	94,310,980	17,324,887	2,224,771	8,227,431	26,210,607	(7,736,178)	140,562,498
Investment in associate	-	-	-	-	-	195,854	195,854
Investment properties	-	-	-	-	-	615,778	615,778
Other assets	372,776	-	-	-	-	4,179,068	4,551,844
Property and equipment, net	-	-	-	-	-	806,188	806,188
Intangible assets	-	-	-	-	-	35,705	35,705
Total assets	112,272,260	24,245,079	7,428,642	15,295,431	32,585,987	12,192,064	204,019,463
Liabilities and equity							
Due to banks	3,474,061	36,730	-	-	-	578,228	4,089,019
Derivative financial instruments	3,444,353	11,937	-	8,290	3,002	1,532,485	5,000,067
Deposits from customers	62,252,659	10,626,953	14,549,660	3,662,208	4,194	34,915,553	126,011,227
Euro commercial paper	3,398,994	1,265,598	1,710,692	-	-	-	6,375,284
Borrowings	10,484,548	1,125,369	1,349,044	3,520,601	13,840,559	-	30,320,121
Other liabilities	-	-	-	-	-	5,804,912	5,804,912
Equity	-	-	-	-	-	26,418,833	26,418,833
Total liabilities and equity	83,054,615	13,066,587	17,609,396	7,191,099	13,847,755	69,250,011	204,019,463
On-balance-sheet gap	29,217,645	11,178,492	(10,180,754)	8,104,332	18,738,232	(57,057,947)	-
Off-balance-sheet gap	(1,322,234)	(3,358,401)	390,837	(3,125,076)	7,414,874	-	-
Total interest rate sensitivity gap	27,895,411	7,820,091	(9,789,917)	4,979,256	26,153,106	(57,057,947)	-
Cumulative interest rate sensitivity gap	27,895,411	35,715,502	25,925,585	30,904,841	57,057,947	-	-

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

45 LIQUIDITY RISK FRAMEWORK, MEASUREMENT AND MONITORING

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replenish funds when they are withdrawn. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

LIQUIDITY RISK MANAGEMENT PROCESS

The Group has a Board of Directors (BOD)-approved liquidity risk appetite framework which establishes the minimum liquidity to be carried by the Group in order to survive a stress environment for a stipulated time horizon. The BOD has delegated to Management Executive Committee (MEC) the responsibility of liquidity management which is overseen on its behalf by the Asset Liability Committee (ALCO) on a day-to-day basis. ALCO sets and monitors liquidity ratios and regularly revises and calibrates the liquidity management policies to ensure that the Group is in a position to meet its obligations as they fall due. ALCO also ensures that the Bank remains compliant with all regulatory and internal policy guidelines pertaining to liquidity risk.

The Group's liquidity management process, as carried out within the Group and monitored by the Group's Treasury department includes:

- ▶ monitoring of liquidity position on a daily, weekly and monthly basis. This entails forecasting of future cash inflows/outflows and ensuring that the Group can meet the required outflows;
- ▶ regular liquidity stress testing of the Group's liquidity position conducted under a variety of scenarios covering both normal and more severe market conditions with well-defined triggers and suggested actions; and
- ▶ ensuring regular compliance with the liquidity ratios such as Advances to Stable Resources (ADR) ratio, Eligible Liquid Assets Ratio (ELAR) and Liquidity Coverage Ratio (LCR) stipulated by the Central Bank of UAE.

The Group has set an internal ceiling on the ADR ratio that should not be higher than 1:1 between:

- the amount of loans and advances together with the amount of inter-bank placements with a remaining life of more than three months; and
- the amount of stable resource comprising of free own funds with a remaining life of more than six months, stable customer deposits and standby liquidity facilities.

The above definition is in line with the Central Bank of the UAE definition of the Advances to Stable Resources ratio.

Monitoring composition of funding sources at a granular level has set triggers for avoiding concentration of funding sources. The concentration of funding sources is monitored as a percentage of the total liability position. Some of the ratios monitored are as follows:

- ▶ Euro commercial paper to total liabilities
- ▶ Wholesale funds to total liabilities
- ▶ Money market deposits to total liabilities
- ▶ Core funds to total liabilities
- ▶ Non-core funds to total liabilities
- ▶ Offshore funds to total liabilities

TOOLS FOR LIQUIDITY MANAGEMENT

The Group through its Treasury department ensures that it has access to diverse sources of funding ranging from local customer deposits from its retail, corporate and institutional customers as well as international sovereign wealth funds and central banks to long-term funding such as debt securities and subordinated liabilities issued under the Global Medium-Term Note programme.

Whilst the Group's debt securities and sub-debt typically are issued with maturities of greater than one year, deposits from banks and customers generally have shorter maturities which increase the liquidity risk of the Group. Treasury manages this risk by:

- ▶ diversification of funding sources and balancing between long-term and short-term funding sources through borrowing under its Global Medium-Term Notes issue programmes;
- ▶ monitoring the stickiness of the liability portfolio and rewarding business units for sticky deposits through the fund transfer pricing process; and
- ▶ investing in various short-term or medium-term but highly marketable assets in line with Basel III guidelines for high quality liquid assets (HQLA) such as certificates of deposit (CDs) with the Central Bank, investment grade bonds that can be repurchased at short notices, etc.

Further, the Bank also has the following facilities from the Central Bank of the UAE to manage its liquidity risk during critical times:

- ▶ overdraft facility against its cash reserves at an overnight rate at a spread of 150 basis points;
- ▶ overdraft facility beyond the cash reserves at an overnight spread of 300 basis points; and
- ▶ repo facility against CDs at an overnight rate with a spread of 100 basis points.

The Bank has access to marginal lending facility (MLF) initiated by the Central Bank of the UAE effective from March 2014. Under MLF, the Bank can borrow from the UAE Central Bank by posting eligible collateral. The Bank periodically tests MLF facility with the Central Bank for its operational readiness.

None of the above Central Bank facilities are utilised and outstanding at the end of the year.

The Bank has in place a contingent funding plan which lists out the trigger points to be monitored for invoking the contingent funding plan. The trigger points are based on market observable data points like credit spreads and internal and external events like decline in customer deposits and drying up of wholesale markets. The contingent funding plan clearly defines the roles and responsibilities and is updated with changing market conditions by ALCO.

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the end of the reporting period date to the contractual maturity date and do not take into account the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds.

Derivative financial instruments (other than those designated in a hedge relationship) and trading portfolio assets and liabilities are included in the 'less than 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of remaining maturity since they are not held for settlement according to such maturity and will frequently be settled before remaining maturity at fair value. Derivatives designated in a hedge relationship are included according to their remaining maturity at fair value.

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

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

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
31 December 2015						
Assets						
Cash and balances with central banks	17,411,077	1,300,000	1,469,200	–	–	20,180,277
Deposits and balances due from banks	14,404,997	550,000	–	–	–	14,954,997
Reverse-repo placements	4,146,087	110,190	–	–	–	4,256,277
Trading securities	62,261	–	–	–	–	62,261
Derivative financial instruments	3,597,190	130,461	21,935	51,813	200,509	4,001,908
Investment securities	2,847,570	2,095,029	1,810,265	6,174,564	7,936,179	20,863,607
Loans and advances, net	17,990,652	2,811,237	4,585,329	22,515,638	105,774,530	153,677,386
Investment in associate	–	–	–	–	197,156	197,156
Investment properties	–	–	–	647,647	–	647,647
Other assets	3,371,109	1,375,895	3,824,636	–	–	8,571,640
Property and equipment, net	–	–	–	–	835,145	835,145
Intangible assets	–	–	–	–	18,800	18,800
Total assets	63,830,943	8,372,812	11,711,365	29,389,662	114,962,319	228,267,101
Liabilities and equity						
Due to banks	1,445,236	173,097	73,460	–	–	1,691,793
Derivative financial instruments	3,625,613	131,051	34,794	369,255	580,467	4,741,180
Deposits from customers	108,249,792	13,793,142	16,836,605	4,079,116	567,641	143,526,296
Euro commercial paper	3,199,655	1,408,901	1,091,508	–	–	5,700,064
Borrowings	3,834,208	292,738	2,600,606	11,781,258	14,962,921	33,471,731
Other liabilities	4,878,097	1,316,571	3,823,889	–	384,677	10,403,234
Equity	–	–	–	–	28,732,803	28,732,803
Total liabilities and equity	125,232,601	17,115,500	24,460,862	16,229,629	45,228,509	228,267,101
Balance sheet liquidity gap	(61,401,658)	(8,742,688)	(12,749,497)	13,160,033	69,733,810	–
Off balance sheet						
Financial guarantees and irrevocable commitments	873,984	951,775	2,263,418	5,722,196	5,360,613	15,171,986

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

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
31 December 2014						
Assets						
Cash and balances with central banks	12,317,192	1,400,000	1,375,000	–	–	15,092,192
Deposits and balances due from banks	10,402,779	2,218,661	567,972	–	–	13,189,412
Reverse-repo placements	1,704,217	1,125,832	–	–	–	2,830,049
Trading securities	199,599	–	–	–	–	199,599
Derivative financial instruments	4,046,567	3,374	12,961	129,783	95,821	4,288,506
Investment securities	2,730,150	2,173,425	3,259,543	7,113,340	6,375,380	21,651,838
Loans and advances, net	13,247,824	3,880,910	4,559,945	19,453,338	99,420,481	140,562,498
Investment in associate	–	–	–	–	195,854	195,854
Investment properties	–	–	–	615,778	–	615,778
Other assets	2,592,567	509,290	1,445,473	4,514	–	4,551,844
Property and equipment, net	–	–	–	–	806,188	806,188
Intangible assets	–	–	–	–	35,705	35,705
Total assets	47,240,895	11,311,492	11,220,894	27,316,753	106,929,429	204,019,463
Liabilities and equity						
Due to banks	4,052,289	36,730	–	–	–	4,089,019
Derivative financial instruments	4,131,342	120,592	147,611	274,684	325,838	5,000,067
Deposits from customers	96,742,314	10,626,953	14,549,660	3,662,208	430,092	126,011,227
Euro commercial paper	3,398,994	1,265,598	1,710,692	–	–	6,375,284
Borrowings	4,522,596	2,594,569	1,349,044	7,629,836	14,224,076	30,320,121
Other liabilities	3,571,806	447,989	1,444,098	4,514	336,505	5,804,912
Equity	–	–	–	–	26,418,833	26,418,833
Total liabilities and equity	116,419,341	15,092,431	19,201,105	11,571,242	41,735,344	204,019,463
Balance sheet liquidity gap	(69,178,446)	(3,780,939)	(7,980,211)	15,745,511	65,194,085	–
Off balance sheet						
Financial guarantees and irrevocable commitments	809,879	565,740	4,405,885	5,119,135	3,316,568	14,217,207

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The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2015 and 2014 based on contractual undiscounted repayment obligations. As interest payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. Derivative financial instruments held for trading are included in the "less than 3 months" column at their fair value. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay, and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	Carrying amount AED'000	Gross outflow AED'000	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000
31 December 2015							
Liabilities							
Due to banks	1,691,793	1,694,509	1,446,384	173,952	74,173	–	–
Derivative financial instruments	4,741,180	4,112,501	3,581,419	191,594	12,109	373,466	(46,087)
Deposits from customers	143,526,296	144,690,813	108,724,839	13,927,282	17,152,421	4,291,254	595,017
Euro commercial paper	5,700,064	5,703,859	3,199,992	1,410,567	1,093,300	–	–
Borrowings	33,471,731	41,505,978	4,089,956	428,454	2,989,783	12,983,127	21,014,658
Total financial liabilities	189,131,064	197,707,660	121,042,590	16,131,849	21,321,786	17,647,847	21,563,588
31 December 2014							
Liabilities							
Due to banks	4,089,019	4,089,886	4,053,058	36,828	–	–	–
Derivative financial instruments	5,000,067	5,023,682	4,077,474	214,931	113,896	281,165	336,216
Deposits from customers	126,011,227	126,468,608	96,874,067	10,711,147	14,711,405	3,733,361	438,628
Euro commercial paper	6,375,284	6,386,264	3,401,055	1,267,617	1,717,592	–	–
Borrowings	30,320,121	36,046,831	4,776,097	2,710,859	1,699,753	9,785,018	17,075,104
Total financial liabilities	171,795,718	178,015,271	113,181,751	14,941,382	18,242,646	13,799,544	17,849,948

46 FOREIGN EXCHANGE RISK FRAMEWORK, MEASUREMENT AND MONITORING

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored on a daily basis. The sensitivity of currency fluctuation risk is given in Note 47. The off-balance sheet position represents the nominal value of transactions dealt and outstanding under the Group's trading and hedging portfolio at reporting date. The analysis of currency concentrations of the Group's statement of financial position are presented below:

	AED AED'000	USD AED'000	EUR AED'000	CHF AED'000	GBP AED'000	MYR AED'000	Others AED'000	Total AED'000
31 December 2015								
Assets								
Cash and balances with central banks	13,950,380	6,194,515	103	–	–	–	35,279	20,180,277
Deposits and balances due from banks	3,898,160	7,674,138	524,974	12,670	38,580	102	2,806,373	14,954,997
Reverse-repo placements	–	4,256,277	–	–	–	–	–	4,256,277
Trading securities	–	3,717	44,699	–	–	–	13,845	62,261
Derivative financial instruments	874,848	3,115,109	512	–	–	–	11,439	4,001,908
Investment securities	257,430	16,069,387	2,629,898	334,633	–	–	1,572,259	20,863,607
Loans and advances, net	120,807,141	31,784,686	18,850	–	16,689	–	1,050,020	153,677,386
Investment in associate	197,156	–	–	–	–	–	–	197,156
Investment properties	647,647	–	–	–	–	–	–	647,647
Other assets	974,115	7,178,221	46,239	3,858	7,767	3,799	357,641	8,571,640
Property and equipment, net	830,232	–	–	–	–	–	4,913	835,145
Intangible assets	18,800	–	–	–	–	–	–	18,800
Total assets	142,455,909	76,276,050	3,265,275	351,161	63,036	3,901	5,851,769	228,267,101
Liabilities and equity								
Due to banks	775,277	815,467	136	–	69,360	–	31,553	1,691,793
Derivative financial instruments	755,240	3,977,552	46	–	–	–	8,342	4,741,180
Deposits from customers	79,220,339	46,533,001	3,049,906	48,664	1,085,803	24	13,588,559	143,526,296
Euro commercial paper	–	2,294,750	2,341,393	453,223	543,636	–	67,062	5,700,064
Borrowings	504,164	29,420,462	48,314	760,059	636,355	598,227	1,504,150	33,471,731
Other liabilities	2,911,803	6,590,494	48,886	3,870	9,984	3,799	834,398	10,403,234
Equity	28,756,412	3,261	(26,132)	(738)	–	–	–	28,732,803
Total liabilities and equity	112,923,235	89,634,987	5,462,549	1,265,078	2,345,138	602,050	16,034,064	228,267,101
Net balance sheet position	29,532,674	(13,358,937)	(2,197,274)	(913,917)	(2,282,102)	(598,149)	(10,182,295)	–
Net off-balance-sheet position	(3,121,094)	(12,671,349)	501,495	818,191	2,697,440	598,227	11,177,090	–
Net FX open position	26,411,580	(26,030,286)	(1,695,779)	(95,726)	415,338	78	994,795	–

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	AED AED'000	USD AED'000	EUR AED'000	CHF AED'000	GBP AED'000	MYR AED'000	Others AED'000	Total AED'000
31 December 2014								
Assets								
Cash and balances with central banks	13,569,830	1,478,331	–	–	23	–	44,008	15,092,192
Deposits and balances due from banks	4,872,896	4,579,808	165,777	25,206	513,076	120	3,032,529	13,189,412
Reverse-repo placements	–	2,830,049	–	–	–	–	–	2,830,049
Trading securities	–	199,599	–	–	–	–	–	199,599
Derivative financial instruments	1,160,711	3,120,663	413	–	–	–	6,719	4,288,506
Investment securities	336,076	18,298,044	1,178,432	–	–	–	1,839,286	21,651,838
Loans and advances, net	107,694,204	32,089,205	33,706	–	17,551	–	727,832	140,562,498
Investment in associate	195,854	–	–	–	–	–	–	195,854
Investment properties	615,778	–	–	–	–	–	–	615,778
Other assets	813,806	3,308,119	71,601	5,190	15,110	33,092	304,926	4,551,844
Property and equipment, net	801,878	–	–	–	–	–	4,310	806,188
Intangible assets	35,705	–	–	–	–	–	–	35,705
Total assets	130,096,738	65,903,818	1,449,929	30,396	545,760	33,212	5,959,610	204,019,463
Liabilities and equity								
Due to banks	2,230,279	1,707,876	4,034	–	10	–	146,820	4,089,019
Derivative financial instruments	1,592,341	3,398,999	–	–	–	–	8,727	5,000,067
Deposits from customers	77,480,201	33,628,483	994,337	23,938	755,013	12	13,129,243	126,011,227
Euro commercial paper	–	3,231,920	1,082,659	619,295	1,441,410	–	–	6,375,284
Borrowings	513,270	25,693,740	53,905	1,325,958	–	1,518,306	1,214,942	30,320,121
Other liabilities	2,578,278	2,169,382	72,791	5,270	17,221	18,185	943,785	5,804,912
Equity	26,048,931	343,848	26,054	–	–	–	–	26,418,833
Total liabilities and equity	110,443,300	70,174,248	2,233,780	1,974,461	2,213,654	1,536,503	15,443,517	204,019,463
Net balance sheet position	19,653,438	(4,270,430)	(783,851)	(1,944,065)	(1,667,894)	(1,503,291)	(9,483,907)	–
Net off-balance-sheet position	(1,564,369)	(6,143,814)	(2,787,447)	1,990,259	2,083,911	1,518,306	4,903,154	–
Net FX open position	18,089,069	(10,414,244)	(3,571,298)	46,194	416,017	15,015	(4,580,753)	–

47 MARKET RISK FRAMEWORK, MEASUREMENT AND MANAGEMENT

The Group's activities expose it primarily to market risk which is defined as the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates, commodity prices and credit spreads (not relating to changes in the obligor's/issuer's credit standing), will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

- ▶ Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
- ▶ Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
- ▶ Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

The Group separates its exposure to market risk between trading and banking book as defined below:

MARKET RISK ARISING FROM TRADING BOOK

Trading positions are held by the Treasury group, and include positions arising from market-making and proprietary position-taking, together with financial assets and liabilities that are managed on a fair value basis. Realised and unrealised gains and losses on these positions are reported in the consolidated income statement.

MARKET RISK ARISING FROM BANKING BOOK

Market risk from banking book arises from execution of the Group's core business strategies, products and services to its customers, that invariably create interest rate risk and open currency positions that the Group endeavours to manage through strategic positions to mitigate the inherent risk caused by these positions.

Banking book includes all positions that are not held for trading, such as, but not limited to, the Group's investments in available-for-sale instruments, loans and advances carried at amortised cost, derivatives used for hedging and other financial assets held for long term.

These exposures can result from a variety of factors including but not limited to re-pricing of gaps in assets, liabilities and off-balance-sheet instruments, and changes in the level and shape of market interest rate curves.

RISK IDENTIFICATION AND CLASSIFICATION

The MRCC approves market risk policies for the Group. All business segments are responsible for comprehensive identification and verification of market risks within their business units. Regular meetings are held between market risk management and the heads of risk-taking businesses to discuss and decide on risk exposures in the context of the market environment.

MANAGEMENT OF MARKET RISK

The Board of Directors has set risk limits based on the value at risk (VaR), stressed value at risk (SVaR), Greeks, sensitivity/stress analysis and foreign exchange open position limits, which are closely monitored by the Risk Management division and reported regularly to senior management and discussed by the ALCO.

Market risk is identified, measured, managed and controlled by an independent Risk Control function. Market risk management aims to reduce volatility in operating performance and make the Group's market risk profile transparent to senior management, the Board of Directors and regulators.

Market risk management is overseen by the Management Risk & Credit Committee (MRCC) and performs the following primary functions:

- ▶ establishment of a comprehensive mark-to-market valuation policy framework;
- ▶ establishment of a comprehensive market risk policy framework;
- ▶ independent measurement, monitoring and control of market risk; and
- ▶ setting and monitoring of limits.

RISK MEASUREMENT

The following are the tools used to measure market risk, because no single measure can reflect all aspects of market risk. The Group uses various matrices, both statistical and non-statistical, including sensitivity analysis.

STATISTICAL RISK MEASURES

The Group measures the risk of loss arising from future potential adverse movements in market rates, prices and volatilities using VaR methodology. The VaR that the Group measures is an estimate, using a confidence level of 99%, of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. This confidence level suggests that potential daily losses in excess of the VaR measure are likely to be experienced, once every 100 days. The Board has set limits for the acceptable level of risks in managing the trading book.

The Group uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VaR models are usually designed to measure the market risk in a normal market environment and therefore the use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VaR represents the risk of portfolios at the close of a business day, and intra-day risk levels may vary from those reported at the end of the day. The actual trading results, however, may differ from the VaR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VaR limitations mentioned above, the Group runs both SVaR and Expected Shortfall daily to monitor the tail risk outside the confidence limit. Stressed VaR is the VaR run through a stressed year rather than the previous year, as used in VaR.

The Group's VaR for the year ended December 31 is as below:

	2015 AED'000	2014 AED'000
Daily value at risk (VaR at 99% – 1 day)		
Overall risk	(3,228)	(4,898)
Average VaR	(6,714)	(4,896)

NON-STATISTICAL RISK MEASURES

Non-statistical risk measures, other than stress/sensitivity testing, include independent market valuations to ensure that the Group's valuations are correct and Risk Greeks to ensure that trading is within the risk appetite thresholds. These measures provide granular information of the Group's market risk exposures.

Independent market valuations/Greeks are validated by the Market Risk function in order to ensure that the market valuations/Greeks are measured correctly. The Group uses first-order Risk Greeks to monitor and control market risk on a day-to-day basis. The interest rate Delta and Vega and the foreign exchange Delta and Vega are computed daily and monitored against a limit. The Board has set limits for the Delta and the Vega within acceptable levels of risk in managing the trading book.

SENSITIVITY ANALYSIS

To overcome the VaR limitations mentioned under Statistical Risk Measures above, the Group also carries out daily stress tests/sensitivity analysis of its portfolio to simulate conditions outside normal confidence intervals in order to analyse potential risk that may arise from extreme market events that are rare but plausible. The results of the stress tests are reported regularly to the Group's ALCO for its review.

CURRENCY RISK

The following table depicts the sensitivity of fair valuations in the trading and banking book to hypothetical, instantaneous changes in the level of foreign currency exchange rates – with other market risk factors held constant (including the USD-AED currency pair, which is pegged) – that would have an impact on the Group's consolidated income statement:

	2015		2014	
	+5% AED'000	-5% AED'000	+5% AED'000	-5% AED'000
Price shock in percentage				
USD-AUD	1,122	(227)	57	(57)
EUR-USD	2,536	3,195	(6,838)	8,906
GBP-USD	193	214	(1,389)	(4,219)
USD-JPY	6,541	3,839	(206)	(351)
USD-CHF	1,367	(786)	2,643	1,903
USD-INR	(10,614)	12,606	(8,816)	18,173

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INTEREST RATE RISK – TRADING BOOK

The following table depicts the sensitivity of fair valuations in the trading book to hypothetical and instantaneous changes in the level of interest rates – with other market risk factors held constant – which would have an impact on the Group's consolidated income statement:

Relative instantaneous rate move shift for all tenors:

	2015		2014	
	+25% AED'000	-25% AED'000	+25% AED'000	-25% AED'000
AED	(17,319)	23,349	54,635	(56,243)
USD	10,215	(9,471)	(39,435)	41,160

INTEREST RATE RISK – BANKING BOOK

The following table depicts the sensitivity of fair valuations in the non-trading book to hypothetical and instantaneous changes in the level of interest rates – with other market risk factors held constant – which would have an impact on the Group's consolidated income statement:

	2015		2014	
	+25 bps AED'000	-25 bps AED'000	+25 bps AED'000	-25 bps AED'000
Sensitivity of net interest income	88,701	(88,123)	52,941	(52,145)

The sensitivity on the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities, including the effect of hedging instruments.

48 OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks can arise from all business processes and activities carried out by the Group and can expose the Group to potentially large losses. The Group manages operational risk exposures through a consistent set of management processes that include risk identification, assessment, control, mitigation and monitoring. The Operational Risk Management Framework is built on elements that allow the Group to effectively manage and measure its operational risk profile and to calculate the amount of operational risk capital it needs to hold to absorb potential losses. The framework is governed by a three-lines-of-defence concept.

Each business group, as an integral part of its first-line-of-defence responsibilities, is responsible for identifying and managing risks that arise from its activities. Identified operational risk exposures are rated 'Minor', 'Moderate', 'Significant' and 'Major' in accordance with defined risk assessment criteria. Significant and Major risks are analysed to identify the root cause of any failure for remediation and future mitigation. Additionally, data on operational losses is systematically collected and analysed to address the root cause of failures.

As the second line of defence, Group Operational Risk is responsible for setting and maintaining the standards for operational risk management and control. This includes defining appropriate policies and provides tools to manage and monitor operational risks within the Group's activities. The Group Operational Risk function is well supported by Business Operational Risk Managers, for identifying risks that are material to the Group and for maintaining an effective control environment across the organisation. Additionally, a system has been implemented to ensure that operational risk data is consistently captured across the Group in line with the regulatory framework. New products, material process changes and critical outsourcing arrangements are also assessed and authorised in accordance with product governance policies and procedures. Operational risk reporting is an integral part of the governance framework. On a quarterly basis, reporting is done to the heads of business groups, senior management committees and the Board Risk Committee.

As the third line of defence, the Internal Audit function provides further independent review of the Group's operational risk management processes, systems and controls and reports to the Board and senior management.

49 FOREIGN CURRENCY BALANCES

Net assets amounting to the Indian rupee equivalent of AED 202,732 thousand (31 December 2014 – AED 203,778 thousand) held in India are subject to the exchange control regulations of India.

50 TRUST ACTIVITIES

As at 31 December 2015, the net asset value of the funds under the management of the Group amounted to AED 2,161,522 thousand (31 December 2014 – AED 2,895,168 thousand).

51 SUBSIDIARIES

The following is the list of subsidiaries of the Bank:

Name of subsidiary	Ownership interest	Incorporation		Principal activities
		Year	Country	
ADCB Securities LLC	100%	2005	UAE	Agent in trading of financial instruments and stocks
Abu Dhabi Commercial Properties LLC	100%	2005	UAE	Real estate property management and advisory services
Abu Dhabi Commercial Finance Solutions LLC	100%	2005	UAE	Financial investments
Abu Dhabi Commercial Investment Services LLC	100%	2005	UAE	Financial investments
Kinetic Infrastructure Development LLC	100%	2006	UAE	Financial investments
Abu Dhabi Commercial Property Development LLC (*)	100%	2006	UAE	Property development
Abu Dhabi Commercial Engineering Services LLC	100%	2007	UAE	Engineering services
ADCB Finance (Cayman) Limited	100%	2008	Cayman Islands	Treasury financing activities
ADCB Markets (Cayman) Limited (Formerly known as ADCB Holdings [Cayman] Limited)	100%	2008	Cayman Islands	Treasury related activities
ADCB Holdings (Labuan) Limited	100%	2008	Malaysia	Holding company
ADCB Holdings (Malaysia) Sdn Bhd	100%	2008	Malaysia	Investment holding company
ACB LTIP (IOM) Limited	Controlling interest	2008	Isle of Man	Trust activities
Abu Dhabi Commercial Properties Consultancy LLC (*)	100%	2008	UAE	Real estate consultancy
Abu Dhabi Commercial Bank (UK Representative Office) Limited	100%	2008	United Kingdom	UK representative office and process service agent
ADCB Fund Management SARL	100%	2009	Luxembourg	Fund management company
Abu Dhabi Commercial Islamic Finance Pvt.J.S.C.	100%	2009	UAE	Islamic banking
ITMAM Services FZ LLC (Formerly known as ADCB Services FZ LLC)	100%	2010	UAE	Transaction processing and back-office support for the Group
ADCB Islamic Finance (Cayman) Limited	100%	2011	Cayman Islands	Islamic financing activities
AD NAC Ventures WLL	99.75%	2013	Bahrain	Trust activities
ITMAM Services LLC	100%	2014	UAE	Transaction processing and back-office support for the Group
Abu Dhabi Commercial Enterprises LLC	100%	2014	Qatar	Engineering services
Omicron Capital (Cayman) Limited	100%	2014	Cayman Islands	Treasury financing activities

(*) These subsidiaries are dormant.

During the year, all units in Al Nokhitha Investments Feeder Fund, MSCI UAE Index Feeder Fund and Arabian Index Feeder Fund (together referred to as "feeder funds") were redeemed in exchange for units in ADCB SICAV Fund (Société d'investissement à capital variable Fund or "SICAV Fund") at fair value on the date of exchange. The units received have been classified as available-for-sale investments as per IAS 39. This being a non-cash transaction has not been reflected in the consolidated statement of cash flows.

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52 CAPITAL ADEQUACY AND CAPITAL MANAGEMENT

CAPITAL MANAGEMENT PROCESS

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

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

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Group's management employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of the UAE. The required information is filed with the regulators on a regular basis as required under Basel II standards.

The UAE Central Bank, vide its circular No. 27/2009 dated 17 November 2009, informed all the banks operating in the UAE to implement the standardised approach of Basel II from the date of the circular. For credit and market risk, the Central Bank has issued guidelines for implementation of the standardised approach, and banks are required to comply and report under Pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP) requirements since March 2010. For operational risk, the Central Bank has given banks the option to use the Basic Indicators approach or the standardised approach, and the Group has chosen to use the standardised approach.

The Group currently uses the approach defined below for Pillar 1 reporting:

Credit risk: The standardised approach is used by the Group in calculating its capital requirements for credit risk. This approach allows the use of external ratings from designated credit rating agencies, wherever available, in determining the appropriate risk weights. The risk weight is determined by the asset class and the external rating of the counterparty. The net exposure incorporates off-balance-sheet exposures after applying the credit conversion factors (CCF) and credit risk mitigants (CRM).

Market risk: For the regulatory market risk capital requirement, the Group uses the standardised approach.

Operational risk: Basel II includes a capital requirement for operational risk, again utilising three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardised approach it is one of three different percentages of total operating income under each of eight defined business lines. Both these approaches use an average of the last three financial years' revenues. The Group has adopted the standardised approach in determining the operational risk capital requirements.

The Group also prepares an annual comprehensive ICAAP document. This document is a detailed assessment by the Group of its risk profile, approaches to assessing and measuring various material risks, and capital planning under regular and stress scenarios.

The Group's capital management is driven by long-/short-term strategies and organisational requirements with due consideration to the regulatory, economic and commercial environment in which the Bank operates.

The Group seeks to optimise returns on capital, and it has always been its objective to maintain a strong capital base to support business development and to meet regulatory capital requirements at all times.

Capital supply

As per Basel II requirements, capital should comprise the following:

Tier 1 capital includes paid-up share capital, share premium, published reserves (including post-tax retained earnings but excluding positive balance of cumulative changes in fair value), hybrid Tier 1 instruments (with prior approval from the Central Bank) and non-controlling interests in the equity of subsidiaries less than wholly owned.

Deductions are made from Tier 1 core capital as per the Basel Guidelines/Central Bank of the UAE rules and include goodwill and other intangibles at net book value, adjustments for the cumulative effect of foreign currency translation, negative balance of cumulative changes in fair value, and own shares held – at net book value, taking account of any provisions made against the acquisition value, current-year loss/retained losses, shortfall in provisions and other deductions to be determined by the Central Bank of the UAE.

Tier 2 capital includes collective provisions per Basel Guidelines and UAE Central Bank rules, undisclosed reserves, asset revaluation reserves/cumulative changes in fair value, hybrid (debt/equity) capital instruments and subordinated term loan.

Tier 3 capital includes principal forms of eligible capital to cover market risks and consists of shareholders' equity and retained earnings (Tier 1 capital) and supplementary capital (Tier 2 capital). Subject to prior approval from the Central Bank of the UAE, banks may employ a third tier of capital (Tier 3), consisting of short-term subordinated debt as defined in paragraph 49(xiv) of Basel II, for the sole purpose of meeting a proportion of the capital requirements for market risks, subject to the conditions in paragraph 49(xiii) and 49(xiv).

SECURITISED ASSETS

Exposures to securitised assets that are rated B+ and below (long-term) or below A3/P3 (short-term), or are un-rated, are deducted from the capital base, and the deductions will be 50% from Tier 1 and 50% from Tier 2 capital.

CAPITAL ALLOCATION

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital and the Group's business strategy, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital, to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank Risk & Credit and Finance functions and is subject to review by the ALCO as appropriate.

CAPITAL ADEQUACY RATIO

The ratio calculated in accordance with Basel II guidelines is as follows:

	2015 AED'000	2014 AED'000
Tier 1 capital		
Share capital (Note 22)	5,595,597	5,595,597
Share premium	3,848,286	3,848,286
Other reserves, net of Treasury shares (Note 23)	5,656,564	5,540,106
Retained earnings	9,627,315	7,172,755
Non-controlling interests	5,041	10,397
Capital notes (Note 26)	4,000,000	4,000,000
Less: Intangible assets (Note 16)	(18,800)	(35,705)
Less: Investment in associate (Note 12)	(98,578)	(97,927)
Total Tier 1 capital	28,615,425	26,033,509
Tier 2 capital		
Collective impairment allowance on loans and advances	1,966,431	1,709,253
Cumulative changes in fair value (Note 23)	–	113,261
Subordinated notes (Note 20)	4,226,037	4,439,637
Less: Investment in associate (Note 12)	(98,578)	(97,927)
Total Tier 2 capital	6,093,890	6,164,224
Total regulatory capital	34,709,315	32,197,733
Risk-weighted assets		
Credit risk	157,314,517	136,740,240
Market risk	5,652,368	4,497,079
Operational risk	12,689,402	11,835,586
Total risk-weighted assets	175,656,287	153,072,905
Capital adequacy ratio	19.76%	21.03%
Tier 1 ratio	16.29%	17.01%
Tier 2 ratio	3.47%	4.02%

The capital adequacy ratio was above the minimum requirement of 12% for 31 December 2015 (31 December 2014 – 12%) stipulated by the Central Bank of the UAE.

Tier 1 capital resources

- (a) Ordinary shareholders' funds, which include the cumulative proceeds from the issuance of ordinary shares at their nominal value net of Treasury shares. These instruments confer a share of ownership in the Bank, and carry no obligations.
- (b) Statutory and legal reserves:
- (i) Statutory reserve: As required by Article 239 of the UAE Federal Law No. (2) of 2015, 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid-up share capital. Accordingly, an amount of AED 105,645 thousand has been transferred to statutory reserve during the year (31 December 2014 – AED 404,973 thousand). The statutory reserve is not available for distribution.

- (ii) Legal reserve: In accordance with the Article 82 of Union Law No. 10 of 1980 and the Articles of Association of the Bank, 10% of the net profit for the year is transferred to the legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid-up share capital. Accordingly, an amount of AED 150,432 thousand has been transferred to legal reserve during the year (31 December 2014 – AED 404,973 thousand). The legal reserve is not available for distribution.

(c) General reserve and contingency reserves:

- (i) General reserve: In accordance with the Articles of Association of the Bank, a further percentage of net profit for the year can be transferred to the general reserve based on the recommendation of the Board of Directors. The Bank may resolve to discontinue such annual transfers when the reserve equals 25% of the nominal value of the paid-up share capital. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.

- (ii) Contingency reserve: The contingency reserve is established to cover unforeseen future risks or contingencies which may arise from general banking risks.

- (d) Employees' incentive plan shares: The Bank grants equity-settled share-based payments to employees. These shares are acquired by the Bank for its employees and are deducted from capital.

- (e) Cash flow hedge reserve: The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity.

- (f) Foreign currency translation reserve: The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

- (g) Retained earnings which represent the cumulative profits not distributed to shareholders, and other eligible reserves.

- (h) Non-controlling interests in equity of subsidiaries.

- (i) Capital notes: In February 2009, the Department of Finance, Government of Abu Dhabi, subscribed to ADCB's Tier 1 regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "Notes"). The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date. Redemption is only at the option of the Bank.

Deductions from Tier 1 resources include intangible assets and 50% of investment in associate.

Tier 2 capital resources

- (a) Collective impairment on loans and advances limited to 1.25% of credit risk-weighted assets.

- (b) Cumulative changes in fair value – The cumulative changes in fair values includes the cumulative net change in the fair value of available-for-sale investments measured at fair value through other comprehensive income. However, it is limited to 45% if the balance is positive. But if the balance is negative, the entire balance is adjusted in Tier 1 capital.

- (c) Eligible subordinated notes (Note 20).

Deductions from Tier 2 resources include 50% of investment in associate.

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53 DISPOSAL OF FUND SUBSIDIARIES

On 31 March 2014, the Bank redeemed substantial units in Al Nokhitha Investments Feeder Fund, MSCI UAE Index Feeder Fund and Arabian Index Feeder Fund which resulted in reduction of its indirect stake in Al Nokhitha Fund, ADCB MSCI UAE Index Fund and ADCB Arabian Index Fund (the "Funds"), and consequently its exposure to variable returns from its involvement in these Funds reduced considerably to a level that led the Bank to conclude that there is a loss of control over these subsidiaries. The residual interest in these Funds is classified as available-for-sale investments as per IAS 39.

Analysis of net assets over which control was lost

	AED'000
Bank balances	226,121
Trading securities	867,792
Other assets	11,888
Total assets	1,105,801
Other liabilities	4,218
Non-controlling interests	836,495
Total liabilities	840,713
Net assets over which control was lost	265,088

Sales consideration

	AED'000
Cash consideration received	95,112
Fair value of residual interest classified as available-for-sale investments	169,976
Total sales consideration	265,088
Less: Fair value of net assets over which control was lost	265,088
Gain on disposal of Fund subsidiaries	-

Net cash inflow on disposal of Fund subsidiaries

	AED'000
Consideration received in cash and cash equivalents	95,112

Fair value of residual interest has been booked as transfer to available-for-sale investments, and this being a non-cash transaction has not been reflected in the consolidated statement of cash flows.

Net gains amounting to AED 91,521 thousand on Treasury shares held by the Fund subsidiaries pertaining to previous periods were recognised in retained earnings on the date of loss of control.

54 SOCIAL CONTRIBUTIONS

The Group made the following social contributions during the year:

	2015 AED'000	2014 AED'000
Donations	3,689	1,862
Sponsorships	4,371	10,269
Total social contributions	8,060	12,131

55 LEGAL PROCEEDINGS

The Group is involved in various legal proceedings and claims arising in the ordinary course of business. Whilst the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Group's consolidated financial statements if disposed unfavourably.