Annual Report

2015

بنك أم القيوين

NBQ

His Highness Sheikh

SAUD BIN RASHID AL-MUALLA

Member of the Supreme Council of the United Arab Emirates

&

Ruler of Umm Al Qaiwain

His Highness Sheikh

RASHID BIN SAUD BIN RASHID AL-MUALLA

Crown Prince of Umm Al Qaiwain


CONTENT


Umm Al Qaiwain Branches

NBQ Building (Head Office)
King Faisal Street
P.O. Box 800
Umm Al Qaiwain

Falaj Al Mualla Branch
NBQ Building
Shaikh Zayed Street
P.O. Box 11074 Falaj Al Mualla

Al Salama Branch
Al Itihad Road
P.O. Box 800
Umm Al Qaiwain

Dubai Branches

Dubai Main Branch
NBQ Building
Khalid Bin Al Waleed Street
P.O. Box 9175 Dubai

Deira Branch
Opposite Dubai Police Head Quarters
Al Ittihad Street
P.O. Box 9175 Dubai

Al Awir Branch
Ras Al Khor
P.O. Box 9175 Dubai

Al Ghusais Branch
Junction of Halab St. and Damascus St.,
Near Spinneys
P.O. Box 9175 Dubai

Sheikh Zayed Road Branch
Al Shafar Building, Sheikh Zayed Road
Al Qouz Industrial No.1
P.O. Box 9175 Dubai

Abu Dhabi Branches

Abu Dhabi Branch
Hamdan Bin Mohammed Street (No.5)
P.O. Box 3915 Abu Dhabi

Mussafah Branch
P.O. Box 9770 Abu Dhabi

Al Ain Branch
Ali Bin Talib Street
P.O. Box 17888 Al Ain

Sharjah Branches

Sharjah Branch
King Faisal Street
P.O. Box 23000 Sharjah

Sharjah Industrial Branch
Khansaheb Building
Sharjah Industrial Number 10
Third Industrial Street
P.O. Box 80400

Al Taawun Branch
Al Taawun Street, Al Khan Area,
Al Johar Towers
P.O. Box 82822 Sharjah

Ajman Branches

City Center Branch
Ajman City Center
P.O. Box 4133 Ajman

Masfout Branch
NBQ Building
Main Street
P.O. Box 12550 Masfout, Ajman

Fujairah Branch

Fujairah Branch
Fujairah Insurance Co. Building
Hamad Bin Abdulla Road
P.O. Box 1444 Fujairah

Ras Al Khaimah Branch

Ras Al Khaimah Branch
Corniche Al Qawasim Road
P.O. Box 32253
Ras Al Khaimah

بنك أم القيوين
NBQ

Board of Directors

H.H. Sheikh Rashid Bin Saud Bin Rashid Al-Mualla
Chairman

Mr. Abdulla Ahmad Al Moosa
Deputy Chairman

Sheikh Nasser Bin Rashid Al-Moalla
Managing Director & Chief Executive Officer

Mr. Abduljaleel Yousuf Darwish
Director

Mr. Issa Abdulrahman Ateeq
Director

Mr. Salem Abdulla Salem Al Housani
Director

Mr. Marwan Abdulla Hassan Al Rostamani
Director

Management

Sheikh Nasser Bin Rashid Al-Moalla
Managing Director & Chief Executive Officer

Mr. Ramachandra Iyer
General Manager

Chairman's Report

On behalf of the Board, I am pleased to welcome you all to the 33rd Annual General Meeting of National Bank of Umm Al Qaiwain (PSC) ("NBQ") and present the annual report of the Board of Directors for the year ended 31 December 2015.

Despite challenging economic scenario and the competition in the banking industry, it is my pleasure to inform that NBQ has achieved total revenue of AED 618.43 million for the year ended 31 December 2015, operating income of AED 367.04 million and net profit of AED 542.76 million.

Total assets reached AED 13.38 billion. Loan and advances were at AED 8.81 billion while customer deposits stood at AED 8.77 billion. Loans and advances portfolio grew by 10.39% and customer deposits were up by 9% compared to last year. Non-performing loans (NPL) ratio has reduced from 8.85% in 2014 to 7.29% in 2015. NBQ holds collateral and specific provision to the tune of 130% of the non-performing loans, which reflects prudent management and effective monitoring of our loans and advances portfolio. Shareholders' equity amounted to AED 3.99 billion as at 31 December 2015 (2014: AED 3.80 billion).

NBQ has consistently maintained high level of liquidity as in the past and liquidity ratio as of 31 December 2015 stands at 26.48%. We continue to maintain one of the highest capital adequacy ratios in the banking industry which stands at 34.68% which has improved from 30.9% last year and is higher than the minimum prescribed level of 12% stipulated by the UAE Central Bank. This demonstrates the financial strength of NBQ and its capacity to increase scope of expanding its lending capability, when needed. Tier 1 ratio is recorded at 33.34% higher than 29% last year, which is also substantially higher than the prescribed 8% stipulated by the regulatory authorities. Cost to income ratio is 32.86% which is comparatively below industry levels.

The Board is recommending the payment of cash dividend of 17% for the year 2015.

During 2015 economic activity in US expanded at a moderate pace which was seen in household spending and investments increasing at good rates, job gains and declining unemployment rates. Given the economic outlook, US federal funds rate was hiked by 25 bps in December 2015 and it is expected that there will be a gradual increase in rates during 2016. Eurozone economy remained sluggish and Chinese economic growth slowed markedly during 2015. The massive decline in crude prices coupled with the hike in interest rates may slow down the economic growth in 2016, which may lead to higher credit defaults. UAE's ADX and DFM bourses saw their respective indices at record lows during the year due to global fall in crude and commodity prices and slowing growth in China. UAE Banking sector witnessed a loan growth of around 8% during 2015.

We expect 2016 will be a challenging year due to the low prices of oil and slowing down of the economic activity in the country. We anticipate tougher funding and increase in the cost of borrowings, pressure on earnings and lower lending opportunities. NBQ will focus on expanding credit portfolio based on prudent credit principles without compromising on the controls and risk management parameters to withstand the economic pressures. We also intend to focus on improving our customer base, channel availability by leveraging on technology and increasing our efficiency in handling operations.

We have a robust credit monitoring and asset liability monitoring platform which provide check on our assets, lending portfolios and our asset building policies. Bank has developed strategies and lending policies to facilitate asset expansion and diversification of our income sources to enhance the shareholders' returns and expand our net worth through profit retention.

On behalf of the Board of Directors, I express my sincere gratitude to His Highness Sheikh Saud Bin Rashid Al Mualla – Ruler of Umm Al Qaiwain and Member of the Supreme Council of the United Arab Emirates for the continued support for the development of NBQ.

I would also like to appreciate the regulatory support and guidance of UAE Central Bank in automating the financial services sector and in supporting NBQ initiatives in particular. I also sincerely appreciate the faith and confidence of our beloved shareholders, continuing loyalty and trust demonstrated by our valued customers and business partners and dedicated efforts of our Management and staff, who have all contributed to the success of NBQ for 2015 as well. We hope this excellent support will continue in the years to come which would further strengthen NBQ to meet the future challenges.

Rashid Bin Saud Al Mualla
Chairman

Management Review

ECONOMIC OVERVIEW

During 2015, Global Economy was characterized by a sharp fall in crude oil prices which has fallen to 11 years low. Since Gulf economies mostly depend on oil revenue, the impact on them was severe. As the UAE economy is diversified, there was some effect on the UAE economy as well. The liquidity in the market dropped and stock markets saw steep fall. Meanwhile, the US economy expanded at a moderate pace which lifted the global sentiments to some extent. Chinese growth story was slowing as a result of rebalancing, with their services sector driving growth instead of manufacturing. Global market sentiments resulted in steep declines in stock prices in the region.

The first increase in US interest rates after 9 years and indications that the US rates may go up further gradually, resulted in increase in UAE interest rates also, after many years of low interest rates.

We expect that like other countries in the region and as per World Bank projections, UAE is also likely to witness slower growth in 2016 due to lower oil prices. Interest rates are expected to rise gradually due to expected increase in US LIBOR and tighter liquidity conditions. Lifting of sanctions on Iran is expected to see gradual growth in bilateral trade with that country though it may take quite long to reach previous levels before imposition of sanctions. In the light of the global sentiments and lower crude oil prices persisting, Government spending is expected to be more restrained though the Government continues to support the Federal budget spending. Banks are therefore, expected to be more conservative in planning their growth due to the tighter liquidity conditions and the weaker operating outlook.

FINANCIAL OVERVIEW

In 2015, NBQ recorded total revenue of AED 618.43 million for the year ended 31st December 2015 with operating income of AED 367.04 million and a net profit of AED 542.76 million.
Total assets reached AED13.38 billion, which includes loans and advances of AED 8.81 billion and customer deposits reached AED 8.77 billion. Loans and advances recorded double digit growth of 10.39% and customer deposits recorded a growth of 9% compared to the year ended 31st December 2014. Non-performing Loans ratio reduced considerably from 8.85% in 2014 to 7.29% in 2015 with provision/collateral coverage amounting to 130% of the non-performing loans. Advance to customer Deposits Ratio (ADR) was 100.54% as at 31.12.2015.

Shareholder's equity increased from AED 3.79 billion to AED 3.99 billion which registered an increase of 5.27% and Earnings per share worked out AED 0.29 fils when compared to AED 0.17 fils of 2014.
As in previous years, NBQ maintained consistently high level of liquidity which stands at 26.48%. The capital adequacy ratio improved from 30.9% in 2014 to 34.68% in 2015, against 12% prescribed by UAE Central Bank. This adequately demonstrates our solvency, strength and potential for growth in future as well as prudent management of funds. The Bank maintains Tier 1 ratio of 33.34% which is higher than the last year's ratio of 29% and is well above 8% prescribed by the regulatory authorities. Advances to Stable Resources ratio (ASRR) stood at 75.23% as against the prescribed ceiling of 100% providing comfortable expansion opportunities. Cost to income ratio was 32.86% comparatively well below industry levels.

OPERATIONAL PERFORMANCE

Treasury, Investments and Institutional Banking

NBQ continued its judicial mix of different investment avenues with the objective of building a long term portfolio for sustained yields. Though there were falls in value of equity investments, the dividend returns were fairly decent. Prudent investment policies and internal reporting mechanism were practiced to mitigate risks on the exposures, which facilitated the bank to maintain stable income on the portfolios.

Wholesale banking

NBQ has adopted a cautiously optimistic approach and achieved reasonable level of growth in the Wholesale Banking portfolio. Growth in assets has primarily been achieved by enlarging the customer base and leveraging existing relationships. At a time when the industry has seen mounting losses and decreasing credit lines, the Bank has adopted a prudent and matured strategy towards lending. The Bank expects to maintain the same strategy of cautious growth in 2016.

Retail Banking

NBQ offers its Retail Banking range of products and services to individuals and small business entities through its network of 18 Branches, and 11 Electronic Banking Units (EBUs) spread across all the seven emirates of UAE. The Bank also maintains a network of ATMs/CCDMs across the country for the convenience of its clients.
The focus of Retail Banking continued to serve and grow its UAE National customer base by meeting their financial requirements mainly by providing them Housing Loans without mortgage besides other lending and deposit products. The retail lending continues to be prudent in its growth approach by exercising caution and care towards the Expat and Small Business target segment.

The focus has been to grow Retail Asset products profitability steadily by sourcing good quality loans.

Management Review (continued)

Information Technology and Operations

NBQ has implemented industry leading, cutting-edge technologies to cater to the business in a very sophisticated, secure and productive manner. This has enabled the bank to ensure the confidentiality, integrity and availability of Bank's most critical data at all times. In-house development team has successfully rolled out several projects during the year. NBQ is among the first banks in UAE to rollout the AECB as per the regulatory authority requirements. Bank has successfully executed business simulation of critical applications from their respective Disaster Recovery (DR) instances hosted in the Disaster Recovery Site. Normal business operations including card authorizations and EOD activities were carried out from the DR site.

Human Resources

NBQ revamped the human resources strategies to meet the challenges faced in maintaining the bottom line. Restructuring of departments and branches by optimally using the capable resources is done to improve the performance and operational efficiency. Regulatory and socio-cultural requirements were considered in the process which includes improving the UAE national work force's involvement in the leadership roles and in their strategic positioning. Recruitment policies, upgrade and empowerment policies were reviewed to promote a motivated UAE national workforce.

Training needs, talent planning and succession planning were considered as key objectives of Human Resources Department especially on the national workforce. Staff attrition is brought under control by retaining staff members at the key positions and Emiratization is maintained consistently at the same levels.

CORPORATE GOVERNANCE REPORT

NBQ was established in the year 1983 and from inception NBQ has been maintaining good corporate governance, risk management practices, internal control systems commensurate with the size and core values defined by the founders. NBQ laid down its governance practices based on the vision and mission, regulatory requirements, legislations and best practices prevailing in the industry.

Corporate Governance framework is managed by the Board of Directors, who possesses good knowledge of the industry practices and has wide range of experience to provide strategic direction to the management of NBQ. Additionally, functional committees are formed and mandated to manage different segment disciplines with clear reporting mechanisms. Responsibilities are clearly laid down for the Board and Senior Management through well-defined charts and matrices. Board sets the strategic goals of NBQ and provides leadership and supervises the management of NBQ and report to the shareholders. Board actions are governed by Companies Law, Union Laws relevant to the industry, regulatory norms and as per the decisions taken by the shareholders in the General Meetings.

Corporate Governance structure and framework

At the apex level, Shareholders ensure the importance of the Corporate Governance structure and its presence in the operations of NBQ. They appoint Auditors and Directors, approve financial statements and Dividends at the Annual General Meetings and approve changes in the Memorandum and Articles of Association as required by Company Law.

Board of Directors has the responsibility of managing NBQ which includes implementation of strategic objectives, risk management practices, corporate governance practices and ensures sustainability of NBQ in the long term. They are responsible for directing and supervising the general Management of NBQ.

Transparency and disclosure requirements are key factors, which are considered by the Board in its actions fundamental to the compliance of the governance practices and communicate with the senior management through appropriate forums. Board has delegated certain powers to the Managing Director and CEO for an effective day to day management.

Board Committees

Board meetings are conducted as per the Board Charters and as per the Memorandum and Articles of Association and Company Law provisions. Minimum of four board meetings are held in a year.

Board of Directors decides the risk profile appropriate to the Bank's growth strategy. Board approves risk management strategies, policies, standards, key limits and delegates risk related responsibilities to its Board level committees viz., Executive Credit Committee, Audit & Risk Committee, Human Resources and Compensation Committee.

Management Review (continued)

Audit Committee

This committee handles issues related to internal control, internal audit and credit risk related matters and the Committee meets periodically. Chief Executive Officer, Head of Internal Audit and Head of Credit Risk Department attend the committee meetings.

Senior Management

NBQ has a team of Senior Management officials who are experienced and qualified for discharging high profile management duties. Senior Management is delegated with the responsibility of managing the affairs of the bank in a professional manner while maintaining the internal control and risk management focus. Board of Directors directs the senior Management team to apply due diligence and caution to protect the interests of the bank and its shareholders.

Management Committees

NBQ's Management committees consist of CEO and other Senior Management officials. Charters are prepared for the committees, which clearly define the duties and responsibilities of the committees. Committees include functional heads and invitees based on need.

Asset and Liability Committee (ALCO): This committee is responsible for ascertaining the funds position, monitoring and managing assets and liabilities, and regulatory compliance. This committee meets every month and is chaired by the Managing Director and CEO. There are participants from the Senior Management positions. Treasury and Market risk representatives.

Credit related management committees are framed to approve credit facilities on wholesale and retail based on the approval limits set against each committee.

Remuneration of the Board:

Remuneration of the Directors is approved at the Annual General Meeting every year and is paid at the close of the year and it is disclosed in the Financial Statements.

Managing Director and CEO is paid monthly salary.

Internal Control framework

NBQ maintains internal control policy framework which is constantly monitored by Senior Management, Internal Audit, Risk management and Compliance departments. Bank also maintains control on the risk profile and risk management practices which are constantly being reviewed by the committees and compliance team. Based on internal assessment, we hold adequate capital to support our future growth and address risks inherent in the industry. Manuals and operating procedures are prepared for compliance and are refined from time to time.

External Auditors

Deloitte and Touche were appointed as External Auditors for NBQ including its subsidiary for the year 2015 by the Shareholders at the Annual General Meeting. Appointment of Auditors is in accordance with the Articles of Association of NBQ. During 2015, External auditors did not provide any consultancy service to NBQ that would hamper their independence and objectivity.

RISK MANAGEMENT

Credit Risk

The Bank has set up a Risk Management structure consisting of front offices sourcing and servicing business, Mid-office is involved in processing and monitoring of credit and Back-office handling all Operations and Credit Administration. The segregated functions and clear reporting lines provide maximum level of risk assurance and management oversight to Bank's credit functions. The Bank's Credit Risk policies are regularly reviewed to ensure that they are in line with current market trends of the various sectors of the economy. These incorporate guidelines for Risk Appetite, Risk Acceptance norms and Internal Risk Rating. Ongoing monitoring and Remedial Unit are part of Credit Risk functions.

The Bank also conducted Credit Stress Testing exercise based on CBUAE guidelines to assess the impact on Capital Adequacy Ratio. Relative impact of the macroeconomic variables provided by CBUAE was taken on the NBQ credit portfolio both under the Baseline and Stressed scenarios and the resultant Capital Adequacy Ratio was 31.76% and it is observed that NBQ's capital adequacy remained adequate and well above the CBUAE minimum required capital adequacy ratio of 12%.

Management Review (continued)

Basel II implementation

The Bank adheres to the guidelines required for compliance under Pillar 2 and Pillar 3 including submission of ICAAP report annually to Central Bank of UAE. We are also in compliance with Central Bank of UAE norms for standardized approach for computation of Capital Adequacy ratios.

Stress tests are regularly carried out to assess credit risk, liquidity risk, interest rate risk in the banking book and equity price risk. The results show that the Bank is comfortably placed in line with the risk profile of the Bank and there is substantial buffer between available capital and regulatory capital to cover any unexpected losses from other risks.

Market Risk

NBQ has well defined policies approved by the Board, setting out the risk appetite and various limits for management of market risks in the Banking Book. The position is reviewed monthly by the Bank's Asset and Liability Management Committee (ALCO) to achieve optimum returns while maintaining market risk exposures within prudential limits.

Liquidity stress tests are conducted to monitor the Bank's vulnerability towards extreme, but plausible unfavorable shocks at periodical intervals to assess the impact on liquidity to withstand stressed conditions. Stress tests are also carried out to assess interest rate risk in the banking book and price risk in the entire equity portfolio. The results show that the Bank is comfortably placed and are in line with the risk profile of the Bank.

The Bank has also set out a Contingency Funding Plan (CFP) in line with norms of CBUAE which includes contingency trigger levels and processes/steps to be followed if these are breached. Reports are frequently reviewed and approved by the Board.

Operational Risk

The Basel Committee for Banking Supervision has defined Operational Risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events". This definition includes Legal risk but excludes Strategic or Reputation risk. Operational risk is inherent in all business activities and management of this risk is vital to the strategic objectives of the Bank.
NBQ has implemented the under noted processes aimed at monitoring, and mitigating operational risks.

- Identification of Risk through Risk and Control Assessment and Incident/Loss Event Reporting to Centralized Operational Risk Function.
- Management and Control of risk to prevent their recurrence or minimize the potential impact
- Monitoring and Reporting of Risk
- Establish a Centralized Depository for Capturing Operational Risk Losses

With proliferation of new technologies, the use of internet and telecommunications technologies to conduct financial transactions has increased the sophistication and information security risk for Financial Institutions. To combat security breaches, Bank has set up a dedicated Information Security and Compliance Department to ensure long term viability of the Institution and its data.

Business Contingency and Continuity Plan

To ensure that the Bank's regular functioning is not disrupted by unforeseen events/disasters/system related failure, Bank has set up a Disaster Recovery (DR) site and the Business Contingency and Continuity Plan is in place.

COMMUNITY RELATIONS

While maintaining business presence, NBQ has been consistently participating in social welfare measures in the emirate and taking sincere initiatives in the Customer Social Responsibility requirements. NBQ provided support to the charitable, educational, medical, social and other recreational initiatives undertaken in the emirates by socio-cultural organizations of repute from time to time.

CONCLUSION

Board of Directors and Senior Management appreciate and thank our shareholders for their continuous support provided to the bank for all these years, to the customers for the continued trust and loyalty demonstrated by them through business relationship and finally to the Management team and all the staff members for their contribution, dedication and commitment.

Nasser Bin Rashid Al-Moalla
Managing Directors & Chief Executive Officer

Independent Auditor's Report

The Shareholders
National Bank of Umm Al-Qaiwain (PSC)
Umm Al-Qaiwain
United Arab Emirates

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of National Bank of Umm Al-Qaiwain (PSC) ("the Bank") and its Subsidiary (together "the Group"), Umm Al- Qaiwain, United Arab Emirates which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of National Bank of Umm Al-Qaiwain (PSC) and its Subsidiary, Umm Al-Qaiwain, United Arab Emirates 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.

Report on Other Legal and Regulatory Requirements

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

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

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

the Group has maintained proper books of account;

the financial information included in the report of the Chairman is consistent with the books of account of the Group;

as disclosed in Note 8 to the consolidated financial statements, the Group has purchased and invested in shares during the financial year ended 31 December 2015;

Note 26 to the consolidated financial statements discloses material related party transactions and balances, and the terms under which they were conducted.

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

Note 21 to the consolidated financial statements discloses the social contributions made during the financial 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.)
Musa Ramahi
Registration No. 872
10 February 2016

Consolidated statement of financial position
At 31 December 2015

	Notes	2015 AED'000	2014 AED'000
Assets			
Cash and balances with the U.A.E. Central Bank	5	**1,470,494**	1,152,844
Due from other banks	6	**1,351,893**	1,145,994
Loans and advances	7	**8,813,804**	7,984,384
Investment securities	8	**1,225,876**	1,474,857
Customers' acceptances		**295,542**	197,926
Investment in an associate	9	**1,647**	1,500
Property and equipment	10	**69,181**	74,515
Other assets	11	**154,991**	1,194,746
Total assets		**13,383,428**	13,226,766
Liabilities			
Due to other banks	12	**170,117**	-
Customers' deposits	13	**8,766,423**	8,042,375
Customers' acceptances		**295,542**	197,926
Other liabilities	14	**156,372**	1,191,371
Total liabilities		**9,388,454**	9,431,672
Shareholders' equity			
Share capital	15	**1,848,000**	1,680,000
Statutory reserve	16	**1,019,266**	1,019,266
General reserve	17	**6,440**	6,440
Cumulative change in fair values		**54,757**	212,838
Retained earnings		**1,066,511**	876,550
Total shareholders' equity		**3,994,974**	3,795,094
Total liabilities and shareholders' equity		**13,383,428**	13,226,766
Commitments and contingent liabilities	18	**7,658,578**	7,401,681

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

Rashid Bin Saud Al Mualla
Chairman

Nasser Bin Rashid Al Moalla
Managing Director and Chief Executive Officer

Consolidated statement of income for the year ended 31 December 2015

	Notes	2015 AED'000	2014 AED'000
Interest income	**19**	**519,031**	539,920
Interest expense	**19**	**(45,420)**	(39,275)
Net interest income		**473,611**	500,645
Fee and commission income		**48,153**	55,601
Other operating income	**20**	**24,903**	23,121
Gross income		**546,667**	579,367
Operating expenses	**21**	**(179,623)**	(171,797)
Operating income		**367,044**	407,570
Income from settlement of legal case	**14**	**271,623**	-
Investment gains	**22**	**26,346**	45,816
Impairment (losses)/written back on investments securities - net	**8**	**(13,561)**	14,871
Provision for impairment of loans and advances - net	**7**	**(109,184)**	(155,884)
Share of profits from an associate	**9**	**493**	446
Profit for the year		**542,761**	312,819
Basic earnings per share (in AED)	**24**	**0.29**	0.17

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

Consolidated statement of comprehensive income for the year ended 31 December 2015

	2015 AED'000	2014 AED'000
Profit for the year	**542,761**	312,819
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Net (loss)/gain on available-for-sale investments recognised directly in equity (Note 8)	**(158,027)**	41,125
Items that will not be reclassified subsequently to profit or loss:		
Transfer from equity on sale of available-for-sale investments	**(54)**	(5,300)
Other comprehensive (loss)/income for the year	**(158,081)**	35,825
Total comprehensive income for the year	**384,680**	348,644

Consolidated statement of changes in equity for the year ended 31 December 2015

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Cumulative change in fair values AED'000	Retained earnings AED'000	Total AED'000
Balance at 31 December 2013	1,600,000	1,019,266	6,440	177,013	899,731	3,702,450
Profit for the year	-	-	-	-	312,819	312,819
Other comprehensive income for the year	-	-	-	35,825	-	35,825
Total comprehensive income for the year	-	-	-	35,825	312,819	348,644
Dividend paid	-	-	-	-	(256,000)	(256,000)
Bonus shares issued	80,000	-	-	-	80,000	-
Balance at 31 December 2014	1,680,000	1,019,266	6,440	212,838	876,550	3,795,094
Profit for the year	-	-	-	-	542,761	542,761
Other comprehensive loss for the year	-	-	-	(158,081)	-	(158,081)
Total comprehensive income for the year	-	-	-	(158,081)	542,761	384,680
Dividend paid (Note 25)	-	-	-	-	(184,800)	(184,800)
Bonus shares issued (Note 25)	168,000	-	-	-	(168,000)	-
Balance at 31 December 2015	1,848,000	1,019,266	6,440	54,757	1,066,511	3,994,974

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

Consolidated statement of cash flows for the year ended 31 December 2015

	2015 AED'000	2014 AED'000
Cash flows from operating activities		
Profit for the year	**542,761**	312,819
Adjustments:		
Provision for asset impairment - net	**122,745**	141,013
Depreciation of property and equipment	**15,791**	15,615
Decrease in fair value of investment securities at FVTPL – held for trading	**10,937**	225
Discount amortised	**(480)**	(12)
Gain on disposal of investment securities	**(26)**	(14,572)
Dividend income	**(36,712)**	(31,457)
Share of profits from an associate	**(493)**	(446)
Gain on disposal of property and equipment	**(320)**	(66)
Income from settlement of legal case	**(271,623)**	-
Operating cash flows before changes in operating assets and liabilities	**382,580**	423,119
Decrease/(increase) in term deposits with original maturity greater than 3 months	**200,000**	(200,000)
Increase in statutory deposit with U.A.E. Central Bank	**(73,793)**	(51,833)
Increase in loans and advances - net of provision and amounts written off	**(938,604)**	(1,103,521)
(Increase)/decrease in other assets	**(21,563)**	9,275
Increase/(decrease) in due to other banks	**170,117**	(590)
Increase in customers' deposits	**724,048**	600,704
Increase/(decrease) in other liabilities	**22,841**	(26,140)
Net cash generated from/(used in) operating activities	**465,626**	(348,986)
Cash flows from investing activities		
Purchase of property and equipment	**(10,468)**	(11,509)
Proceeds from disposal of property and equipment	**331**	320
Purchase of investment securities	**(271,937)**	(286,544)
Proceeds from disposal of investment securities	**3,261**	152,668
Proceeds from maturity of investment securities	**335,584**	81,127
Dividend received from investment securities	**36,712**	31,457
Dividend received from investment in an associate	**346**	446
Net cash generated from/(used in) investing activities	**93,829**	(32,035)
Cash flows from financing activities		
Dividend paid	**(181,322)**	(250,615)
Proceeds from settlement of legal case	**271,623**	-
Net cash generated from/(used in) financing activities	**90,301**	(250,615)
Net increase/(decrease) in cash and cash equivalents	**649,756**	(631,636)
Cash and cash equivalents at the beginning of the year	**1,753,053**	2,384,689
Cash and cash equivalents at the end of the year (see Note 27)	**2,402,809**	1,753,053

Non-cash transaction:

During the year, the Bank has signed an out of court settlement agreement with GIH, as a result of which, other assets and other liabilities were offset and reduced by AED 1,061 million respectively (see Note 11 and 14).

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

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

1. General information

National Bank of Umm Al-Qaiwain (PSC) (the “Bank”) is a Public Shareholding Company incorporated in the Emirate of Umm Al-Qaiwain (“UAQ”) in the United Arab Emirates (“U.A.E.”) by Amiri Decree Number (1) on January 5, 1982, issued by His Highness, the Ruler of Umm Al-Qaiwain, and commenced its operations with effect from August 1, 1982. The “Group” comprises National Bank of Umm Al-Qaiwain (PSC), Umm Al-Qaiwain, and Twin Towns Marketing Management (L.L.C.), Dubai (see Note 3.3). The address of the Bank’s registered Head Office is P.O. Box 800, Umm Al-Qaiwain, United Arab Emirates.

The Bank is engaged in providing retail and corporate banking services through a network of 18 branches and 11 electronic banking service units in U.A.E.

The Bank carries out Islamic banking operations through Islamic banking window established in 2005 across all its branch network.

The UAE Federal Law No. 2 of 2015 (“Companies Law”) has come into force on 1 July 2015. The Group has twelve months from the effective date of the Companies Law to comply with its provisions (“the transitional provisions”) and the Group has availed of these transitional provisions.

2. Application of new and revised International Financial Reporting Standards (“IFRS”)

2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2015, have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Annual Improvements to IFRSs 2010 - 2012 Cycle that includes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.
- Annual Improvements to IFRSs 2011 - 2013 Cycle that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.
- Amendments to IAS 19 Employee Benefits to 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.

2.2 New and revised IFRS in issue but not yet effective

The Bank has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	**Effective for annual periods beginning on or after**
IFRS 14 Regulatory Deferral Accounts.	1 January 2016
Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative.	1 January 2016
Amendments to IFRS 11 *Joint arrangement*s relating to accounting for acquisitions of interests in joint operations.	1 January 2016
Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 Intangible Assets relating to clarification of acceptable methods of depreciation and amortisation.	1 January 2016
Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 Agriculture relating to bearer plants.	1 January 2016
Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.	1 January 2016
Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities.	1 January 2016
Annual Improvements to IFRSs 2012 - 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.	1 January 2016
IFRS 9 Financial Instruments (revised versions in 2009, 2010, 2013 and 2014). IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments.	1 January 2016

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas: • **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. • **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised. • **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. • **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.	1 January 2018
Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
IFRS 7 Financial Instruments: Disclosures relating to the 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 15 Revenue from Contracts with Customers In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition: **Step 1:** Identify the contract(s) with a customer. **Step 2:** Identify the performance obligations in the contract. **Step 3:** Determine the transaction price. **Step 4:** Allocate the transaction price to the performance obligations in the contract. **Step 5:** Recognise revenue when (or as) the entity satisfies a performance obligation.	1 January 2018

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely

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

Management anticipates that IFRS 9 will be adopted in the Bank's consolidated financial statements for the annual period beginning 1 January 2018. The application of IFRS 9 may have significant impact on amounts reported and disclosures made in the Banks's consolidated financial statements in respect of the Bank's financial assets and liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application of this standard until the Bank performs a detailed review.

3. Significant accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. For the purpose of the consolidated financial statements, the results and financial position of the Bank are expressed in Arab Emirates Dirhams (in thousands), which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements. The principal accounting policies adopted are set out below.

The Bank presents its consolidated statement of financial position broadly in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) presented in the notes.

3.3 Basis of consolidation

The consolidated financial statements of National Bank of Umm Al-Qaiwain (PSC) and Subsidiary (the "Group") incorporate the financial statements of the Bank and entity controlled by the Bank (its Subsidiary).

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 the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- 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 that decisions need 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. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income 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 the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Subsidiary:

Details of the Bank's subsidiary as at 31 December 2015 is as follows:

Name of subsidiary	Proportion of ownership interest	Country of Incorporation	Principal activity
Twin Towns Marketing Management (L.L.C.)	99.33%	U.A.E.	Marketing management

The remaining equity in the above subsidiary is held by the Bank beneficially through nominee arrangements.

3.4 Investment in an associate

An associate is an entity over which the Bank 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.

The results and assets and liabilities of an associate is incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Bank's share of the profit or loss and other comprehensive income of the associate. When the Bank's share of losses of an associate exceeds the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate), the Bank discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated statement of income in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Bank'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 its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3.5 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

3.6 Financial assets

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. It consists of cash and balances with the U.A.E. Central Bank, due from other banks, loans and advances and customers' acceptances.

Loans and advances
Loans and advances are recognised when cash is advanced to the borrowers and are carried at amortised cost using effective interest rate method.

Impairment of loans and advances

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

Impaired loans are measured on the basis of the present value of expected future cash flows including observable market price or fair value of the collateral if any and the impairment loss is calculated based on the shortfall in the loans carrying value compared to the net present value of future cash flows.

Collectively assessed loans

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

a) Performing loans

b) Small value loans with common features, which are not individually significant.

Past due but not impaired loans

Loans and advances where contractual interest or principal payments are past due but the Bank believes that the assets are not impaired on the basis of the level of security/collateral available and/ or the stage of collection of amounts owed to the Bank.

Performing loans

The estimated impairment is calculated by the Bank's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Small value loans with common features, which are not individually significant

Small value loans represent mainly credit card dues and other loans which are not individually significant in value. Impairment of such loans is assessed based on ageing analysis of each bucket and impairment losses provided accordingly.

Re-ageing policy

The Bank has set out its re-ageing policy as part of the Credit Risk Policy. The Bank identifies forward shifting of past due date as re-ageing and complies with the Basel II guidelines on the re-ageing policy. This includes re-ageing criteria separately for normal and delinquent accounts, approval authorities, minimum age of the facility before it is eligible for re-ageing, maximum number of re-ageing per facility etc. Re-ageing is always considered based on reassessment of borrower's repayment capacity due to revised economic conditions.

Investment securities

The Bank classifies its investment securities in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets. Management determines the classification of the investments at initial recognition.

i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Financial assets are designated at fair value through profit or loss when certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

ii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Where the Bank decides to sell other than an insignificant amount of held-to-maturity assets, the entire category is considered to be tainted and reclassified as available-for-sale.

iii) Available-for-sale

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Initial recognition

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available-for-sale are recognised on trade date which is the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated statement of income.

Subsequent measurement

Available-for-sale investments and financial assets at fair value through profit or loss are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the consolidated statement of income in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. Once the available-for-sale financial asset is derecognised or impaired, the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Foreign currency gains and losses arising on available-for-sale monetary financial assets are directly recognised in the consolidated statement of income.

The fair values of quoted investments in active markets are based on current prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques.

Interest earned whilst holding investment securities is reported as interest income. Dividends on equity instruments are recognised in the consolidated statement of income when the Bank's right to receive payment is established.

Amortised cost of a financial asset/liability is the amount at which the financial asset or financial 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 and the maturity amount and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Impairment of financial assets
Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on available-for-sale equity instruments are not reversed through the consolidated statement of income.

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

3.7 Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments
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 Bank are recorded at the proceeds received, net of direct issue costs.

Financial liabilities
Financial liabilities, including customers' deposits, customers' acceptances and due to other banks, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities
The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

3.8 Property and equipment

Capital work in progress is stated at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight line method to write off the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	**20**
Computers and equipment	**1 - 5**
Furniture and fixtures	**5**
Leasehold improvements	**3 - 5**
Motor vehicles	**5**

Land is not depreciated, as it is deemed to have an infinite life.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the consolidated statement of income when the expenditure is incurred. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount, being the higher of the net selling price and value in use.

3.9 Inventory

Inventory represents property acquired in settlement of debt, stated at lower of cost or net realisable value. Directly attributable cost incurred in the acquisition of inventory is included as part of the cost of the asset. Net realisable value is the estimated selling price in the ordinary course of business, based on market prices at the reporting date.

3.10 Impairment of tangible assets

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible 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 asset 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 Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 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 immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so 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 immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.11 Employees' end of service benefits

Pension contributions are made in respect of U.A.E. nationals to the U.A.E. General Pension and Social Security Authority in accordance with the U.A.E. Federal Law No (7), 1999 for Pension and Social Security. A provision is made for the full amount of end of service benefits due to the non-U.A.E. nationals in accordance with the U.A.E. Labour Law, for their periods of service up to the reporting date. This provision is included in other liabilities.

Management measures the employees' end of service benefits payable under the U.A.E. Labour law. Under this method an assessment is made of employee's expected service life with the Bank and the expected basic salary at the date of leaving the service.

3.12 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, 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.

3.13 Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred, and are subsequently stated at amortised cost using effective interest rate method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

3.14 Foreign currencies

Items included in the consolidated financial statements of the Bank are measured in UAE Dirhams which is the functional currency of the primary economic environment in which the Bank operates. Foreign currency transactions are translated into U.A.E. Dirhams at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into U.A.E. Dirhams at the rates ruling at the reporting date. Any resultant gains or losses are accounted for in the consolidated statement of income.

3.15 Derivative instruments

Derivative instruments, comprising forward foreign exchange contracts, are initially recognised at fair value on the date on which a derivative contract is entered. All forward foreign exchange contracts are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of the forward foreign exchange contracts are included in foreign exchange trading income in the consolidated statement of income.

3.16 Interest income and expense

Interest income and expense are recognised in the consolidated statement of income for all financial instruments measured at amortised cost using the effective interest method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.17 Fees and commission income

Commission income earned from the issue of documentary credits and letters of guarantee is recognised on a straight line basis over the period for which the documentary credits and guarantees are issued. Fee income on issue of letters of credit and guarantees is recognised when the underlying transaction is effected.

Other fees and commission income, including account servicing fees, placement fees and syndication fees, are recognised as the related services are performed.

3.18 Rental income

Rental income are recognised on a straight-line basis over the term of the relevant lease.

3.19 Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight line basis over the shorter of the lease term or the estimated useful life of the asset.

3.20 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of less than three months, excluding the minimum reserve deposits required to be maintained with the U.A.E. Central Bank.

4. Critical accounting estimates and judgements

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

The Bank's accounting policy for allowances in relation to impaired financial assets carried at amortised cost is described in Note 3. Impairment is calculated on the basis of discounted estimated future cash flows or by applying a certain percentage on the performing unclassified loans and advances book based on market trend and historical pattern of defaults. For retail loans and advances impairment is calculated based on a formulaic approach depending on past due instalments and payments.

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

Individually assessed loans

Impairment losses for individually assessed loans are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate loans and advances which are individually significant accounts or are not subject to the portfolio-based approach. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of an individual loan. The factors considered when determining impairment losses on individually assessed accounts are described below:

The customer's aggregate borrowings

The customer's risk rating, i.e. ability to perform profitable business and generate sufficient cash to repay the borrowed amount

The value of the collateral and the probability of successful repossession

The cost involved to recover the debts

The Bank's policy requires regular review of the level of impairment allowances on individual facilities. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Impaired loans and advances continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable.

Collectively assessed loans

The management of the Group assesses, based on historical experience and the prevailing economical and credit conditions, the magnitude of loans and advances which may be impaired but not identified as of the reporting date. These portfolio allowances are reassessed on a periodical basis and allowances are adjusted accordingly based on the judgment of management and guidance received from the UAE Central Bank.

In assessing collective impairment the Group uses the higher of 1.5% of credit risk weighted assets computed as per Central Bank of U.A.E. guidelines and an estimated impairment allowance as per the Bank's policies described above and IFRS.

The management believes that based on the review of loans and advances adequate impairment losses were provided in the consolidated financial statements against specific loans and advances and against risks inherent in the portfolio.

Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Held- to-maturity investments

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire category as available-for-sale and will be prevented from classifying under held-to-maturity for 2 years. The investments would therefore be measured at fair value and not at amortised cost.

Classification of investments

Management decides on acquisition of investment securities whether it should be classified as FVTPL - held for trading or available-for-sale securities. In judging the classification of the investments in securities, management has considered the detailed criteria for determination of such classification as set out in IAS 39 - Financial Instruments: Recognition and Measurement. Management is satisfied that its investments securities are appropriately classified.

5. Cash and balances with the U.A.E. Central Bank

	2015 AED'000	2014 AED'000
Balances with the U.A.E. Central Bank:		
Current account	**620,970**	481,909
Certificates of deposit	**300,000**	150,000
Statutory deposit	**419,578**	345,785
	1,340,548	977,694
Cash in hand	**129,946**	175,150
	1,470,494	1,152,844

The statutory deposit with the U.A.E. Central Bank is not available to finance the day to day operations of the Bank.

6. Due from other banks

	2015 AED'000	2014 AED'000
Term deposits	**1,223,437**	1,085,095
Demand deposits	**128,456**	60,899
	1,351,893	1,145,994

7. Loans and advances

	2015 AED'000	2014 AED'000
Loans	**7,614,135**	6,557,121
Overdraft	**1,327,699**	1,668,141
Loans against trust receipts	**164,273**	191,776
Other	**132,197**	80,458
Total loans and advances	**9,238,304**	8,497,496
Provision for impairment	**(424,500)**	(513,112)
Net loans and advances	**8,813,804**	7,984,384
By economic sector		
Wholesale and retail trade	**1,601,527**	1,293,237
Real estate and construction	**2,684,021**	2,599,785
Personal loans and other	**1,075,168**	1,067,559
Manufacturing	**332,331**	250,139
Agriculture and allied activities	**8,663**	-
Transport and communication	**253,885**	162,760
Financial institutions	**1,306,563**	1,028,063
Services and other	**1,976,146**	2,095,953
	9,238,304	8,497,496

Movement in provision for impairment:

	2015			2014
	Against specific loans and advances AED'000	**Against risks inherent in the portfolio AED'000**	**Total AED'000**	Total AED'000
At 1 January	**344,879**	**168,233**	**513,112**	362,579
Provision made during the year	**191,705**	**4,200**	**195,905**	244,338
Provision released during the year	**(86,721)**	**-**	**(86,721)**	(88,454)
Written off/utilised during the year	**(197,722)**	**(74)**	**(197,796)**	(5,351)
Provision transferred during the year	**2,545**	**(2,545)**	**-**	-
At 31 December	**254,686**	**169,814**	**424,500**	513,112

Net charge for provision for impairment

	2015 AED'000	2014 AED'000
Provision made during the year	**195,905**	244,338
Provision released during the year	**(86,721)**	(88,454)
	109,184	155,884

The non-performing loans as at 31 December 2015 amounted to AED 674.96 million (2014: AED 755.62 million). Provisions for impairment in relation to such loans amounted to AED 254.69 million as at 31 December 2015 (2014: AED 344.88 million) (see Note 31).

8. Investment securities

	2015 AED'000	2014 AED'000
Securities at fair value through profit or loss		
- held for trading		
Quoted equity securities	**18,406**	22,699
Discretionary funds managed by third parties – quoted equity securities	**17,937**	24,350
	36,343	47,049
Securities available-for-sale		
Quoted equity securities	**678,923**	783,693
Unquoted equity securities	**6,207**	6,623
	685,130	790,316
Securities held-to-maturity		
Quoted debt instruments	**504,403**	637,492
	1,225,876	1,474,857

Included in the above were Quoted debt instruments amounting to AED 73 million (fair value of AED 101.18 million) (2014: AED Nil) were collateralised against a repurchase agreement with a bank (see Note 12).

Movement in investment securities:

	2015 AED'000	2014 AED'000
At the beginning of the year	**1,474,857**	1,357,053
Purchase of investment securities	**271,937**	286,544
Disposal of investment securities	**(338,873)**	(224,523)
Impairment on investment securities available-for-sale	**(14,339)**	(5,056)
Impairment written back	**778**	19,927
Net fair value (loss)/gain on investment securities at fair value through profit and loss - held for trading	**(9,867)**	1,026
Net discount amortised on debt securities	**480**	12
Foreign exchange revaluation	**(1,070)**	(1,251)
Net fair value (loss)/gain on investment securities available-for-sale directly recognised in equity	**(158,027)**	41,125
At 31 December	**1,225,876**	1,474,857

Impairment written back/losses on investment securities - net

	2015 AED'000	2014 AED'000
Impairment losses	**14,339**	5,056
Provision written back during the year	**(778)**	(19,927)
	13,561	(14,871)

9. Investment in an associate

The detail of associate is as follows:

Name of the associate	Principal activity	Place of incorporation	Ownership (%)	2015 Total AED'000	2014 Total AED'000
Tasareeh Business Men Center LLC	Providing visa application and renewal services, other business men services.	Dubai, UAE	30%	1,647	1,500

Movement in the investment in an associate for the year:

	2015 AED'000	2014 AED'000
Opening balance	**1,500**	-
Investment in an associate acquired	**-**	1,500
Share of profits from an associate	**493**	446
Dividend received from an associate	**(346)**	(446)
At 31 December	**1,647**	1,500

Summarised financial information in respect of the Bank's associate which is accounted by equity method is set out below:

	2015 AED'000	2014 AED'000
Total assets	**6,701**	5,405
Total liabilities	**(1,211)**	(405)
Net assets	**5,490**	5,000
Bank's share of associate's net assets	**1,647**	1,500
Total revenue	**8,983**	8,652
Net profit for the year	**1,643**	1,488
Share of associate's net profit for the year	**493**	446

10. Property and equipment

	Land and buildings AED'000	Computers and equipment AED'000	Furniture and fixtures AED'000	Leasehold improvements AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost							
31 December 2013	106,887	86,531	4,900	8,025	1,676	3,179	211,198
Additions	124	5,716	102	223	405	4,939	11,509
Disposals	-	(89)	-	-	(359)	(247)	(695)
Transfers	257	2,693	-	1,471	-	(4,421)	-
31 December 2014	107,268	94,851	5,002	9,719	1,722	3,450	**222,012**
Additions	116	6,619	131	10	-	3,592	10,468
Disposals	-	(1,618)	(4)	-	(510)	-	(2,132)
Transfers	1,804	1,478	-	-	-	(3,282)	-
31 December 2015	**109,188**	**101,330**	**5,129**	**9,729**	**1,212**	**3,760**	**230,348**
Accumulated depreciation							
31 December 2013	52,983	66,260	4,700	6,761	1,619	-	132,323
Charge for the year	4,252	10,559	115	626	63	-	15,615
Eliminated on disposals	-	(82)	-	-	(359)	-	(441)
31 December 2014	**57,235**	**76,737**	**4,815**	**7,387**	**1,323**	**-**	**147,497**
Charge for the year	4,562	10,349	171	624	85	-	15,791
Eliminated on disposals	-	(1,607)	(4)	-	(510)	-	(2,121)
31 December 2015	**61,797**	**85,479**	**4,982**	**8,011**	**898**	**-**	**161,167**
Carrying amount							
31 December 2015	**47,391**	**15,851**	**147**	**1,718**	**314**	**3,760**	**69,181**
31 December 2014	50,033	18,114	187	2,332	399	3,450	74,515

Land and buildings include land costing AED 22.9 million (2014: AED 22.9 million) which is not depreciated. Capital work in progress represents expenditure incurred on equipments and other leasehold improvements.

11. Other assets

	2015 AED'000	2014 AED'000
Inventory*	**87,633**	72,469
Interest receivable	**27,295**	27,482
Prepayments and deposits	**34,805**	31,964
Other**	**5,258**	1,062,831
	154,991	1,194,746

*Inventory represents properties acquired in settlement of debt.

**During the current year, the Bank has signed an out of court settlement agreement with Global Investment House, as a result of which AED 1,061 million, deposited with the Dubai Court of First Instance in earlier years, was off-set against the liability of AED 1,061 million derecognised during the year (see Note 14).

12. Due to other banks

	2015 AED'000	2014 AED'000
Repurchase agreement (Repo)	**70,117**	-
Demand deposits	**100,000**	-
	170,117	-

During 2015, the Bank has signed a repurchase agreement with another bank, on repricing terms of 3 months with maturity date of 6 January 2016 and interest charged at 0.75%. Collateral given against this Repo borrowing is disclosed in Note 8 to the consolidated financial statements.

By geographical area

	2015 AED'000	2014 AED'000
Within U.A.E.	**100,000**	-
Outside U.A.E	**70,117**	-
	170,117	-

13. Customers' deposits

	2015 AED'000	2014 AED'000
Time deposits	**6,655,671**	6,207,048
Savings deposits	**194,932**	165,341
Current accounts	**1,854,609**	1,603,414
Margin deposits	**61,211**	66,572
	8,766,423	8,042,375

All customers' deposits are from customers within U.A.E.

14. Other liabilities

	2015 AED'000	2014 AED'000
Accounts payable	**41,086**	31,695
Interest payable	**10,136**	10,043
Provision for employees' end of service benefits	**27,412**	25,063
Other staff benefits	**1,302**	1,521
Dividend payable	**11,679**	8,201
Other	**64,757**	1,123,049
	156,372	1,191,371

In the prior year other liabilities included AED 918.25 million (equivalent of USD 250 million) received from Global Investment House - Kuwait ("GIH") as advance payment on the proposed issue of a bond convertible into 330 million shares of AED 1 each with a premium of AED 6.15 per share totalling AED 2.359 billion, agreed through a Memorandum of Understanding (MOU) dated 16 July 2008.

During December 2008, GIH sent a letter to the Bank withdrawing from the above transaction and asking for the refund of the advance amount paid. Following legal advice the Bank did not repay the advance amount and proceeded for completion of the transaction by seeking the balance amount due from GIH.

In July 2010, the Dubai Court of First Instance asked the Bank to refund USD 250 million together with applicable penal interest from 28 February 2009 till effective date of payment to GIH.

On 25 April 2011, the Dubai Court of Appeal confirmed the judgment of the First Instance Tribunal and amended it in relation to the payment date of the interest. The Bank through its lawyers, appealed the said judgment to the Supreme Court which decided on 29 June 2011 to stay the Court of Appeal judgment until it hears the merits of the appeal.

On 20 September 2011, the Supreme Court determined that the appeal had merit considering schedule of a hearing on 18 October 2011 to hear the pleadings of both parties. In the meanwhile, as per provisional attachment order dated 23 August 2010, the Bank has deposited funds (advance payment of AED 918.25 million and penal interest of AED 143.07 million) in the Court's account, pending final decision on the case (see Note 11).

On 15 November 2011, the Supreme Court issued a judgment by which it overturned the Court of Appeal's judgment dated 25 April 2011 and referred the case to the Court of Appeal to hear the case again.

On 21 May 2012, the Court of Appeal confirmed the decision of the Court of Appeal dated 25 April 2011, which prompted the Bank to appeal once again to the Supreme Court in Dubai and such appeal was dated 27 May 2012.

On 19 June 2012, the Supreme Court decided to stay the enforcement of the Court of Appeal judgment and adjourned the case.

On 18 September 2012, the Supreme Court overturned the Court of Appeal's judgement for the second time and referred it back to the Court of Appeal to be heard by a panel of judges other than the panel who had heard the case twice earlier.

On 2 January 2013, the Court, following the request from the Bank, decided to appoint an expert to assess the relationship between the parties, review the MOU and determine the reasons why the subscription agreement was not signed and which party is liable for the failure to complete the transaction. The case was adjourned to 24 February 2013 for the expert to submit his report.

On 24 February 2013, the Court decided that the expert should be an expert from the Dubai Financial Market (DFM) and adjourned the case to 10 March 2013 for the submittal of the expert report.

On 10 March 2013, the Court decided that the expert should be an expert from the Emirates Securities and Commodities Authority and adjourned the case for the submittal of the report.

On 18 May 2014, the expert submitted the report and the court adjourned the case to 17 September 2014 for comments, reviews and final memos on the expert's report.

On 17 September 2014, the court adjourned the hearing to 12 October 2014 for both the parties to submit their final comments.

On 12 October 2014, the court adjourned the hearing to 16 November 2014 for review and final pleadings.

On 16 November 2014, the court adjourned the hearing to 4 February 2015 for the judgement.

During the current year, both parties have signed an out of court settlement agreement to withdraw from legal proceedings and resolve all outstanding issues, claims and counter claims between them regarding the above mentioned case. As per the terms of settlement agreement, the Bank received an amount of AED 271.62 million (equivalent to USD 74 million) which was recognised as income from settlement of legal case during the year ended 31 December 2015. The compensation to the Bank comprises of AED 128.56 million (equivalent to USD 35 million) and penal interest of AED 143.07 million (equivalent to USD 39 million) which was deposited with Dubai Courts by the Bank in earlier years. GIH received an amount of AED 789.70 million (equivalent to USD 215 million) which represents the original amount remitted by them to the Bank net of the compensation amount of AED 128.56 million (equivalent to USD 35 million) referred to above.

The settlement agreement was presented to Dubai appeal court on 1 April 2015 and adopted between the parties and given the power of execution as a deed.

Accordingly, other liabilities and other assets have been reduced by AED 1,061 million, which comprise of AED 918.25 million as the amount originally received from GIH, and AED 143.06 million as the accrual of penal interest, both of which were deposited in the Dubai Courts earlier.

Movement in provision for employees' end of service benefits:

	2015 AED'000	2014 AED'000
At 1 January	**25,063**	24,628
Provision made during the year (Note 23)	**3,281**	2,051
Payments made during the year	**(932)**	(1,616)
At 31 December	**27,412**	25,063

15. Share capital

	2015 AED'000	2014 AED'000
Issued and fully paid:	**1,848,000**	1,680,000
1,848 million ordinary shares of AED 1 each		
(31 December 2014: 1,680 million ordinary shares of AED 1 each)		

During the year, the share capital of the Bank was increased by AED 168 million by the issue of bonus shares of AED 1 each (2014: AED 80 million bonus shares of AED 1 each). These issues of bonus shares were approved by the Shareholders at the Annual General Meeting held on 25 February 2015 (see Note 25).

16. Statutory reserve

In accordance with the UAE Federal Law No (2) of 2015, as amended, and the U.A.E. Union Law No. 10 of 1980, as amended, 10% of the profit for the year is transferred to a statutory reserve until such time as the balance in the reserve equals 50% of the paid up share capital. No profit was transferred in the current year to the statutory reserve, as it exceeds 50% of the issued share capital of the Bank. This reserve is not available for distribution.

17. General reserve

The Bank maintains a general reserve and the contributions to this reserve are made at the discretion of the Directors. This reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the Bank at an Ordinary General Meeting.

18. Commitments and contingent liabilities

The contractual amounts of the Bank's commitments and contingent liabilities are as follows:

	2015 AED'000	2014 AED'000
Guarantees	**5,754,446**	5,453,656
Letters of credit	**110,625**	147,201
Commitments to extend credit	**1,529,633**	1,523,951
Other	**263,874**	276,873
	7,658,578	7,401,681
By geographical area		
Within U.A.E.	**7,538,639**	7,225,895
Outside the U.A.E.	**119,939**	175,786
	7,658,578	7,401,681

Guarantees, which represent irrevocable assurances that the Bank will make payment in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

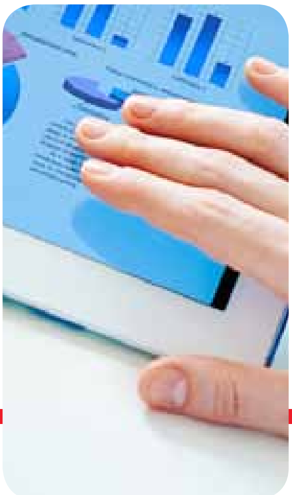
Letters of credit are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank, up to a stipulated amount, under specific terms and conditions. These letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not quantifiable, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

While there is some risk associated with the remainder of commitments, the risk is viewed as low-modest, since it results firstly from the possibility of the unused portion of loan authorisations being drawn by the customer, and second, from these drawings subsequently not being repaid as due. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments.

Capital commitments

At 31 December 2015, the Bank has capital commitments of AED 2.30 million (2014: AED 2.54 million).



19. Interest income and expense

	2015 AED'000	2014 AED'000
Interest income		
Loans and receivables		
Loans and advances	494,690	504,396
Deposits with the U.A.E. Central Bank	122	220
Other banks	6,982	6,585
Investment in debt securities	17,237	28,719
	519,031	539,920
Interest expense		
Financial liabilities at amortised cost		
Customers' deposits	45,181	39,250
Borrowings from other banks	239	25
	45,420	39,275

20. Other operating income

	2015 AED'000	2014 AED'000
Rental income	11,298	7,824
Foreign exchange income – net	5,704	8,205
Other	7,901	7,092
	24,903	23,121

21. Operating expenses

	2015 AED'000	2014 AED'000
Staff costs (Note 23)	97,591	93,142
Occupancy costs	25,371	22,626
Depreciation (Note 10)	15,791	15,615
Staff benefits (Note 23)	9,952	8,899
Fees and commission expenses	1,244	1,413
Other*	29,674	30,102
	179,623	171,797

* Includes an amount of AED 0.17 million (2014: AED 0.63 million) paid towards social contribution (including donation and charity) during the year.

22. Investment gains

	2015 AED'000	2014 AED'000
Dividend income		
a) Investment securities available-for-sale	**35,860**	**30,671**
b) Investment securities at fair value through profit and loss	**852**	**786**
Fair value (loss)/gain on investment securities at fair value through profit and loss	**(9,867)**	**1,026**
Foreign exchange revaluation	**(1,070)**	**(1,251)**
Net discount amortised on debt securities	**480**	**12**
Profit on disposal of investments		
a) Investment securities available-for-sale	**26**	**14,217**
b) Investment securities at fair value through profit and loss	**-**	**355**
Other	**65**	**-**
	26,346	**45,816**

23. Staff costs

	2015 AED'000	2014 AED'000
Staff costs		
Salaries and allowances	**94,765**	90,755
Staff training	**1,006**	1,177
Housing and medical	**1,820**	1,210
	97,591	93,142
Staff benefits		
Pension	**4,025**	4,262
End of service benefits (Note 14)	**3,281**	2,051
Other	**2,646**	2,586
	9,952	8,899

24. Basic earnings per share

The basic earnings per share is calculated by dividing the profit attributable to shareholders by the average number of ordinary shares in issue during the year.

	2015	2014
Profit for the year in AED	**542,761,000**	312,819,000
Average number of shares in issue	**1,848,000,000**	1,848,000,000
Basic earnings per share in AED	**0.29**	0.17

The denominator for the purpose of calculating basic earnings per share of 2014 has been adjusted to reflect the issue of 168 million bonus shares (See Note 15, 25).

There were no potentially dilutive shares as at 31 December 2015 and 2014.

25. Dividend per share

At the Board meeting held on 10 February 2016 the Board of Directors proposed a cash dividend of 17% amounting to AED 314.2 million in respect of the year ended 31 December 2015 (2014: cash dividend amounting to AED 184.8 million and share dividend amounting to AED 168 million).

26. Related party transactions

The Bank carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in the Bank, and all Directors of the Bank and companies in which such shareholders and Directors have a significant interest and key management personnel of the Bank.
During the year, the Bank entered into the following significant transactions with related parties in the ordinary course of business.

	2015 AED'000	2014 AED'000
Interest income	**29,799**	22,884
Interest expense	**20,018**	19,083
Remuneration of key management personnel	**4,556**	3,711
Other income	**2,461**	185
Directors' fees	**1,900**	1,900

The Group has entered into transactions with related parties which were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with third parties.

Outstanding balances at the end of reporting date from transactions with related parties are as follows:

	2015 AED'000	2014 AED'000
Loans and advances	**864,601**	690,874
Customer deposits	**1,392,260**	1,201,061
Irrevocable commitments and contingent liabilities	**1,023,563**	191,701

27. Cash and cash equivalents

	2015 AED'000	2014 AED'000
Cash in hand and balances with U.A.E. Central bank (Note 5)	**1,470,494**	1,152,844
Term and demand deposits with other banks (Note 6)	**1,351,893**	1,145,994
Statutory deposits (Note 5)	**(419,578)**	(345,785)
Term deposits with original maturity over 3 months	**-**	(200,000)
	2,402,809	1,753,053

28. Business segments

The Bank is organised into two main business segments:

Retail and corporate banking - wherein retail banking comprises private customer current accounts, savings accounts, deposits, credit and debit cards, customer loans and mortgages and corporate banking involves transactions with corporate bodies including government and public bodies and comprises loans, advances, deposits and trade finance transactions.

Treasury and investments - incorporating the activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the U.A.E. Central Bank and operations by the Bank's Head Office as a whole, none of which mutually constitute a separately reportable segment.

Transactions between the business segments are on normal commercial terms and conditions. There are no material items of income and expense arising between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position items.

Primary segment information

31 December 2015	**Retail and corporate banking AED'000**	**Treasury and investments AED'000**	**Unallocated AED'000**	**Total AED'000**
Gross income	499,756	35,611	11,300	**546,667**
Segment result	323,186	46,481	173,094	**542,761**
Segment assets	8,331,309	4,972,000	80,119	**13,383,428**
Segment liabilities	9,002,544	374,231	11,679	**9,388,454**
31 December 2014				
Gross income	523,416	48,127	7,824	**579,367**
Segment result	299,327	108,507	(95,015)	**312,819**
Segment assets	7,715,352	4,374,067	1,137,347	**13,226,766**
Segment liabilities	8,075,927	429,295	926,450	**9,431,672**

29. Classification and fair value of financial and non-financial instruments

Assets **31 December 2015**	**Loans and receivables AED'000**	**Held-to-maturity AED'000**	**Held for trading AED'000**	**Available-for-sale AED'000**	**Non-financial instruments AED'000**	**Total AED'000**
Cash and balances with the U.A.E. Central Bank	1,470,494	-	-	-	-	1,470,494
Due from other banks	1,351,893	-	-	-	-	1,351,893
Loans and advances	8,813,804	-	-	-	-	8,813,804
Investment securities	-	504,403	36,343	685,130	-	1,225,876
Investment in an associate	-	-	-	-	1,647	1,647
Customers' acceptances	295,542	-	-	-	-	295,542
Property and equipment	-	-	-	-	69,181	69,181
Other assets	27,295	-	-	-	127,696	154,991
Total assets	**11,959,028**	**504,403**	**36,343**	**685,130**	**198,524**	**13,383,428**
31 December 2014						
Cash and balances with the U.A.E. Central Bank	1,152,844	-	-	-	-	1,152,844
Due from other banks	1,145,994	-	-	-	-	1,145,994
Loans and advances	7,984,384	-	-	-	-	7,984,384
Investment securities	-	637,492	47,049	790,316	-	1,474,857
Investment in an associate	-	-	-	-	1,500	1,500
Customers' acceptances	197,926	-	-	-	-	197,926
Property and equipment	-	-	-	-	74,515	74,515
Other assets	27,482	-	-	-	1,167,264	1,194,746
Total assets	10,508,630	637,492	47,049	790,316	1,243,279	13,226,766

Liabilities **31 December 2015**	**At amortised cost AED'000**	**Non-financial Instruments AED'000**	**Total AED'000**
Due to other banks	170,117	-	170,117
Customers' deposits	8,766,423	-	8,766,423
Customers' acceptances	295,542	-	295,542
Other liabilities	127,658	28,714	156,372
Total liabilities	**9,359,740**	**28,714**	**9,388,454**
31 December 2014			
Customers' deposits	8,042,375	-	8,042,375
Customers' acceptances	197,926	-	197,926
Other liabilities	103,469	1,087,902	1,191,371
Total liabilities	8,343,770	1,087,902	9,431,672

Fair value measurements

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. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Bank is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirety, which are described as follows:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value of financial instruments designated at held-to-maturity

The fair value of the quoted debt instruments at held-to-maturity at 31 December 2015 amounted to AED 542.48 million (31 December 2014: AED 658.8 million). The fair value determination of the quoted debt instruments will fall under level 1 category wherein fair value is determined based on inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2014.

Fair value of the Bank's financial assets that are measured at fair value on recurring basis

Some of the Bank's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined;

Financial assets	Fair value as at 31 December 2015 AED'000	31 December 2014 AED'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
Available-for-sale financial assets						
Quoted equity securities	**678,923**	783,693	Level 1	Quoted prices in an active market.	None	N/A
Unquoted equity securities - net	**6,207**	6,623	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets were determined based on the latest available audited/historical financial information.	Net asset value	Higher the net assets, value of the investees, higher the fair value.
Financial assets at FVTPL						
Quoted equity securities	**36,343**	47,049	Level 1	Quoted prices in an active market.	None	N/A

There were no transfers between each of level during the year. There are no financial liabilities which should be categorised under any of the level in table above.

The movement in the level 3 financial assets were due to exchange differences and changes in fair value.

30. Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

Credit risk

The Bank assumes credit risk as part of its lending operations, which is identified as the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk exposures arise principally in loans and advances, due from banks and investment securities measured at amortized cost. There is also credit risk in off-balance sheet financial arrangements such as letters of credit, guarantees and undrawn loan commitments. The credit risk management and control are centralised in the Credit Risk Department with the following objectives:

- To measure, monitor and mitigate risks both at micro as well as macro level.
- To facilitate building and sustaining a high quality credit portfolio and minimise losses.
- Contain non-performing assets through preventive and curative management.
- To identify early warning signals and initiate timely corrective action.

Credit Risk Department has various units viz., Portfolio & Rating unit, Remedial Unit and Risk Containment Unit. Internal risk rating systems are implemented to comply with IRB Foundation norms of Basel II. Remedial Unit and Risk containment units are functioning to prevent accretion of non-performing assets through timely action and maximize recoveries through vigorous follow-up, classification of delinquent exposures and negotiate compromise proposals, wherever required. Note 31 summarize the Bank's exposure to credit risk.

Credit Risk Mitigation

Collateral - It is a common practice to obtain collateral securities to safeguard the interest of the Bank in case of default. Such mitigant are backed by proper documentation and legally binding agreements. The most common forms of tangible securities accepted by the Bank are land and building, listed equity shares, fixed deposits under lien, vehicles etc.

Other comforts - personal guarantees and corporate guarantees are also taken as comfort, wherever deemed essential.

Market risk

Market risk for the Bank refers to the risk because of which the value of its on or off-balance sheet positions are adversely affected due to movements primarily in interest rates, currency exchange rates and investment prices. Thus the volatility in market level of interest rates, foreign exchange rates and investment prices expose the Bank's earnings and capital to risk.

The market risk department of the Bank addresses these risks to the Assets and Liability Committee (ALCO) on a regular basis based on stipulated norms for Asset Liability Management and Investments. The ALCO takes corrective measures as per the Bank's internal market risk policies and strategic business directions.

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management endeavors to diversify funding sources on a continuous basis and manage assets with liquidity in mind. The day-to-day funds management is done at Treasury so as to maintain satisfactory liquid assets. The liquidity position is monitored and reported to top management on a daily basis. The Bank's ALCO has put in place the policies to manage the liquidity risk and monitor the position regularly. Note 32 summarises the Bank's exposure to liquidity risk.

Interest rate risk

Interest rate risk is the potential that changes in interest rates may adversely affect the value of a financial instrument or portfolio, or the condition of the Bank as a whole. Although interest-rate risk arises in all types of financial instruments, it is most pronounced in debt instruments, derivatives that have debt instruments as their underlying reference asset, and other derivatives whose values are linked to market interest rates. In general, the values of longer-term instruments are often more sensitive to interest-rate changes than the values of shorter-term instruments. A part of interest rate risk can be labelled as yield curve risk, which refers to the imperfect correlation of interest rates of different maturities.

The Bank manages its interest rate sensitivity position based on anticipated and actual interest rate movements, in order to maximise net interest income ("NII"). The Bank analyses its interest rate sensitivity position based on the contractual repricing or maturity dates, whichever is earlier, regularly. The impact on the sensitivity position is calculated by way of 200 basis points ("bps") change in interest rates and resultant effect in the net interest income of the Bank. It is controlled through the limit prescribed for the same. Note 33 summarises the Bank's exposure to interest rate risk.

During the year ended 31 December 2015, the effective interest rate on due from other banks was 0.63% (2014: 0.91%), certificate of deposits with Central Bank was 0.10% (2014: 0.07%), loans and advances was 5.79% (2014: 6.46%), investment securities at held-to-maturity was 1.59% (2014: 2.32%), customers' deposits was 0.54% (2014: 0.52%) and due to other banks was 0.29% (2014: 0.11%).

Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored by the Treasury Department. Note 34 summarises the Bank's exposure to foreign currency exchange risk.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk is inherent in all business activities and management of this risk is vital to the strategic objective of the Bank. While operational risk cannot be fully eliminated, management endeavour to minimise the losses by ensuring effective infrastructure, controls, systems and individuals are in place throughout the organisation.

To accomplish the above objective, the Bank has dedicated operational risk management function, which is proactive in developing and implementing new methodologies for the identification, assessment, monitoring, and control of operational risk. Systems and procedures are in place with clear segregation of duties and reporting line to reduce operational risk. Compliance with the guidelines is monitored through robust internal control and comprehensive internal audit system.

The Bank has implemented under noted processes aimed at monitoring, and mitigating operational risks.

Bottom up approach (Risk and Control Assessment) for identification and assessment of operational risks at all business units.
Establishing a centralised database for capturing operational risk losses.

A comprehensive Business Contingency and Continuity Plan to anticipate stress situations and mitigate the risk associated with them is under implementation.

31. Credit risk

Asset quality and ageing as on 31 December 2015

	Due from other banks AED'000	Loans and advances AED'000	Investment in securities AED'000
Impaired			
Substandard	-	150,434	-
Doubtful	-	488,241	-
Loss	-	36,284	-
	-	**674,959**	**-**
Impairment losses on investment securities available-for-sale	-	-	-
Specific allowance for impairment	-	(254,686)	-
	-	**420,273**	**-**
Amount past due but not impaired			
Past due above 60 days	-	19,960	-
Past due less than 60 days	-	35,008	-
	-	**54,968**	**-**
Neither past due nor impaired	1,351,893	8,508,377	504,403
Collective allowances for impairment	-	(169,814)	-
	1,351,893	**8,338,563**	**504,403**
Carrying amount	**1,351,893**	**8,813,804**	**504,403**

Total collateral value is AED 13,886 million (2014: AED 13,174 million) against secured loans and advances of AED 6,128 million (2014: AED 6,648 million). The fair value of collateral on impaired loans is estimated to be AED 623 million (2014: AED 654 million).

Asset quality and ageing as on 31 December 2014

Impaired	Due from other banks AED'000	Loans and advances AED'000	Investment in securities AED'000
Substandard	-	85,574	-
Doubtful	-	587,533	-
Loss	-	82,515	-
	-	755,622	-
Impairment losses on investment securities available-for-sale	-	-	-
Specific allowance for impairment	-	(344,879)	-
	-	410,743	-
Amount past due but not impaired			
Past due above 60 days	-	27,240	-
Past due less than 60 days	-	96,193	-
	-	**123,433**	**-**
Neither past due nor impaired	1,145,994	7,618,441	637,492
Collective allowances for impairment	-	(168,233)	-
	1,145,994	**7,450,208**	**637,492**
Carrying amount	**1,145,994**	**7,984,384**	**637,492**

Geographical concentration of assets

31 December 2015	Due from other banks AED'000	Loans and advances AED'000	Investment in securities AED'000
Within U.A.E.	880,000	8,721,979	1,175,702
Within GCC countries	92,390	91,825	49,402
Other countries	**379,503**	-	772
	1,351,893	**8,813,804**	**1,225,876**

31 December 2014	Due from other banks AED'000	Loans and advances AED'000	Investment in securities AED'000
Within U.A.E.	1,003,130	7,947,654	1,409,855
Within GCC countries	36,037	36,730	64,962
Other countries	106,827	-	40
	1,145,994	**7,984,384**	**1,474,857**

31 December 2015

Rated and unrated exposure				Credit Risk Mitigation (CRM)		
Asset classes	On Balance Sheet Gross Outstanding AED'000	Off Balance Sheet Exposure after CCF AED'000	Exposure before CRM AED'000	CRM AED'000	Exposure after CRM AED'000	Risk Weighted Assets AED'000
Claims on sovereigns	1,340,836	-	1,340,836	-	1,340,836	-
Claims on non-central Government public sector entities (PSEs)	203,444	225	203,669	25,035	178,634	138,837
Claims on banks	2,486,344	81,049	2,567,393	70,117	2,497,276	847,211
Claims on corporates	4,444,853	1,168,038	5,599,656	483,516	5,102,870	5,112,385
Claims included in the regulatory retail portfolio	1,092,094	2,209,601	3,302,441	2,126,584	1,175,857	991,705
Claims secured by residential property	8,314	-	8,314	-	8,314	7,903
Claims secured by commercial real estate	2,222,114	-	2,222,114	11,003	2,211,111	2,211,111
Past due loans	959,635	7,084	451,952	25,090	426,863	525,364
Other assets	1,055,042	-	1,050,764	-	1,050,764	884,475
Credit derivatives	-	693	693	-	693	346
Total claims	13,812,676	3,466,690	16,747,832	2,741,345	13,993,218	10,719,337

Total credit risk weighted assets	**10,719,337**

31 December 2014

Asset classes	On Balance Sheet Gross Outstanding AED'000	Off Balance Sheet Exposure after CCF AED'000	Exposure before CRM AED'000	Credit Risk Mitigation (CRM) CRM AED'000	Exposure after CRM AED'000	Risk Weighted Assets AED'000
Claims on sovereigns	977,693	-	977,693	-	977,693	-
Claims on non-central Government public sector entities (PSEs)	171,683	225	171,908	30,602	141,306	57,771
Claims on banks	2,144,251	648	2,144,899	-	2,144,899	710,816
Claims on corporates	4,423,639	1,140,217	5,470,374	466,974	5,003,399	5,124,053
Claims included in the regulatory retail portfolio	1,075,314	2,063,374	3,138,380	1,987,145	1,151,236	946,818
Claims secured by residential property	8,862	-	8,862	-	8,862	8,449
Claims secured by commercial real estate	1,745,263	17,500	1,762,763	76,720	1,686,043	1,686,043
Past due loans	1,065,924	6,837	488,246	33,474	454,772	618,732
Other assets	2,271,712	-	2,266,656	-	2,266,656	2,044,456
Credit derivatives	-	36,730	36,730	-	36,730	18,365
Total claims	13,884,341	3,265,531	16,466,511	2,594,915	13,871,596	11,215,503

Total credit risk weighted assets	**11,215,503**

32. Liquidity risk

The maturities of assets and liabilities have been determined on the basis of contractual maturity. The table below sets out the Bank's assets, liabilities and equity at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Maturity profile

Assets

31 December 2015

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Cash and balances with the U.A.E. Central Bank	1,050,916	-	-	419,578	-	-	1,470,494
Due from other banks	1,351,893	-	-	-	-	-	1,351,893
Loans and advances	475,397	382,754	1,345,355	4,722,418	1,887,880	-	8,813,804
Investment securities	216,442	-	554,587	381,387	73,460	-	1,225,876
Customers' acceptances	47,130	108,113	116,236	24,063	-	-	295,542
Other financial assets	27,295	-	-	-	-	-	27,295
Non-financial assets	-	-	-	-	-	198,524	198,524
Total	**3,169,073**	**490,867**	**2,016,178**	**5,547,446**	**1,961,340**	**198,524**	**13,383,428**

31 December 2014

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Cash and balances with the U.A.E. Central Bank	807,059	-	-	345,785	-	-	1,152,844
Due from other banks	945,994	-	200,000	-	-	-	1,145,994
Loans and advances	375,456	327,095	960,409	4,680,935	1,640,489	-	7,984,384
Investment securities	251,211	280,444	641,216	191,988	109,998	-	1,474,857
Customers' acceptances	47,835	46,411	103,680	-	-	-	197,926
Other financial assets	27,482	-	-	-	-	-	27,482
Non-financial assets	-	-	-	-	-	1,243,279	1,243,279
Total	**2,455,037**	**653,950**	**1,905,305**	**5,218,708**	**1,750,487**	**1,243,279**	**13,226,766**

32. Liquidity risk

Maturity profile

Liabilities, equity and off balance sheet items

31 December 2015

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Due to other banks	170,117	-	-	-	-	-	170,117
Customers' deposits	1,290,935	797,453	1,382,414	5,294,335	1,286	-	8,766,423
Customers' acceptances	47,130	108,113	116,236	24,063	-	-	295,542
Other financial liabilities	4,644	44,089	47,172	30,567	1,186	-	127,658
Non-financial liabilities	-	-	-	-	-	28,714	28,714
Shareholders' equity	-	-	-	-	-	3,994,974	3,994,974
A Total on-balance sheet items	**1,512,826**	**949,655**	**1,545,822**	**5,348,965**	**2,472**	**4,023,688**	**13,383,428**
Forward rate contracts	36,321	36,384	27,513	-	-	-	100,218
Spot/split sale	42,986	-	-	-	-	-	42,986
Guarantees	7	-	21	-	-	-	28
Unavailed limits	656,155	113,035	512,793	-	-	-	1,281,983
B Total off-balance sheet items	**735,469**	**149,419**	**540,327**	**-**	**-**	**-**	**1,425,215**
Grand total [A+B]	**2,248,295**	**1,099,074**	**2,086,149**	**5,348,965**	**2,472**	**4,023,688**	**14,808,643**

31 December 2014

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Customers' deposits	1,029,034	809,780	1,470,282	4,733,178	101	-	8,042,375
Customers' acceptances	47,835	46,411	103,680	-	-	-	197,926
Other financial liabilities	4,531	34,708	37,775	25,405	1,050	-	103,469
Non-financial liabilities	-	-	-	-	-	1,087,902	1,087,902
Shareholders' equity	-	-	-	-	-	3,795,094	3,795,094
A Total on-balance sheet items	**1,081,400**	**890,899**	**1,611,737**	**4,758,583**		**4,882,996**	**13,226,766**
Forward rate contracts	164,796	12,490	15,622	-	**1,151**	-	192,908
Guarantees	5,167	-	15,501	-	-	-	20,668
Unavailed limits	685,961	112,295	532,171	**-**	-	-	1,330,427
B Total off-balance sheet items	**855,924**	**124,785**	**563,294**	**-**	**-**	**-**	**1,544,003**
Grand total [A+B]	**1,937,324**	**1,015,684**	**2,175,031**	**4,758,583**	**1,151**	**4,882,996**	**14,770,769**

33. Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below sets out the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2015

Financial assets	Less than 3 months AED'000	From 3 months - 1 year AED'000	Over 1 year AED'000	Non-interest bearing AED'000	Total AED'000
Cash and balances with the U.A.E. Central bank	300,000	-	-	1,170,494	1,470,494
Due from other banks	1,223,437	-	-	128,456	1,351,893
Loans and advances	5,540,161	185,631	3,067,896	20,116	8,813,804
Investment securities	25,464	49,557	429,382	721,473	1,225,876
Customers' acceptances	-	-	-	295,542	295,542
Other financial assets	-	-	-	27,295	27,295
Total	**7,089,062**	**235,188**	**3,497,278**	**2,363,376**	**13,184,904**
Financial liabilities					
Due to other banks	170,117	-	-	-	170,117
Customers' deposits	1,110,730	901,008	680,167	6,074,518	8,766,423
Customers' acceptances	-	-	-	295,542	295,542
Other financial liabilities	-	-	-	127,658	127,658
Total	**1,280,847**	**901,008**	**680,167**	**6,497,718**	**9,359,740**
On balance sheet interest rate sensitivity gap	**5,808,215**	**(665,820)**	**2,817,111**	**(4,134,342)**	**3,825,164**
At 31 December 2014					
Total financial assets	4,741,633	448,873	4,644,754	2,148,227	11,983,487
Total financial liabilities	977,756	1,084,979	424,541	5,856,494	8,343,770
On balance sheet interest rate sensitivity gap	3,763,877	(636,106)	4,220,213	(3,708,267)	3,639,717

Rate sensitivity analysis

At the reporting date if interest rates had been 200 bps higher and all the other variables were held constant, the Bank's:

- Net interest income would have increased by AED 106.70 million (2014: AED 65.24 million).
- Other equity reserves would have decreased by AED 379.96 million based on EVE analysis (2014: AED 437.58 million)

Method and assumptions for sensitivity analysis

- Interest rate may fluctuate by a reasonable +/- 200 bps.
- A 200 bps change is used to give a realistic assessment vis-à-vis prevailing interest rates on the end of the reporting date.
- Interest rate change takes place uniformly across all time buckets upto 1 year for net interest income impact.
- Interest rate change takes place at the mid point of each time bucket.
- Other parameters remain unchanged.
- Impact on net interest income upto next 1 year is worked out.
- For impact on equity, (EVE analysis), weighted modified duration of Rate Sensitive Assets ("RSA") and Rate Sensitive Liabilities ("RSL") for all buckets has been worked out and its net impact calculated.
- RSA and RSL have been captured based on earlier of the re-pricing or maturity date.

34. Currency risk

Concentration of assets and liabilities by currency:

At 31 December 2015	AED AED'000	USD AED'000	Other AED'000	Total AED'000
Financial assets				
Cash and balances with the U.A.E. Central Bank	1,465,736	4,758	-	1,470,494
Due from other banks	970,000	352,789	29,104	1,351,893
Loans and advances	7,882,003	879,952	51,849	8,813,804
Investment securities	665,372	511,248	49,256	1,225,876
Customers' acceptances	295,542	-	-	295,542
Other financial liabilities	22,347	4,948	-	27,295
Total financial assets	**11,301,000**	**1,753,695**	**130,209**	**13,184,904**
Financial liabilities				
Due to other banks	100,000	70,117	-	170,117
Customers' deposits	8,733,037	11,711	21,675	8,766,423
Customers' acceptances	295,542	-	-	295,542
Other financial liabilities	127,523	135	-	127,658
Total financial liabilities	**9,256,102**	**81,963**	**21,675**	**9,359,740**
Net balance sheet position	**2,044,898**	**1,671,732**	**108,534**	**3,825,164**
Off balance sheet position	**7,324,406**	**206,035**	**128,137**	**7,658,578**

At 31 December 2014	AED AED'000	USD AED'000	Other AED'000	Total AED'000
Total financial assets	10,600,915	1,292,056	90,516	11,983,487
Total financial liabilities	8,317,832	13,866	12,072	8,343,770
Net balance sheet position	2,283,083	1,278,190	78,444	3,639,717
Off balance sheet position	7,037,870	246,017	117,794	7,401,681

Rate sensitivity analysis

- Currencies are divided into two categories i) those pegged with USD and ii) all other currencies as on the reporting date.
- Exchange rate fluctuation of 2% in AED against the respective pegged foreign currencies and exchange rate fluctuation of 10% in AED against the respective other foreign currencies have been used to give a realistic assessment as a plausible event.
- Based on these changes the impact on profit or loss and equity has been worked out.

Year 2015	Foreign currency assets AED'000	Foreign currency liabilities AED'000	Net forward purchase/ (sale) AED'000	Net long/ (short) position AED'000	Impact on statement of income and equity AED'000
Pegged Currencies					
US Dollar	1,756,691	91,700	67,649	1,732,640	(34,653)
Saudi Riyal	31,513	-	-	31,513	(630)
Bahrain Dinar	427	-	-	427	(9)
Omani Riyal	283	-	-	283	(6)
Qatar Riyal	540	8	-	532	(11)
Other Currencies					
Kuwait Dinar	12,956	-	-	12,956	(1,296)
Great British Pound	6,784	6,933	136	(13)	1
Euro	66,184	14,427	(51,487)	270	(27)
Swiss Frank	560	202	(372)	(14)	1
Japanese Yen	1,532	61	(1,464)	7	(1)
Indian Rupee	15	-	-	15	(2)
Lankan Rupee	5	-	-	5	(1)
Jordanian Dinar	20	-	-	20	(2)
Canadian Dollar	334	199	(265)	(130)	13
	1,877,844	**113,530**	**14,197**	**1,778,511**	
Total impact if foreign currency fluctuates against AED					**+/-36,623**

Year 2014	Foreign currency assets AED'000	Foreign currency liabilities AED'000	Net forward purchase/ (sale) AED'000	Net long/ (short) position AED'000	Impact on statement of income and equity AED'000
Pegged Currencies					
US Dollar	1,292,064	17,144	84,438	1,359,358	(27,187)
Saudi Riyal	36,657	-	(1,959)	34,698	(694)
Bahrain Dinar	546	-	-	546	(11)
Omani Riyal	1,565	-	-	1,565	(31)
Qatar Riyal	828	8	-	820	(16)
Other Currencies					
Kuwait Dinar	31,403	-	-	31,403	(3,140)
Great British Pound	7,646	1,921	(5,717)	8	(1)
Euro	9,390	9,627	309	72	(7)
Swiss Frank	386	16	(372)	(2)	-
Japanese Yen	1,300	62	(1,200)	38	(4)
Indian Rupee	2	-	-	2	-
Lankan Rupee	6	-	-	6	(1)
Jordanian Dinar	124	-	-	124	(12)
Canadian Dollar	663	-	(792)	(129)	13
	1,382,580	**28,778**	**74,707**	**1,428,509**	
Total impact if foreign currency fluctuates against AED					**+/-31,091**

35. Equity price risk

Sensitivity analysis

At the reporting date if the equity prices are 20% higher/lower as per the assumptions mentioned below and all the other variables were held constant, the Bank's:

- Consolidated statement of comprehensive income would have increased/decreased by AED 137.03 million (2014: AED 158.06 million) and consolidated statement of income would have increased/decreased by AED 7.27 million (2014: 9.41 million)

Method and assumptions for sensitivity analysis

- The sensitivity analysis has been done based on the exposure to equity price risk as at the reporting date.

- As at the reporting date if equity prices are 10% higher/lower on the market value uniformly for all equities while all other variables are held constant, the impact on profit or loss and equity has been shown above.

- A 20% change in equity prices has been used to give a realistic assessment as a plausible event.

36. Capital management

Bank's capital management policy is to maintain a strong capital base to support the development and growth of business. Current and future capital requirements are determined on the basis of loan growth expectations for each business unit, expected growth in off-balance sheet facilities, future sources and uses of funds and Bank's future dividend policy. The Bank also ensures compliance with externally imposed capital requirement norms, strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. During the year the Bank had complied in full with all external imposed capital requirements. The U.A.E. Central Bank requires the banks in U.A.E. to maintain a ratio of total regulatory capital to the risk weighted assets at or above the agreed minimum of 12%.

Capital structure

The table below details the regulatory capital resources of the Bank:

	2015 AED'000	2014 AED'000
Tier 1 Capital		
Share capital	**1,848,000**	1,680,000
Statutory reserve	**1,019,266**	1,019,266
General reserve	**6,440**	6,440
Retained earnings	**1,066,511**	876,550
Total Tier 1	**3,940,217**	3,582,256
Tier 2 Capital		
Fair value reserve on investment securities available-for-sale	**24,641**	95,777
General reserves on unclassified loans and advances to customers	**133,992**	140,194
Total Tier 2	**158,633**	235,971
Total Regulatory Capital	**4,098,850**	3,818,227
Capital adequacy ratios		
Risk weighted assets :		
Credit risk-weighted assets	**10,719,337**	11,215,503
Market risk-weighted assets	**88,366**	126,972
Operations risk-weighted assets	**1,009,709**	1,007,175
Total risk-weighted assets	**11,817,412**	12,349,650

Capital adequacy ratio (percent)	**2015 %**	2014 %
Tier 1 ratio (Tier 1 capital/total risk weighted assets)	**33.34**	29.0
Tier 2 ratio (Tier 2 capital/Tier 1 capital)	**4.0**	6.6
Total capital adequacy ratio (total regulatory capital/total risk weighted assets)	**34.68**	30.9
Minimum capital adequacy ratio required by UAE Central Bank	**12%**	12%

37. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 10 February 2016.