Commercial Bank International P.S.C.

Reports and consolidated financial statements for the year ended 31 December 2015

Commercial Bank International P.S.C.

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Commercial Bank International P.S.C.

Board of Directors' Report

The Board of Directors has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2015.

Incorporation and registered offices

Commercial Bank International P.S.C. (the "Bank") was incorporated under an Emiri Decree Number 5/91 on 28 April 1991 by His Highness Ruler of Ras Al-Khaimah. The address of the registered office is P.O. Box 793, Ras Al-Khaimah, United Arab Emirates.

Principal activities

The principal activities of the Bank are retail banking, commercial banking, investment banking, Islamic banking, brokerage and asset management and these activities are carried out through its branches in the United Arab Emirates.

Financial position and results

The financial position and results of the Group for the year ended 31 December 2015 are set out in the accompanying consolidated financial statements.

The Group has earned net interest income and income from Islamic financing and investing activities amounting AED 490,254 thousands during the year ended 31 December 2015 (2014: AED 536,936 thousands) and had recorded a net loss of AED 466,556 thousands for the year ended 31 December 2015 (2014: net profit of AED 121,994 thousands).

Directors

The following were the Directors of the Bank for the year ended 31 December 2015:

Chairman:	Mr. Mohammad Sultan Al Qadi
Vice Chairman:	Mr. Ali Ahmed Al Kuwari
Directors:	Mr. Mohamed Omar Bin Haider
	Sheikh Abdulla Bin Humaid Al Qasimi
	Mr. Adel Abdul Aziz Khashabi
	Mrs. Fareeda Ali Abu Al Fath
	Mr. Obaid Mohamed Ahmed Al Salami
	Mr. Ahmad Majid Lootah
	Mr. Ali Rashid Al-Mohannadi

Auditors

The consolidated financial statements for the year ended 31 December 2015 have been audited by Deloitte & Touche (M.E.) and, being eligible, offer themselves for reappointment.

By order of the Board of Directors

Mr. Mohammad Sultan Al Qadi
Chairman

11 February 2016

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders
Commercial Bank International P.S.C.
Ras Al-Khaimah
United Arab Emirates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Commercial Bank International P.S.C.** (the "Bank") **and its Subsidiaries** (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 its preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of 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 judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, 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.

Cont'd...

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of **Commercial Bank International P.S.C. and its Subsidiaries** as at 31 December 2015, and the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

i) we have obtained all the information and explanations we considered necessary for the purpose of our audit;

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

iii) the Group has maintained proper books of account;

iv) the financial information included in the Directors' report is consistent with the books of accounts of the Group;

v) as disclosed in note 9 and 10 to the consolidated financial statements, the Group has purchased or invested in shares during the financial year ended 31 December 2015;

vi) note 32 to the consolidated financial statements reflects material related party transactions and balances and the terms under which they were conducted;

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

viii) note 29 to the consolidated financial statements of the Group discloses social contributions made during the year ended 31 December 2015.

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

Deloitte & Touche (M.E.)

Anis Sadek
Registration Number 521

11 February 2016

Commercial Bank International P.S.C.

Consolidated statement of financial position as at 31 December 2015

	Notes	31 December 2015 AED'000	31 December 2014 AED'000 (Restated)	1 January 2014 AED'000 (Restated)
ASSETS				
Cash and balances with the Central Bank of the U.A.E.	5	**1,561,539**	773,773	681,323
Deposits and balances due from banks	6	**890,642**	1,461,385	419,724
Loans and advances to customers	7	**11,334,737**	13,341,524	10,898,823
Islamic financing and investing assets	8	**171,828**	-	-
Financial assets measured at fair value	9	**98,385**	343,269	318,366
Other financial assets measured at amortised cost	10	**648,924**	1,660,602	878,382
Property inventory	11	**443,457**	280,218	280,218
Receivables and other assets	12	**993,680**	1,493,898	1,028,197
Investment properties	13	**106,501**	114,116	121,260
Property and equipment	14	**227,377**	214,285	188,366
Total assets		**16,477,070**	19,683,070	14,814,659
EQUITY AND LIABILITIES				
Share capital	15	**1,737,383**	1,654,651	1,575,858
Tier 1 Capital Securities	16	**457,656**	-	-
Statutory reserve	17	**205,157**	205,157	191,805
General reserve	17	**130,445**	130,445	117,093
Properties revaluation reserve	17	**106,462**	118,127	106,400
Investments revaluation reserve	17	**(19,435)**	(97,396)	(92,948)
(Accumulated losses)/retained earnings		**(352,842)**	288,252	263,246
Equity attributable to owners of the Bank		**2,264,826**	2,299,236	2,161,454
Non-controlling interests	18	**443**	466	483
Total equity		**2,265,269**	2,299,702	2,161,937
Deposits and balances due to banks	19	**1,928,920**	1,245,757	1,077,171
Customers' deposits	20	**11,091,021**	14,538,717	10,499,317
Islamic customers' deposits	21	**14,252**	-	-
Payables and other liabilities	22	**1,177,608**	1,598,894	1,076,234
Total liabilities		**14,211,801**	17,383,368	12,652,722
Total equity and liabilities		**16,477,070**	19,683,070	14,814,659

Mark Timothy Robinson
Chief Executive Officer

Mohammad Sultan Al Qadi
Chairman

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

Consolidated income statement
for the year ended 31 December 2015

	Notes	2015 AED'000	2014 AED'000 (Restated)
Interest income	24	**666,660**	709,011
Income from Islamic financing and investing assets	25	**239**	-
Total interest income and income from Islamic financing and investing assets		**666,899**	709,011
Interest expense	26	**(176,645)**	(172,075)
Net interest income and income from Islamic financing and investing assets		**490,254**	536,936
Fee and commission income	27	**247,706**	221,459
Fee and commission expense	27	**(13,250)**	(9,830)
Net fee and commission income		**234,456**	211,629
Other operating income, net	28	**94,959**	71,595
Net operating income		**819,669**	820,160
General and administrative expenses	29	**(446,071)**	(366,346)
Impairment losses and provisions, net	30	**(840,154)**	(331,820)
(Loss)/profit for the year		**(466,556)**	121,994
Attributable to:			
Owners of the Bank		**(466,549)**	121,945
Non-controlling interests		**(7)**	49
(Loss)/profit for the year		**(466,556)**	121,994
Basic and diluted (loss)/earnings per share (AED)	31	**(0.269)**	0.069

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 (Restated)
(Loss)/profit for the year	**(466,556)**	121,994
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Changes in fair value of financial assets measured at fair value through other comprehensive income	**(23,758)**	(4,514)
Revaluation of properties	**(1,775)**	22,685
Other comprehensive (loss)/income for the year	**(25,533)**	18,171
Total comprehensive (loss)/income for the year	**(492,089)**	140,165
Total comprehensive (loss)/income attributable to:		
Owners of the Bank	**(492,066)**	140,182
Non-controlling interests	**(23)**	(17)
	(492,089)	140,165

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

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

	Share capital AED'000	Tier 1 Capital Securities AED'000	Statutory reserve AED'000	General reserve AED'000	Properties revaluation reserve AED'000	Investments revaluation reserve AED'000	(Accumulated losses) / retained earnings AED'000	Attributable to owners of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 31 December 2013 - as previously reported	1,575,858	-	191,805	117,093	106,400	(92,948)	291,581	2,189,789	483	2,190,272
Net effect of restatements (note 40)	-	-	-	-	-	-	(28,335)	(28,335)	-	(28,335)
Balance at 1 January 2014 - restated	1,575,858	-	191,805	117,093	106,400	(92,948)	263,246	2,161,454	483	2,161,937
Profit for the year	-	-	-	-	-	-	121,945	121,945	49	121,994
Other comprehensive income for the year	-	-	-	-	22,685	(4,448)	-	18,237	(66)	18,171
Total comprehensive income for the year	-	-	-	-	22,685	(4,448)	121,945	140,182	(17)	140,165
Depreciation of properties revaluation reserve	-	-	-	-	(10,958)	-	10,958	-	-	-
Bonus shares issued	78,793	-	-	-	-	-	(78,793)	-	-	-
Directors' fee (note 32(c))	-	-	-	-	-	-	(2,400)	(2,400)	-	(2,400)
Transfer to statutory reserve	-	-	13,352	-	-	-	(13,352)	-	-	-
Transfer to general reserve	-	-	-	13,352	-	-	(13,352)	-	-	-
Balance at 31 December 2014 - restated	1,654,651	-	205,157	130,445	118,127	(97,396)	288,252	2,299,236	466	2,299,702

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

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

	Share capital AED'000	Tier 1 Capital Securities AED'000	Statutory reserve AED'000	General reserve AED'000	Properties revaluation reserve AED'000	Investments revaluation reserve AED'000	(Accumulated losses) / retained earnings AED'000	Attributable to owners of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2015 - restated	1,654,651	-	205,157	130,445	118,127	(97,396)	288,252	2,299,236	466	2,299,702
Loss for the year	-	-	-	-	-	-	(466,549)	(466,549)	(7)	(466,556)
Other comprehensive loss for the year	-	-	-	-	(1,775)	(23,742)	-	(25,517)	(16)	(25,533)
Total comprehensive loss for the year	-	-	-	-	(1,775)	(23,742)	(466,549)	(492,066)	(23)	(492,089)
Depreciation of properties revaluation reserve	-	-	-	-	(9,890)	-	9,890	-	-	-
Bonus shares issued (note 15)	82,732	-	-	-	-	-	(82,732)	-	-	-
Tier 1 Capital securities issuance, net of transaction costs (note 16)	-	457,656	-	-	-	-	-	457,656	-	457,656
Transfer on disposal of investment carried at FVTOCI	-	-	-	-	-	101,703	(101,703)	-	-	-
Balance at 31 December 2015	**1,737,383**	**457,656**	**205,157**	**130,445**	**106,462**	**(19,435)**	**(352,842)**	**2,264,826**	**443**	**2,265,269**

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 (Restated)
Cash flows from operating activities		
(Loss)/profit for the year	**(466,556)**	121,994
Adjustments for:		
Depreciation of property and equipment	**28,576**	24,382
Depreciation of investment property	**5,554**	7,190
Impairment losses and provisions, net	**841,311**	337,599
Impairment losses reversed on brokerage receivables	**(1,157)**	(5,779)
Impairment of property and equipment	**2,906**	-
Write-off of property and equipment	**1,929**	-
Gain on disposal of property and equipment	**(125)**	-
Gain on disposal of investment property	**(8,180)**	-
Amortisation of financial assets measured at amortised cost	**(208)**	(230)
Gain on disposal of financial assets measured at amortised cost	**(29,205)**	-
Loss/(gain) on financial assets measured at FVTPL	**5,526**	(29,300)
Dividend income	**(5,157)**	(10,100)
Provision for end of service benefits	**11,081**	10,472
	386,295	456,228
Changes in operating assets and liabilities:		
Increase in balances with the Central Bank of the U.A.E.	**(298,164)**	(44,240)
Decrease in deposits and balances due from banks with an original maturity of more than 90 days	**-**	7,583
Decrease/(increase) in loans and advances to customers	**995,476**	(3,058,880)
Increase in Islamic financing and investing assets	**(171,828)**	-
Increase in property inventory	**(7,709)**	-
Decrease/(increase) in receivables and other assets	**490,978**	(182,209)
Increase in deposits and balances due to banks	**683,163**	168,586
(Decrease)/increase in customers' deposits	**(3,447,696)**	4,039,400
Increase in Islamic customers' deposits	**14,252**	-
(Decrease)/increase in payables and other liabilities	**(422,785)**	515,289
Cash (used in)/generated from operating activities	**(1,778,018)**	1,901,757
End of service benefits paid	**(9,957)**	(4,751)
Net cash (used in)/from operating activities	**(1,787,975)**	1,897,006
Cash flows from investing activities		
Purchase of property and equipment	**(49,600)**	(27,616)
Addition to investment properties	**(507)**	(46)
Purchase of financial assets measured at amortised cost	**-**	(818,720)
Purchase of financial assets measured at FVTOCI	**(20,105)**	-
Proceeds from sale of property and equipment	**1,447**	-
Proceeds from sale of investment property	**25,218**	-
Proceeds from sale/redemption of financial assets measured at amortised cost	**1,051,862**	36,730
Proceeds from sale of financial assets measured at FVTOCI	**77,407**	-
Proceeds from sale of financial assets measured at FVTPL	**158,299**	-
Dividend received	**5,157**	10,100
Net cash from/(used in) investing activities	**1,249,178**	(799,552)

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

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

	2015 AED'000	2014 AED'000 (Restated)
Cash flows from financing activities		
Proceeds from issuance of Tier 1 Capital Securities	**459,125**	-
Transaction cost paid on issuance of Tier 1 Capital	**(1,469)**	-
Net cash from financing activities	**457,656**	-
Net (decrease)/increase in cash and cash equivalents	**(81,141)**	1,097,454
Cash and cash equivalents, beginning of the year	**1,641,186**	543,732
Cash and cash equivalents, end of year (note 23)	**1,560,045**	1,641,186
Operational cash flows from interest		
Interest paid	**(202,530)**	(158,539)
Interest received	**849,251**	740,763
Non-cash transactions		
Repossession of properties from loan and advances to property inventory	**170,000**	-
Transfer from property inventory to investment property	**14,470**	-

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. Status and activities

Commercial Bank International P.S.C. (the "Bank") is a public shareholding company with limited liability incorporated under an Emiri Decree Number 5/91 on 28 April 1991 by His Highness Ruler of Ras Al-Khaimah. The registered office of the Bank is at P.O. Box 793, Ras Al-Khaimah. The Bank is listed on the Abu Dhabi Exchange (Ticker "CBI"). The Bank carries on commercial banking activities through its 26 branches and 1 service centre (2014: 23 branches and 1 service centre) in the United Arab Emirates ("U.A.E.").

During the year, the Group has obtained approval from the Central Bank of the U.A.E. to enter into Islamic banking activities effective 14 May 2015, along with approval from Fatwa and Sharia'a Board.

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries as disclosed below (collectively referred to as the "Group").

Details of the Group's subsidiaries at the end of reporting period is as follows:

Name	*Principal activity*	*Place of incorporation*	*% of ownership 2015*	*% of ownership 2014*
International Financial Brokerage L.L.C.	Brokerage	Dubai - U.A.E.	99.2%	99.2%
Takamul Real Estate L.L.C.	Real estate	Dubai - U.A.E.	100.0%	100.0%

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 and not early adopted

The Group has not yet early applied the following new standard, amendments and interpretations that have been issued but are not yet effective:

New and revised IFRSs	**Effective for annual periods beginning on or after**
Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative	1 January 2016
Amendments to IFRS 11 *Joint arrangements* 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 amortization	1 January 2016

2. Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

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

New and revised IFRSs	Effective for annual periods beginning on or after
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 and IAS 19.	1 January 2016
Finalised version of IFRS 9 (IFRS 9 Financial Instruments (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model. A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets. A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.	1 January 2018
IFRS 15 *Revenue from Contracts with Customers*: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.	1 January 2018
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely
IFRS 16 *Leases*	1 January 2019

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

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

3. Significant accounting policies

3.1 Statement of compliance

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The UAE Federal Law No. 2 of 2015 ("Companies Law") has come into force on 1 July 2015.The Bank is currently assessing the impact of the new law and expects to be fully compliant on or before the end of transitional period on 30 June 2016.

3.2 Basis of prepration

The consolidated financial statements have been prepared on the historical cost basis, except for financial instruments which are measured at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account when pricing the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value such as value in use in IAS 36.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted in the preperation of the Group consolidated financial statements are set out below. These policies have been consistently applied to all years presented.

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has:

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

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

The financial statements of subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

All significant intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

3. Significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Losses applicable to the non-controlling interests in excess of the non-controlling shareholders' interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling shareholders have a binding obligation and are able to make an additional investment to cover the losses.

3.4 Property and equipment

Land and buildings held for use are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in consolidated income statement, in which case the increase is credited to consolidated income statement to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in consolidated income statement to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to consolidated income statement. Revaluation surplus is transferred to retained earnings as the asset is used by the Group. The amount of the surplus transferred is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. On the subsequent sale or retirement of a revalued property, related revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated. Buildings are depreciated over a period of 25 years.

Property and equipment, excluding land and buildings and capital work in progress, are stated at historical cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are charged to the consolidated income statement in the period in which they are incurred.

Capital work in progress is carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of assets, other than land and capital work in progress, using the straight-line method, over the estimated useful lives of the respective assets.

3. Significant accounting policies (continued)

3.4 Property and equipment (conitnued)

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Leasehold improvements	4 - 7 years
Furniture, fixtures, equipments and vehicles	4 years
Intangible assets	4 years

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in consolidated income statement.

3.5 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated so as to write off the cost of investment properties using straight line method over their estimated useful lives of 25 years.

Investment properties are accounted for as acquisitions on the date when ownership passes to the Group under the contract for the purchase of the relevant property, pending which event payments in respect of investment property acquisitions are included in 'receivable and other assets'.

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of asset is recognised in the consolidated income statement in the period of derecognition.

3.6 Impairment of tangible assets

At the end of each reporting period, the Group 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 assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

3. Significant accounting policies (continued)

3.6 Impairment of tangible assets (continued)

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 in the consolidated income statement, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.7 Property inventory

Properties acquired or constructed with the intention of sale are classified as property inventory. These are stated at the lower of cost and net realisable value. Cost includes transaction costs incurred in respect of the acquisition of those properties. Net realisable value represents the estimated selling price for property inventory less all estimated costs necessary to make the sale. Properties acquired through repossession in settlement of loans and advances are recorded at fair value at the date of repossession including transactions costs incurred in respect of such repossession.

3.8 Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including interest rate swaps and foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in note 37.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in consolidated income statement immediately.

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability.

3.9 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

3. Significant accounting policies (continued)

3.10 Financial instruments (continued)

3.10 Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in consolidated income statement.

3.10.1 Financial assets

Financial assets are classified into the following specified categories: 'financial assets measured at fair value through other comprehensive income', 'financial assets measured at fair value through profit or loss', and 'financial assets measured at amortised cost'. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income. Designation at fair value through other comprehensive income is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

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

Investments in equity instruments at fair value through other comprehensive income are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. Fair value is determined in the manner described in note 36.

Dividends on these investments in equity instruments are recognised in consolidated income statement when the Group's right to receive the dividends is established in accordance with IAS 18 *Revenue*. Dividends earned are recognised in consolidated income statement and are included in the 'other operating income' line item.

3. Significant accounting policies (continued)

3.10 Financial instruments (continued)

3.10.1 Financial assets (continued)

Financial assets at fair value through profit or loss (FVTPL)

Investments in equity instruments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) on initial recognition (see above).

Debt instrument financial assets that do not meet the amortised cost criteria described below, or that meet the criteria but the Group has irrevocably chosen to designate as at fair value through profit or loss at initial recognition, are measured at fair value through profit or loss. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in consolidated income statement and is included within 'other operating income' line tem. Fair value is determined in the manner described in note 36.

Interest income on debt instruments as at FVTPL is included in the 'other operating income' line item in the consolidated income statement.

Dividend income on investments in equity instruments at fair value through profit or loss is recognised in consolidated income statement when the Group's right to receive the dividends is established in accordance with IAS 18 *Revenue* and is included in the 'other operating income' described above.

Financial assets at amortised cost

Debt instruments are subsequently measured at amortised cost less impairment loss if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs (except if they are designated as at fair value through profit or loss - see above) and are subsequently measured at amortised cost using the effective interest method less any impairment (see below), with interest revenue recognised on an effective yield basis in interest income.

The Group may, at initial recognition, irrevocably designate a debt instrument that meets amortised cost criteria above as measured at fair value through profit or loss if doing so eliminates or significantly reduces accounting mismatch that would otherwise arise from measuring financial asset at amortised cost.

3. Significant accounting policies (continued)

3.10 Financial instruments (continued)

3.10.1 Financial assets (continued)

Financial assets at amortised cost (continued)

Subsequent to initial recognition, the Group is required to reclassify debt instrument from amortised cost to fair value through profit or loss, if the objective of the instrument changes so that the amortised cost criteria is no longer met.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in profit or loss; and
- for financial assets that designated as at FVTOCI, any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the 'other operating income' line item in the consolidated income statement.

Reclassification of financial assets

The financial assets are required to be reclassified if the objective of the Group's business model for managing those financial assets changes. Such changes are expected to be very infrequent. The Group determines these changes by the Group's Board of Directors as a result of external or internal changes and must be significant to the Group's operations and demonstrable to external parties.

If the Group reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. Any previously recognised gains, losses or interest are not required to be restated.

If the Group reclassifies a financial asset so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in consolidated income statement.

If the Group reclassifies a financial asset so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount.

The reclassification day is the first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.

3. Significant accounting policies (continued)

3.10 Financial instruments (continued)

3.10.1 Financial assets (continued)

Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loan and advances to customers, where the carrying amount is reduced through the use of an allowance account. When loan or advance to customers is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

The Group assesses whether objective evidence of impairment exists for loans and advances that are individually significant, and collectively for loans and advances that are not individually significant as follows:

3. Significant accounting policies (continued)

3.10 Financial instruments (continued)

3.10.1 Financial assets (continued)

Impairment of financial assets (continued)

(i) Individually assessed loans

Represent mainly, corporate loans which are assessed individually by Credit Risk Unit in order to determine whether there exists any objective evidence that a loan is impaired.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price, if available, or at the fair value of the collateral if the recovery is entirely collateral dependent.

Impairment loss is calculated as the difference between the loan's carrying value and its present value calculated as above.

The calculation of the present value of the estimated cash flows of a collateralised loans and advances reflect the cash flows that may result from foreclosure less costs for obtaining and selling the collateral whether or not foreclosure is probable.

(ii) Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances on:

a) Performing commercial and other loans

b) Retail loans with common features which are rated on a portfolio basis and where individual loan amounts are not significant.

(a) Performing commercial and other loans

Where individually assessed loans are evaluated and no evidence of loss is present or has been identified, there may be losses based upon risk rating and expected migrations, product or industry characteristics.

Impairment covers losses which may arise from individual performing loans that are impaired at the reporting date but were not specifically identified as such until sometime in the future.

The estimated impairment is calculated by the Group's management for each identified portfolio and based on historical experience, credit rating and expected migrations in addition to the assessed inherent losses which are reflected by the economic and credit conditions and taking into account the requirements of the Central Bank of the U.A.E.

3. Significant accounting policies (continued)

3.10 Financial instruments (continued)

3.10.1 Financial assets (continued)

Impairment of financial assets (continued)

(b) Retail loans with common features which are rated on a portfolio basis and where individual loan amounts are not significant

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Impairment of retail loans is calculated by applying a formulaic approach whereby a provision of 25% of loan balance is made when it is past due by more than 90 days and a provision of 50% of loan balance is made when is past due by more than 120 days. All loans that are past due by more than 180 days are fully provided for, net of collaterals held. This approach is in line with the requirements of the Central Bank of the U.A.E.

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in consolidated income statement.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to consolidated income statement, but is reclassified to retained earnings.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, unrestricted balances held with central banks and amounts due from/to banks on demand or with an original maturity of 90 days or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Group in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

3. Significant accounting policies (continued)

3.11 Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability 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 Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Derivative financial liabilities are classified as 'financial liabilities at FVTPL'. Financial liabilities at FVTPL are stated at fair value. Any gain or loss arising on re-measurement are recognised in consolidated income statement immediately.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the 'other operating income' line item in the consolidated income statement.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in the consolidated income statement.

3. Significant accounting policies (continued)

3.11 Financial liabilities and equity instruments (continued)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated statement of income.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Employees' end of service indemnity

Provision is made for estimated amounts required to cover employees' end of service indemnity at the end of reporting period as per U.A.E. Labour Law. In the opinion of management, the provision would not have been materially different had it been calculated on an actuarial basis.

Defined contribution plan

U.A.E. national employees in the United Arab Emirates are members of the Government-managed retirement pension and social security benefit scheme. As per Federal Labour Law No. 7 of 1999, the Group is required to contribute 15% of the "contribution calculation salary" of U.A.E. payroll costs to the retirement benefit scheme to fund the benefits. The employees are also required to contribute 5% of the "contribution calculation salary" to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the consolidated income statement.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances.

Financial guarantee contracts issued by the Group are initially measured at their fair values and the initial fair value is amortised over the life of the guarantee. These are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

3. Significant accounting policies (continued)

3.12 Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms. Renegotiated loans remain in the same credit risk grade independent of satisfactory performance after restructuring. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment.

3.13 Incurred but not yet identified

Individually assessed financial assets carried at amortised cost for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics based on industry, product or loans and advances assets rating for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group may have incurred as a result of events occurring before the end of reporting period, which the Group is not able to identify on an individual basis, but that can be reliably estimated. As soon as information becomes available which identifies losses on individual financial assets within the group of the customer, those financial assets are removed from the group of the customer and assessed on an individual basis for impairment.

3.14 Revenue recognition

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

Interest income and expense

Interest income and expense for all interest bearing financial instruments, except for financial assets measured at FVTPL, are recognised using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability on initial recognition. When there is doubt in the collection of the principal or the interest, the recognition of interest income ceases. Interest income from financial assets measured at FVTPL is recognised on accrual basis.

Income from Isalmic financing and investing assets

The Group's policy for recognition of income from Islamic financing and investing assets is described in note 3.19.

Fee and commission income

Fee and commission income are generally accounted for on an accrual basis when the related services are performed.

Dividend income

Dividend income from investments is recognised when the Group's right to receive payment has been established.

3. Significant accounting policies (continued)

3.14 Revenue recognition (continued)

Rental income

The Group's policy for recognition of revenue from operating leases is described in 3.15 below.

Revenue from the sale of properties

Revenue from the sale of properties shall be recognised when the equitable interest in a property vests in a buyer and all the following conditions have been satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the properties;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.15 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.16 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments. Refer to note 34 on Business Segment reporting.

3. Significant accounting policies (continued)

3.17 Acceptances

Acceptances are recognised as financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

3.18 Foreign currencies

The individual financial statements of each group entity are presented in U.A.E. Dirham (AED), which is the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in AED, which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements.

Transaction in currencies other than the Group's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in consolidated statement of income in the period in which they arise.

3.19 Islamic financing and investing products

In addition to conventional banking products, the Group during the year started offering its customers certain non-interest based banking products, which are approved by its Sharia'a Supervisory Board.

All Islamic banking products are accounted for in conformity with the accounting policies described below:

3.19.1 Definitions

The following terms are used in the consolidated financial statements with the meaning specified:

Murabaha
A contract whereby the Group (the "Seller") sells an asset to its customer (the "Purchaser"), on a deferred payment basis, after purchasing the asset and gaining possession thereof and title thereto, where the Seller has purchased and acquired that asset, based on a promise received from the Purchaser to buy the asset once purchased according to specific Murabaha terms and conditions. The Murabaha sale price comprises the cost of the asset and a preagreed profit amount. The Murabaha sale price is paid by the Purchaser to the Seller on an installment basis over the period of the Murabaha as stated in the contract.

Ijarah Munttahiya Bittamleek
An agreement whereby the Group (the "Lessor") leases an asset to its customer (the "Lessee") (after purchasing/acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer's request and based on his promise to lease), against certain rental payments for specific lease term/periods, payable on fixed or variable rental basis.

The Ijarah agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation and the timing of rental payment. The Lessee undertakes under this agreement to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Ijarah agreement, the Lessor will sell the leased asset to the Lessee at nominal value or as a gift by a separate sale or gift contract at the end of the lease period.

3. Significant accounting policies (continued)

3.19 Islamic financing and investing products (continued)

3.19.1 Definitions (contineud)

Wakala
An agreement between two parties whereby one party is a fund provider (the "Muwakkil") who provides a certain amount of money (the "Wakala Capital") to an agent (the "Wakeel"), who invests the Wakala Capital in a Sharia'a compliant manner and according to the feasibility study/investment plan submitted to the Muwakkil by the Wakeel. The Wakeel is entitled to a fixed fee (the "Wakala Fee") as a lump sum amount or a percentage of the Wakala Capital. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. In principle, wakala profit is distributed on declaration/distribution by the Wakeel. The Wakeel would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Wakala Agreement; otherwise the loss would be borne by the Muwakkil, provided the Muwakkil receives satisfactory evidence that such loss was due to force majeure and that the Wakeel neither was able to predict the same nor could have prevented the negative consequences of the same on the Wakala. Under the Wakala agreement the Group may act either as Muwakkil or as Wakeel, as the case may be.

3.19.2 Accounting policy

Islamic financing and investing products are measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income. Islamic financing and investing products are measured at amortized cost if cost of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Allowance for impairment is made against Islamic financing and investing products when their recovery is in doubt taking into consideration IFRS requirements (as explained in Note 3.10.1). Islamic financing and investing products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

Income from Islamic financing and investing assets are recognised in the consolidated income statement using the effective profit method.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

Murabaha
Murabaha income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

Ijara Munttahiya Bittamleek
Ijarah income is recognised on effective profit rate basis over the lease term.

Wakala
Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

3. Significant accounting policies (continued)

3.19 Islamic financing and investing products (continued)

3.19.3 Islamic customers' deposits and distributions to depositors

Islamic customers' deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective profit method.

Distributions to depositors (Islamic products) are calculated according to the Group's standard procedures and are approved by the Group's Sharia'a Supervisory Board.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

Classification and measurement of financial assets

The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. Management is satisfied that the Group's financial assets are appropriately classified and measured.

Leasehold improvements

Management determined the estimated useful life and related depreciation charges for its leasehold improvements. This estimate is based on an assumption that the Group will renew its annual lease over the estimated useful life. It could change significantly should the annual lease not be renewed. Management will increase the depreciation charge where useful life is less than previously estimated life.

Fair valuation of financial instruments

Certain assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Bank uses market observable data to the extent it is available. Where level 1 inputs are not available, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as present value discount rates, prepayment rates and default rate assumptions for 'asset-backed' securities.

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Impairment of financial assets measured at amortised cost

The Group's accounting policy for allowances in relation to impaired financial assets measured 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 loan 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 loan losses is established through charges to income in the form of an allowance for loan loss. Increases and decreases in the allowance due to changes in the measurement of the impaired loans are included in the allowance for loan losses and affect 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.

The Group reviews its individually assessed loans at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statements. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating the cash flow, the Group makes judgments about:

1. The customer's aggregate borrowings.
2. The customer's risk rating, i.e. ability to perform profitable business and generate sufficient cash to repay the borrowed amount.
3. The value of the collateral and the probability of successful repossession.
4. The cost involved to recover the debts.

The Group's policy requires regular review of the level of impairment allowances on individual facilities.

Impaired loans continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable.

Collectively assessed loans

Collectively assessed allowances are made in respect of losses incurred in portfolios of retail loans with common features and where individual loan amounts are not significant.

The management of the Bank assesses, based on historical experience and the prevailing economical and credit conditions, the magnitude of loans which may be impaired but not identified at the end of the reporting period.

These portfolio allowances are reassessed on a periodical basis and allowances are adjusted accordingly based on the judgement of management and guidance received from the Central Bank of the U.A.E.

Property and equipment and investment properties

Property and equipment and investment properties are depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

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

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Impairment of property and equipment and investment properties

The Group determines at each reporting date whether there is any objective evidence that the property and equipment and investment properties are impaired. The management estimates the market value of properties based on the current market conditions and comparative transactions conducted by the Group. Whenever the carrying amount of any property exceeds its recoverable amount, an impairment loss is recognised in profit or loss.

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

	2015	2014
	AED'000	AED'000 (Restated)
Cash on hand	**68,327**	84,081
Balances with the Central Bank of the U.A.E.:		
Current account	**301,076**	95,720
Statutory cash ratio requirements	**692,136**	593,972
Certificate of deposits	**500,000**	-
	1,561,539	773,773

Statutory cash ratio requirements with the Central Bank of the U.A.E. represent mandatory reserve deposits and are not available for use in the Group's day-to-day operations. Cash on hand and current accounts and other balances are non-interest bearing. Certificate of deposits carry interest rates ranging between 0.25% and 0.4% (2014: Nil) per annum.

6. Deposits and balances due from banks

	2015	2014
	AED'000	AED'000 (Restated)
Demand and call deposits	**229,502**	228,811
Term deposits	**661,140**	1,232,574
	890,642	1,461,385

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

Within the U.A.E.	**661,266**	1,232,703
Outside the U.A.E.	**229,376**	228,682
	890,642	1,461,385

7. Loans and advances to customers

	2015 AED'000	2014 AED'000 (Restated)
Loans	**8,238,937**	10,428,865
Trust receipts	**1,726,033**	1,623,972
Overdrafts	**983,458**	1,484,869
Bills discounted	**902,512**	983,381
Credit cards	**68,551**	51,539
Other	**215,313**	199,440
	12,134,804	14,772,066
Less: Allowance for impairment	**(800,067)**	(1,430,542)
	11,334,737	13,341,524

The geographical analysis of gross loans and advances to customers is as follows:

	2015 AED'000	2014 AED'000 (Restated)
Within the U.A.E.	**11,338,550**	13,435,485
Outside the U.A.E.	**796,254**	1,336,581
	12,134,804	14,772,066

(a) The movements in the allowance for impairment of loans and advances to customers during the year were as follows:

	2015 AED'000	2014 AED'000 (Restated)
Balance at the beginning of the year	**1,430,542**	1,224,892
Impairment allowance for the year (note 30)	**932,244**	375,310
Interest suspended during the year	**105,548**	180,667
Amounts written off during the year	**(1,616,577)**	(310,852)
Impairment allowance reversal during the year (note 30)	**(51,690)**	(39,475)
Balance at the end of the year	**800,067**	1,430,542

	2015 AED'000	2014 AED'000 (Restated)
Individual impairment and interest in suspense	**569,560**	1,220,248
Collective impairment	**230,507**	210,294
	800,067	1,430,542

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

7. Loans and advances to customers (continued)

(b) Analysis of gross loans and advances to customers by class:

	2015 **AED'000**	2014 AED'000 (Restated)
Corporate lending	**8,759,501**	11,320,333
Retail lending	**3,375,303**	3,451,733
	12,134,804	14,772,066

(c) Analysis of gross loans and advances to customers by economic activities:

	2015 **AED'000**	2014 AED'000 (Restated)
Services	**2,111,200**	3,060,301
Wholesale and retail trade	**2,025,083**	2,393,054
Construction	**764,185**	1,284,300
Retail lending	**2,558,549**	2,786,849
Real estate	**2,794,759**	3,076,598
Manufacturing	**636,614**	696,476
Government	**93**	191
Transport and communication	**552,135**	929,386
Financial institutions	**692,186**	544,911
	12,134,804	14,772,066

8. Islamic financing and investing assets

	2015 **AED'000**	2014 AED'000 (Restated)
Murabaha	**155,462**	-
Ijarah Munttahiya Bittamleek	**22,868**	-
	178,330	-
Less: deferred income	**(6,502)**	-
	171,828	-

All Islamic financing and investing assets are within the U.A.E. and represent corporate lending.

8. Islamic financing and investing assets (continued)

Analysis of gross Islamic financing and investing assets by economic activities:

	2015 AED'000	2014 AED'000 (Restated)
Real estate	**22,868**	-
Transport and communication	**148,960**	-
	171,828	-

9. Financial assets measured at fair value

(a)

	2015 AED'000	2014 AED'000 (Restated)
Financial assets measured at FVTOCI		
Investment in quoted shares	**20,105**	35,013
Investment in unquoted shares	**70,611**	90,262
Investment in unquoted investment funds	**7,669**	54,169
	98,385	179,444
Financial assets measured at FVTPL		
Non-discretionary investment portfolio managed by a related party (note 32)	**-**	163,825
	98,385	343,269

(b) Financial assets measured at fair value by geographic concentration are as follows:

	2015 AED'000	2014 AED'000 (Restated)
- Within the U.A.E.	**72,696**	149,281
- Outside the U.A.E.	**25,689**	193,988
	98,385	343,269

(c) The analysis of financial assets measured at fair value by industry sector is as follows:

	2015 AED'000	2014 AED'000 (Restated)
Financial Institutions	**90,716**	254,405
Commercial and Business	**7,669**	88,864
	98,385	343,269

During the year ended 31 December 2015, the Group purchased and disposed investments amounted to AED 20.1 million and AED 235.7 million respectively.

10. Other financial assets measured at amortised cost

	2015 AED'000	2014 AED'000 (Restated)
Investment in debt instruments	**648,924**	1,660,602

The Group holds these bonds with an average yield of 3% to 6% per annum (2014: 3% to 9% per annum). The bonds are redeemable at par on various maturity dates from 2016 to 2028 (2014: 2015 to 2028).

(a) Other financial assets measured at amortised cost by geographic concentration are as follows:

	2015 AED'000	2014 AED'000 (Restated)
- Within the U.A.E.	**402,723**	865,525
- Outside the U.A.E.	**246,201**	795,077
	648,924	1,660,602

(b) The analysis of other financial assets measured at amortised cost by industry sector is as follows:

	2015 AED'000	2014 AED'000 (Restated)
Government and Public Sector	**512,958**	773,191
Financial Institutions	**128,690**	710,747
Commercial and Business	**7,276**	176,664
	648,924	1,660,602

During the year ended 31 December 2015, the Group disposed of bonds amounted to AED 1.01 billion and redemeed an amount of AED 7 million on maturity.

11. Property inventory

	2015 AED'000	2014 AED'000 (Restated)
Real estate properties	**443,457**	280,218

11. Property inventory (continued)

The property inventory comprises real estate properties held by the Group for the purpose of sale in the ordinary course of business. The movements in property inventory during the year were as follows:

	2015 AED'000	2014 AED'000 (Restated)
Balance at the beginning of the year	**280,218**	280,218
Additions during the year	**177,709**	-
Transferred to investment property (note 13)	**(14,470)**	-
Balance at the end of the year	**443,457**	280,218

All property inventories are within the U.A.E.

12. Receivables and other assets

	2015 AED'000	2014 AED'000 (Restated)
Interest receivable	**8,445**	21,074
Prepayments	**20,237**	32,425
Positive fair value of derivative financial instruments	**406**	4,973
Customer acceptance	**769,790**	1,263,004
Brokerage receivables (i)	**364**	5,740
Advances to acquire properties (ii)	**33,302**	62,845
Other	**161,136**	103,837
	993,680	1,493,898

i) Brokerage receivables are stated net of allowance for impairment of AED 30 million (2014: AED 96 million). The movement in the allowance for impairment is as follows:

	2015 AED'000	2014 AED'000 (Restated)
Balance at the beginning of the year	**95,799**	123,403
Impairment losses reversed for the year (note 30)	**(1,157)**	(5,779)
Written off during the year	**(65,114)**	(21,825)
Balance at the end of the year	**29,528**	95,799

ii) Advances to acquire properties are stated at net of impairment of AED 23 million (2014: AED 21 million).

13. Investment properties

	2015	2014
	AED'000	AED'000 (Restated)
Cost		
At 1 January	**143,778**	143,732
Additions during the year	**507**	46
Transfer from property inventory (note 11)	**14,470**	-
Disposal	**(29,381)**	-
At 31 December	**129,374**	143,778
Accumulated depreciaiton		
At 1 January	**29,662**	22,472
Charge for the year (note 29)	**5,554**	7,190
Eliminated on disposal	**(12,343)**	-
At 31 December	**22,873**	29,662
Carrying value		
At 31 December	**106,501**	114,116
	========	========

Fair value of investment properties

The fair value of the Group's investment property as at 31 December 2015 and 31 December 2014 has been arrived at on the basis of a valuation carried out on the respective dates by independent valuers not related to the Group. Independent valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on a present value calculation of the estimated future cash flow model supported by existing lease and current market rents for similar properties at the same locations. The interest rate, which is used to discount the future cash flows, reflects current market assessments of the uncertainty and timing of the cash flows.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2015 and 31 December 2014 are as follows:

	Level 1 AED'000	**Level 2 AED'000**	**Level 3 AED'000**	**Fair value AED'000**
31 December 2015				
Investment properties	**-**	**-**	**120,340**	**120,340**
	========	========	========	========
31 December 2014 (Restated)				
Investment properties	-	-	147,350	147,350
	========	========	========	========

All investment properties are within the U.A.E.

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

14. Property and equipment

	Freehold land AED'000	Buildings AED'000	Leasehold improvements AED'000	Furniture, fixtures, equipments and vehicles AED'000	Intangible assets AED'000	Capital work in progress AED'000	Total AED'000
Cost or revalued amount							
At 1 January 2014 (Restated)	53,575	120,600	48,087	113,449	3,347	-	339,058
Revaluations	(1,225)	225	-	-	-	-	(1,000)
Additions	-	273	14,392	12,316	635	-	27,616
Disposals	-	-	(19)	(385)	-	-	(404)
At 31 December 2014 (Restated)	52,350	121,098	62,460	125,380	3,982	-	365,270
Revaluations	(1,454)	(321)	-	-	-	-	(1,775)
Additions	-	-	8,876	17,376	8,753	14,595	49,600
Written off	-	-	(37,780)	(93,865)	-	-	(131,645)
Disposals	-	-	(1,901)	(322)	-	-	(2,223)
At 31 December 2015	**50,896**	**120,777**	**31,655**	**48,569**	**12,735**	**14,595**	**279,227**
Accumulated depreciation and accumulated impairment							
At 1 January 2014 (Restated)	-	11,713	37,493	101,327	159	-	150,692
Revaluations	-	(23,685)	-	-	-	-	(23,685)
Charge for the year	-	13,128	3,995	6,387	872	-	24,382
Disposals	-	-	(19)	(385)	-	-	(404)
At 31 December 2014 (Restated)	-	1,156	41,469	107,329	1,031	-	150,985
Charge for the year	-	11,203	6,483	8,734	2,156	-	28,576
Impairment during the year	-	-	2,906	-	-	-	2,906
Written off	-	-	(37,777)	(91,939)	-	-	(129,716)
Disposals	-	-	(579)	(322)	-	-	(901)
At 31 December 2015	**-**	**12,359**	**12,502**	**23,802**	**3,187**	**-**	**51,850**
Carrying amount							
At 31 December 2015	**50,896**	**108,418**	**19,153**	**24,767**	**9,548**	**14,595**	**227,377**
At 31 December 2014 (Restated)	52,350	119,942	20,991	18,051	2,951	-	214,285

14. Property and equipment (continued)

The Group's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Group's freehold land and buildings as at 31 December 2014 were performed by independent valuers not related to the Group. The valuers have appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations. No valuation was done in 2015 as management believes that there is no significant change in market condition which may lead to material variation in valuation of land and buildings.

The fair value of the freehold land was determined based on the market comparable approach that reflects recent transaction prices for similar properties. The fair value of the buildings was determined based on a present value calculation of the estimated future cash flow model supported by existing lease and current market rents for similar properties in the same location. The interest rate, which is used to discount the future cash flows, reflects current market assessments of the uncertainty and timing of the cash flows.

Details of the Group's freehold land and buildings and information about the fair value hierarchy as at 31 December 2015 and 31 December 2014 are as follows:

	Level 1 AED'000	**Level 2 AED'000**	**Level 3 AED'000**	**Fair value AED'000**
31 December 2015				
Freehold land			**50,896**	**50,896**
Buildings			**119,621**	**119,621**
	========	========	========	========
31 December 2014				
Freehold land	-	-	52,350	52,350
Buildings	-	-	119,942	119,942
	========	========	========	========

Had the Group's land and buildings being measured on a historical cost basis their carrying amount would have been as follows:

	2015 AED'000	2014 AED'000
Freehold land	**33,429**	33,429
Buildings	**19,423**	21,044
	52,852	54,473
	========	========

15. Share capital

The authorised, issued, and paid up capital of the Bank comprises 1,737,383,050 shares of AED 1 each (2014: 1,654,650,524 shares of AED 1 each).

The shareholders, in Annual General Meeting held on 31 March 2015, approved bonus shares of 5% of issued share capital as at 31 December 2014 totalling 82,732,526 shares of AED 1 each.

16. Tier 1 Capital Securities

On 23 December 2015, the Bank issued Tier 1 Capital Securities (the "Capital Securities") through an SPV, CBI Tier 1 Private Ltd, (the "Issuer") amounting to USD 125 million (AED 459.125 million), including a transaction cost amounting to USD 0.4 million (AED 1.469 million). These Capital Securities are perpetual and carry an interest rate of 6.50 % (calculated based on the relevant Six- Years Mid Swap Rate plus 4.71 percent per annum) during the "initial period". After the initial period, at every reset date, interest would be calculated for the next reset period at the relevant Six-Year Mid Swap Rate plus a margin of 4.71 percent per annum. Interest is payable semi-annually in arrears on these Capital Securities. The "Initial Period" is the period (from and including) the Issue Date to (but excluding) the First Call Date. The "Reset Date" is the First Call Date and every sixth anniversary thereafter. These Capital Securities are callable by the Bank beginning from 23 December 2021 "First Call date" and every interest payment date thereafter.

Tier 1 Capital Securities are perpetual, subordinated and unsecured. The Bank may elect not to pay a coupon at its own discretion. The holder of the Capital Securities does not have a right to claim the coupon and an election by the Bank not to service coupon is not considered an event of default.

17. Reserves

Statutory reserve

In accordance with Article 82 of Union Law No.10 of 1980 and the Bank's Articles of Association, a transfer equivalent to at least 10% of the annual net profit is made annually to the statutory reserve until such reserve equals 50% of the paid up share capital.

General reserve

In accordance with the Bank's Articles of Association, a transfer equivalent to at least 10% of the annual net profit should be made to a general reserve each year until the value of the reserve is equal to 50% of the nominal value of the issued share capital.

Property revaluation reserve

The properties revaluation reserve arises on the revaluation of land and buildings. When revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset, and that is effectively realised, is transferred directly to retained earnings. The revaluation surplus is also transferred as the properties are used by the Group. The amount of surplus so transferred is the difference between depreciation based on the revalued carrying amount of the properties and depreciation based on the properties original cost.

Investments revaluation reserve

The investments revaluation reserve represents accumulated gains and losses arising on the revaluation of financial assets carried at fair value through other comprehensive income.

18. Non-controlling interests

	2015	2014
	AED'000	AED'000 (Restated)
At 1 January	**466**	483
Share of net profit in subsidiary	**(7)**	49
Share in investment revaluation reserve	**(16)**	(66)
At 31 December	**443**	466

19. Deposits and balances due to banks

	2015 AED'000	2014 AED'000 (Restated)
Demand and call deposits	**103,555**	201,797
Term deposits	**1,825,365**	1,043,960
	1,928,920	1,245,757

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

	2015 AED'000	2014 AED'000 (Restated)
Within the U.A.E.	**783,658**	35,000
Outside the U.A.E.	**1,145,262**	1,210,757
	1,928,920	1,245,757

20. Customers' deposits

	2015 AED'000	2014 AED'000 (Restated)
Current accounts	**2,811,056**	3,207,506
Savings accounts	**663,650**	242,888
Time deposits	**7,281,208**	10,695,273
Other	**335,107**	393,050
	11,091,021	14,538,717

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

21. Islamic customers' deposits

	2015 AED'000	2014 AED'000 (Restated)
Current accounts	**14,252**	-

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

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

22. Payables and other liabilities

	2015 AED'000	2014 AED'000 (Restated)
Interest payable	**59,124**	85,008
Unearned commission	**59,678**	78,658
Negative fair value of derivative financial instruments	**3,452**	5,083
Cheques and drafts payable	**171,109**	56,317
Customer acceptances	**769,790**	1,263,004
Brokerage payables	**22,817**	23,184
Provision for end-of-service benefits (i)	**41,813**	40,689
Directors' fee (note 32 (b))	**-**	2,400
Other	**49,825**	44,551
	1,177,608	1,598,894

i) The movements in provision for end of service benefits during the year were as follows:

	2015 AED'000	2014 AED'000 (Restated)
Balance at the beginning of the year	**40,689**	34,968
Charge for the year	**11,081**	10,472
Payments during the year	**(9,957)**	(4,751)
Balance at the end of the year	**41,813**	40,689

23. Cash and cash equivalents

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

	2015 AED'000	2014 AED'000 (Restated)
Cash and balances with the Central Bank of the U.A.E. (note 5)	**1,561,539**	773,773
Deposits and balances due from bank (note 6)	**890,642**	1,461,385
	2,452,181	2,235,158
Less: Statutory reserve with the Central Bank of the U.A.E. (note 5)	**(692,136)**	(593,972)
Less: Certificate of deposits with an original maturity of more than 90 days.	**(200,000)**	-
	1,560,045	1,641,186

24. Interest income

	2015 AED'000	2014 AED'000 (Restated)
Loans and overdrafts	**565,117**	596,672
Bills discounted	**53,818**	49,228
Debt instruments	**44,364**	62,230
Placements with banks	**2,549**	881
Other	**812**	-
	666,660	709,011

25. Income from Islamic financing and investing assets

	2015 AED'000	2014 AED'000 (Restated)
Financing assets		
Murabahas	**50**	-
Ijarah Munttahiya Bittamleek	**145**	-
Investing assets		
Wakala	**44**	-
	239	-

26. Interest expense

	2015 AED'000	2014 AED'000 (Restated)
Customers' deposits	**155,303**	156,639
Borrowing from banks	**21,342**	15,436
	176,645	172,075

27. Net fee and commission income

	2015 AED'000	2014 AED'000 (Restated)
Fee and commission income		
Facility processing fees	**98,280**	80,822
Commission income	**69,863**	70,133
Bank fees and other charges	**38,673**	34,640
Insurance commission	**28,338**	24,409
Credit card related fees	**11,055**	7,521
Brokerage income	**1,497**	3,934
	247,706	221,459
Fee and commission expense		
Commission expense	**608**	641
Credit card related expenses	**8,221**	7,519
Other	**4,421**	1,670
	13,250	9,830
	234,456	211,629

28. Other operating income, net

	2015 AED'000	2014 AED'000 (Restated)
Foreign exchange gains	**40,901**	27,357
Dividend income	**5,157**	10,100
(Loss)/gain on revaluation of financial assets measured at FVTPL	**(5,526)**	29,300
Gain on sale of investment measured at amortised cost	**35,294**	-
Other	**19,133**	4,838
	94,959	71,595

29. General and administrative expenses

	2015 AED'000	2014 AED'000 (Restated)
Payroll and related expenses	**290,161**	241,075
Rent	**19,585**	17,639
Depreciation on property and equipment (note 14)	**28,576**	24,382
Depreciation on investment properties (note 13)	**5,554**	7,190
Directors' expenses (note 32(c))	**2,029**	3,265
Impairment of property and equipment (note 14)	**2,906**	-
Impairment of advances on acquisition of properties	**1,495**	-
Social contributions	**144**	446
Other	**95,621**	72,349
	446,071	366,346

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

30. Impairment losses and provisions, net

	2015 **AED'000**	2014 AED'000 (Restated)
Impairment allowance on loans and advances to customers (note 7)	**932,244**	375,310
Impairment losses reversed on brokerage receivables (note 12)	**(1,157)**	(5,779)
Recoveries against impaired loans and advances to customers (note 7)	**(51,690)**	(39,475)
Recoveries against written off loans	**(42,817)**	(10,300)
Bad debts written off	**3,574**	12,064
	840,154	331,820

31. (Loss)/earnings per share

(Loss)/earnings per share is calculated by dividing the (loss)/profit for the year attributable to the owners of the Bank, net of directors' fee by the weighted average number of ordinary shares in issue throughout the year as follows:

	2015	2014 (Restated)
(Loss)/profit for the year attributed to the owners of the Bank (AED'000)	**(466,549)**	121,945
Directors' fee (AED'000) (note 32(c))	**-**	(2,400)
(Loss)/earnings used in calculation of earnings per share (AED'000)	**(466,549)**	119,545
Weighted average number of ordinary shares outstanding during the year	**1,737,383,050**	1,737,383,050
Basic and diluted (loss)/earnings per share (AED)	**(0.269)**	0.069

The weighted average number of ordinary shares in issue throughout the year ended 31 December 2014 has been adjusted to reflect the bonus shares issued during the year ended 31 December 2015.

32. Related party transactions

a) The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard (IAS) 24: *Related Party Disclosures*. Related parties comprise companies under common ownership and/or common management and control, their shareholders and key management personnel. Transactions with such related parties are made on substantially the same terms, as those prevailing at the same time for comparable transactions with external customers and parties.

32. Related party transactions (continued)

b) Year-end related party balances included in the consolidated statement of financial position are as follows:

	2015 AED'000	2014 AED'000 (Restated)
Loans and advances to customers	**97,468**	232,634
Non-discretionary investment portfolio managed by a related party and classified as financial assets measured at FVTPL (note 9)	**-**	163,825
Deposits and balances due to other banks	**818,733**	759,883
Directors' fee payable (note 22)	**-**	2,400
Customers' deposits	**10,949**	250,630
Letters of credit, guarantees and acceptances	**-**	174,004

c) Significant transactions with related parties during the year are as follows:

	2015 AED'000	2014 AED'000
Interest income	**5,893**	10,263
Interest expense	**14,959**	12,632
Directors' fee	**-**	2,400
Directors' expenses (note 29)	**2,029**	3,265
Compensation of key management personnel*	**14,926**	16,662

*These includes long term benefits amounting to AED 0.9 million (2014: AED 0.9 million).

33. Contingencies and commitments

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognised on the consolidated statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

Contingencies

Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

The contractual amounts of contingent liabilities are set out in the following table by category. The amounts reflected in the table represent the maximum accounting loss that would be recognised at the end of reporting period if counterparties failed to perform as contracted.

	2015 AED'000	2014 AED'000
Guarantees	**2,927,757**	3,139,500
Letters of credit	**754,827**	1,080,663
	3,682,584	4,220,163

Maturity profile

The maturity profile of the Group's contra accounts were as follows:

			31 December 2015			
	Less than 3 months AED'000	**3 to 6 months AED'000**	**6 to 12 months AED'000**	**1 to 5 years AED'000**	**5 years + AED'000**	**Total AED'000**
Guarantees	**1,479,310**	**734,689**	**499,002**	**213,745**	**1,011**	**2,927,757**
Letters of credit	**467,120**	**200,107**	**57,865**	**29,735**	**-**	**754,827**
Total	**1,946,430**	**934,796**	**556,867**	**243,480**	**1,011**	**3,682,584**

			31 December 2014			
	Less than 3 months AED'000	3 to 6 months AED'000	6 to 12 months AED'000	1 to 5 years AED'000	5 years + AED'000	Total AED'000
Guarantees	1,626,391	694,030	675,516	143,106	457	3,139,500
Letters of credit	638,700	272,848	127,638	41,477	-	1,080,663
Total	2,265,091	966,878	803,154	184,583	457	4,220,163

33. Contingencies and commitments (continued)

Commitments

At any time the Group has outstanding commitments to extend credit. These commitments are in the form of approved loan facilities. The amounts reflected in the table below for commitments assume that amounts are fully advanced.

	2015	2014
	AED'000	AED'000
Loan commitments	**4,258,587**	4,182,127
Capital commitments	**43,212**	21,577
	4,301,799	4,203,704

34. Segmental analysis

Operating Segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and to assess its performance.

For operating purposes the Group is organized into three major business segments as follows:

a) Reportable segments

Banking activities include the wholesale banking group, retail banking group, Bank's treasury and others.

Brokerage activities represent brokerage related services in respect of equity shares.

Real estate activities represent brokerage and development related services in respect of the real estate.

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

34. Segmental analysis (continued)

b) The accounting policies of the reportable segments are the same as the Group's accounting policy as described in note 3 of these consolidated financial statements.

c) Segment profit represents the profit earned by each segment. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

The segmental information provided to Group's CEO for the reportable segments for the year ended 31 December 2015 and 31 December 2014 are as follows:

For the year ended 31 December 2015

	Banking							
	Wholesale AED'000	Retail AED'000	Treasury AED'000	Others AED'000	Total AED'000	Brokerage AED'000	Real estate AED'000	Total AED'000
Net interest income from external customers	271,253	166,363	42,967	9,671	490,254	-	-	490,254
Inter-segmental net interest income	7,147	-	-	-	7,147	648	(7,795)	-
Net fee and commission income	171,693	61,233	(286)	295	232,935	1,521	-	234,456
Other operating income, net	26,001	11,164	32,444	5,346	74,955	238	19,766	94,959
Impairment losses and provisions, net	(785,704)	(81,478)	-	24,960	(842,222)	2,068	-	(840,154)
General and administrative expenses excluding depreciation	(59,423)	(157,115)	(5,848)	(179,645)	(402,031)	(5,125)	(4,785)	(411,941)
Depreciation expense	(1,672)	(8,158)	(100)	(18,479)	(28,409)	(167)	(5,554)	(34,130)
(Loss)/profit for the year	(370,705)	(7,991)	69,177	(157,852)	(467,371)	(817)	1,632	(466,556)
As at 31 December 2015								
Segment total assets	9,188,094	3,286,041	3,382,139	177,598	16,033,872	1,909	441,289	16,477,070
Segment total liabilities	8,571,969	3,303,500	1,928,920	380,226	14,184,615	24,295	2,891	14,211,801

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

34. Segmental analysis (continued)

For the year ended 31 December 2014 (Restated)

	Banking							
	Corporate AED'000	Retail AED'000	Treasury AED'000	Others AED'000	Total AED'000	Brokerage AED'000	Real estate AED'000	Total AED'000
Net interest income from external customers	325,449	156,744	52,612	2,131	536,936	-	-	536,936
Inter-segmental net interest income	8,386	-	-	-	8,386	380	(8,766)	-
Net fee and commission income	149,955	57,794	(210)	156	207,695	3,934	-	211,629
Other operating income	19,150	2,736	39,336	-	61,222	985	9,388	71,595
Impairment losses	(278,611)	(58,942)	-	-	(337,553)	5,733	-	(331,820)
General and administrative expenses excluding depreciation	(41,124)	(131,346)	(6,240)	(148,171)	(326,881)	(4,608)	(3,285)	(334,774)
Depreciation expense	(964)	(5,853)	(61)	(17,392)	(24,270)	(85)	(7,217)	(31,572)
Profit/(loss) for the year	182,241	21,133	85,437	(163,276)	125,535	6,339	(9,880)	121,994
As at 31 December 2014 (Restated)								
Segment total assets	11,241,286	3,386,576	4,423,741	146,339	19,197,942	16,494	468,634	19,683,070
Segment total liabilities	11,066,804	4,281,642	1,820,829	186,467	17,355,742	24,778	2,848	17,383,368

The Group conducted all of its operation in the United Arab Emirates, there is no operation outside the United Arab Emirates.

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

35. Classification of financial assets and financial liabilities

The table below sets out the Group's classification for each class of financial assets and financial liabilities and their carrying amounts as at 31 December 2015 and 31 December 2014:

	At fair value through profit or loss AED'000	At fair value through other comprehensive income AED'000	At amortised cost AED'000	Total carrying amount AED'000
31 December 2015				
FINANCIAL ASSETS				
Cash and balances with the Central Bank of the U.A.E.	-	-	**1,561,539**	**1,561,539**
Deposits and balances due from banks	-	-	**890,642**	**890,642**
Loans and advances to customers	-	-	**11,334,737**	**11,334,737**
Islamic financing and investing asset	-	-	**171,828**	**171,828**
Financial assets measured at fair value	-	**98,385**	-	**98,385**
Other financial assets measured at amortised cost	-	-	**648,924**	**648,924**
Receivables and other assets	**406**	-	**939,735**	**940,141**
Total	**406**	**98,385**	**15,547,405**	**15,646,196**
FINANCIAL LIABILITIES				
Deposits and balances due to banks	-	-	**1,928,920**	**1,928,920**
Customers' deposits	-	-	**11,091,021**	**11,091,021**
Islamic customers' deposits	-	-	**14,252**	**14,252**
Payables and other liabilities	**3,452**	-	**1,072,665**	**1,076,117**
Total	**3,452**	-	**14,106,858**	**14,110,310**
31 December 2014 (Restated)				
FINANCIAL ASSETS				
Cash and balances with the Central Bank of the U.A.E.	-	-	773,773	773,773
Deposits and balances due from banks	-	-	1,461,385	1,461,385
Loans and advances to customers	-	-	13,341,524	13,341,524
Financial assets measured at fair value	163,825	179,444	-	343,269
Other financial assets measured at amortised cost	-	-	1,660,602	1,660,602
Receivables and other assets	4,973	-	1,393,655	1,398,628
Total	168,798	179,444	18,630,939	18,979,181
FINANCIAL LIABILITIES				
Deposits and balances due to banks	-	-	1,245,757	1,245,757
Customers' deposits	-	-	14,538,717	14,538,717
Payables and other liabilities	5,083	-	1,474,464	1,479,547
Total	5,083	-	17,258,938	17,264,021

36. Fair value of financial instruments

This note provides information about how the Group determines the fair value of various financial assets and financial liabilities.

(a) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The fair value of financial assets and financial liabilities are determined as follows:

- Fair value of all quoted investment measured at fair value through profit or loss and at fair value through other comprehensive income (note 9) are based on quoted bid prices in an active market;

- Fair value of all unquoted equity investments and unquoted investment funds measured at fair value through other comprehensive income (note 9) is mainly based either on net asset value of the investees or offer to sale/purchase on measurement dates. The net asset value is unobservable input and the Group has determined that the reported net asset value represents the fair value at end of the reporting period; and

- Fair value of all foreign currency derivatives (note 37) is calculated using discounted cash flow. Discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The table below summarises the Group's financial instruments fair value according to fair value hierarchy:

31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Financial assets at fair value through other comprehensive income				
- Equity shares	**20,105**	**-**	**70,611**	**90,716**
- Investment funds	**-**	**-**	**7,669**	**7,669**
Financial assets at fair value through profit or loss				
- Positive fair value of derivatives financial assets	**-**	**406**	**-**	**406**
Total	**20,105**	**406**	**78,280**	**98,791**
Financial liabilities at fair value through profit or loss				
- Negative fair value of derivatives financial assets	**-**	**3,452**	**-**	**3,452**

36. Fair value of financial instruments (continued)

(a) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

31 December 2014 (Restated)	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
Financial assets at fair value through other comprehensive income				
- Equity shares	35,013	-	90,262	125,275
- Investment funds	-	-	54,169	54,169
Financial assets at fair value through profit or loss				
- Positive fair value of derivatives financial assets	-	4,973	-	4,973
- Equity shares	163,825	-	-	163,825
Total	198,838	4,973	144,431	348,242
Financial liabilities at fair value through profit or loss				
- Negative fair value of derivatives financial assets	-	5,083	-	5,083

There were no transfers between Level 1 and 2 during the years ended 31 December 2015 and 2014.

Reconciliation of Level 3 fair value measurements of financial assets

	2015	2014
	AED'000	AED'000 (Restated)
Opening balance	**144,431**	135,140
Total gains or losses:		
- in other comprehensive income	**(19,651)**	9,291
Disposals	**(46,500)**	-
Closing balance	**78,280**	144,431

The financial liabilities subsequently measured at fair value are measured on level 2 fair value measurement, there are no financial liabilities measured at fair value on level 3 measurement.

All gain and losses included in other comprehensive income relate to FVTOCI (quoted or unquoted) held at the end of the year and are reported as changes of 'Investment revaluation reserve'.

36. Fair value of financial instruments (continued)

(b) Fair value of financial instruments carried at amortised cost

Except as detailed below, the directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the consolidated financial statements approximate their fair values.

	Carrying amount AED'000	Fair value AED'000
31 December 2015		
Investment in debt instruments	**648,924**	**643,043**
	========	========
31 December 2014 (Restated)		
Investment in debt instruments	1,660,602	1,707,633
	========	========

All above financial instruments are quoted instruments and categorised as level 1 in fair value hierarchy. The fair value is determined using unadjusted quoted market prices.

37. Derivatives

Derivative financial instruments are utilised by the Group primarily to satisfy the requirements of its customers and are also used to a limited extent to manage the Group's own exposure to currency, interest rate and other market risks.

The derivatives most frequently used by the Group are as follows:

Swaps
Swaps are commitments to exchange one set of cash flows for another. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal. For currency swaps, fixed interest payments and principal are exchanged in different currencies. For cross-currency rate swaps, principal, fixed and floating interest payments are exchanged in different currencies.

Foreign exchange forwards contracts
Foreign exchange forwards contracts are contractual agreements to either buy or sell a specified currency at a specified price and date in the future. Forwards are customised contracts transacted in the over-the counter market.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

37. Derivatives (continued)

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amount by term maturity Up to 3 months AED'000	3 - 6 months AED'000	6 - 12 months AED'000	1 – 5 years AED'000	Over 5 years AED'000
31 December 2015								
Forward foreign exchange contract	**406**	**251**	**47,420**	**45,014**	**2,406**	**-**	**-**	**-**
Interest rate swap	**-**	**3,201**	**36,730**	**-**	**-**	**-**	**-**	**36,730**
Total	**406**	**3,452**	**84,150**	**45,014**	**2,406**	**-**	**-**	**36,730**
31 December 2014 (Restated)								
Forward foreign exchange contract	4,973	2,069	562,559	468,234	94,325	-	-	-
Interest rate swap	-	3,014	36,730	-	-	-	-	36,730
Total	4,973	5,083	599,289	468,234	94,325	-	-	36,730

38. Financial risk management

The Group has exposure to the following primary risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk are discussed below:

As part of its management of risks, the Group implemented systems for the management of its Credit Risk, Market Risk, Liquidity Risk and Asset and Liability Management (ALM) Risk. These systems include credit origination, analysis, rating, pricing and approval. For treasury, the Group has acquired systems for front and back offices to manage efficiently market risk, liquidity risk, and ALM risk. For Operational risk, the Group has developed internally, tools that can allow the analysis, quantification, and reporting of operational risk events/losses that are faced on a granular cluster level.

In addition, the Group is also exposed to other risks that are managed along with the key risks, and are quantified, monitored and reported as part of the Group's Internal Capital Adequacy Assessment Policy (ICAAP) Framework. Such risks include, among others, concentration risk, strategic risk, business risk, and legal and compliance risk.

38. Financial risk management (continued)

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Group Asset and Liability (ALCO) Committee, Credit Risk Committee, Executive Committee, and Management Committee, which are responsible for developing and monitoring Group risk management policies in their specified areas. These committees comprise key Group management staff, who convene frequently to appraise the Group's risk profile and various risk issues. However, the Board is ultimately responsible for the approval of the risk policies and procedures, infrastructure and management of all risks related to the Group.

Credit risk is managed by the Group's Credit Committee and includes a periodic review of credit limits, policies and procedures, the approval of specific exposures and workout situations, and a regular re-evaluation of the loans portfolio and the sufficiency of provisions relating thereto.

The Assets and Liabilities Committee (ALCO) monitors and controls market and liquidity risks primarily by means of gap analyses of maturities of assets and liabilities for day-to-day.

Operational Risk is managed by the Management Committee with the support of the Risk Management Department and various other units/divisions across the Group including IT.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

38.1 Credit risk

Credit risk is the risk of loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's loans and advances amounts, Islamic financing and investing assets, due from banks and non-trading investments. Credit risk can also arise from financial guarantees, letters of credit, endorsements and acceptances. Credit risk is the single largest risk for the Group business, management therefore carefully manages its exposure to credit risk.

For risk management purposes, credit risk arising on trading investments is managed independently, but reported as a component of market risk exposure.

38.1.1 Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the Group Credit Committee which is responsible for oversight of the Group's credit risk including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishment of authorisation structure and limits for the approval and renewal of credit facilities. Lending authorities have been established at various levels together with a framework of dual/multiple credit approval delegated authorities. Larger facilities require approval by the Group Credit Committee and/or the Board of Directors, as appropriate.
- Establishing limits and actual levels of exposure are reviewed regularly and updated by the Group Credit Committee or the Board of Directors, as appropriate.

38. Financial risk management (continued)

38.1 Credit risk (continued)

38.1.1 Management of credit risk (continued)

- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties.
- Developing and maintaining the Group's risk grading in category exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the Executive Committee and is subject to regular reviews by the Group Risk Management Department.
- Credit review procedures are designed to identify at an early stage exposures which require more detailed monitoring and review.
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.
- In addition the Group has an Internal Audit Department that undertakes regular audits of the business units and the Group credit process and reports direct to the Audit Committee.

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less interest suspended and impairment losses.

38.1.2 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2015 AED'000	Gross maximum exposure 2014 AED'000 (Restated)
Balances with the Central Bank of the U.A.E.	**1,493,212**	689,692
Deposits and balances due from banks	**890,642**	1,461,385
Loans and advances to customer	**12,134,804**	14,772,068
Islamic financing and investing assets	**171,828**	-
Other financial assets measured at amortised cost	**648,924**	1,660,602
Receivables and other assets	**969,263**	1,489,454
	16,308,673	20,073,201
Contingent liabilities (note 33)	**3,682,584**	4,220,163
Total	**19,991,257**	24,293,364

38. Financial risk management (continued)

38.1 Credit risk (continued)

38.1.3 Risk concentrations of the maximum exposure to credit risk

The Group monitors concentrations of credit risk by sector and by geographic location. An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	2015 AED'000	2014 AED'000 (Restated)
Commercial and business:		
Manufacturing	**883,463**	1,026,089
Real estate and construction	**5,693,998**	6,839,603
Trade	**3,131,974**	3,993,733
Transport	**708,966**	936,608
Communication and other service	**3,131,099**	4,344,938
Total commercial and business	**13,549,500**	17,140,971
Banks and financial institutions	**3,356,947**	3,369,394
Government and public sector entities	**513,691**	979,735
Retail lending	**2,571,119**	2,803,264
	19,991,257	24,293,364

The Group's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2015 AED'000	2014 AED'000 (Restated)
U.A.E.	**18,531,547**	21,473,233
G.C.C.	**753,396**	1,523,271
Other Arab countries	**67,837**	375,444
Europe	**256,136**	184,126
U.S.A.	**114,676**	202,698
Asia	**157,887**	446,848
Others	**109,778**	87,744
	19,991,257	24,293,364

38. Financial risk management (continued)

38.1 Credit risk (continued)

38.1.4 Analysis of the credit quality

Impaired exposures

Impaired exposures are financial assets for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the agreements.

Past due but not impaired loans

Exposures where contractual interest or payments are past due up to 180 days but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

31 December 2015

	Balances with central bank and due from banks AED'000	Loans and advances and Islamic financing and investing assets AED'000	Other financial assets measured at amortised cost AED'000	Receivables and other assets AED'000	Contingent liabilities AED'000	Total AED'000
Non-impaired exposures						
Neither past due nor impaired	2,383,854	9,966,913	648,924	939,371	3,682,584	17,621,646
Past due up to 30 days	-	1,222,375	-	-	-	1,222,375
Past due 30 - 60 days	-	43,114	-	-	-	43,114
Past due 60 - 90 days	-	38,268	-	-	-	38,268
Past due 90 - 180 days	-	52,609	-	-	-	52,609
Individually impaired exposures	-	983,353	-	29,892	-	1,013,245
Gross amount	2,383,854	12,306,632	648,924	969,263	3,682,584	19,991,257
Less: Allowance for impairment	-	(800,067)	-	(29,528)	-	(829,595)
Net carrying amount	2,383,854	11,506,565	648,924	939,735	3,682,584	19,161,662

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

38. Financial risk management (continued)

38.1 Credit risk (continued)

38.1.4 Analysis of the credit quality (continued)

31 December 2014 (Restated)

	Balances with central bank and due from banks AED'000	Loans and advances and Islamic financing and investing assets AED'000	Other financial assets measured at amortised cost AED'000	Receivables and other assets AED'000	Contingent liabilities AED'000	Total AED'000
Non-impaired exposures						
Neither past due nor impaired	2,151,077	10,775,655	1,660,602	1,387,915	4,220,163	20,195,412
Past due up to 30 days	-	1,428,241	-	-	-	1,428,241
Past due 30 - 60 days	-	54,487	-	-	-	54,487
Past due 60 - 90 days	-	81,728	-	-	-	81,728
Past due 90 - 180 days	-	67,195	-	-	-	67,195
Individually impaired exposures	-	2,364,760	-	101,539	-	2,466,299
Gross amount	2,151,077	14,772,066	1,660,602	1,489,454	4,220,163	24,293,362
Less: Allowance for impairment	-	(1,430,542)	-	(95,799)	-	(1,526,341)
Net carrying amount	2,151,077	13,341,524	1,660,602	1,393,655	4,220,163	22,767,021

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position. The Group does not usually offer concessions simply because of the borrower's financial position. Rather, it reschedules the outstanding to improve the likelihood of collection. Once the loan is restructured, it remains in the same category grade defined by the Group's credit risk rating methodology until satisfactory performance after restructuring and as per the requirements of the Central Bank of the U.A.E.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are specific loss components that relate to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

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

38. Financial risk management (continued)

38.1 Credit risk (continued)

38.1.4 Analysis of the credit quality (continued)

Write-off policy

The Group writes off a loan/an investment (and any related allowances for impairment) when the Group Credit Committee determines that the loans/investments are uncollectible. This determination is reached after considering information such as the significant deterioration in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or proceeds from collateral will not be sufficient to pay back the entire exposure or all possible efforts of collecting the amounts have been exhausted.

For smaller balances of standardized loans, write off decisions are generally based on a product specific past due status.

Credit risk exposure of the Group's financial assets for each internal risk rating

The Group's current Credit Risk Rating Methodology comprises 10 grades as set out below. Grades IA to IE reflect performing accounts; grades IIA and IIB reflect irregular accounts (other loans especially mentioned) and grades III to V reflect non-performing accounts.

Risk grade	Risk significance
Regular Accounts	
Grade IA	Substantially Risk Free Exposure
Grade IB	Minimal Risk
Grade IC	Moderate Risk
Grade ID	Average Risk
Grade IE	Below Average Risk
Other Loans Especially Mentioned (OLEM)	
Grade IIA	Requires Management Attention and Control
Grade IIB	Watch Listed
Non Performing Accounts	
Grade III	Substandard
Grade IV	Doubtful
Grade V	Loss

	2015 AED'000	2014 AED'000 (Restated)
Regular Accounts	**17,621,646**	20,195,412
Other Loans Especially Mentioned (OLEM)	**1,356,366**	1,631,611
Non Performing Accounts	**1,013,245**	2,466,301
	19,991,257	24,293,324

38. Financial risk management (continued)

38.1 Credit risk (continued)

38.1.5 Collateral

The Group in ordinary course of providing finance holds collateral as security to mitigate credit risk associated with loans and advances and Islamic financing and investing assets. The collaterals include cash, guarantees, mortgages and liens over properties or other securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are subsequently monitored on a periodic basis. Generally, collateral is not held against non-trading investments and amounts due from banks.

The estimated value of collaterals for loans and advances to customers and Islamic financing and investing assets other than retail portfolio are as follows:

	2015	2014
	AED'000	AED'000
Property and mortgage	**3,561,742**	4,355,193
Deposits and shares	**1,494,731**	1,760,667
Vehicles and machines	**39,411**	46,475
	5,095,884	6,162,335

The management estimates the fair value of collateral and other security enhancements held against individually impaired loans and advances and Islamic financing and investing assets as at 31 December 2015 to be approximately AED 442 million (2014: AED 401 million).

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually due. Any delays in settlement are monitored and quantified as part of the Group's Internal Capital Adequacy Assessment Process (ICAAP) framework and Operational Risk Management.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described above. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group Risk Management Department.

38.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities. It includes the risk of inability to fund assets at appropriate maturities and rates, and inability to liquidate assets at a reasonable price and in an appropriate time frame, and inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

38. Financial risk management (continued)

38.2 Liquidity risk (continued)

38.2.1 Management of liquidity risk

Liquidity risk is managed by the Treasury and ALM departments in line with the regulatory and internal policies and guidelines.

The Group's approach to managing liquidity risk is to ensure that it has adequate funding from diversified sources at all times and that it can withstand any major shocks to its liquidity position. Funds are raised using a broad range of instruments including customer deposits, money market instruments and capital. The Treasury and ALM departments monitor the liquidity profile of financial assets and liabilities and the projected cash flows arising from existing and future business. Treasury maintains a portfolio of short-term liquid assets and inter-bank placements to ensure that sufficient liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and abnormal market conditions. The Group's liquidity policy is set by the Board of Directors and is subject to annual review. Adherence to the policies is monitored by the Group Risk Management Department and ALCO.

38.2.2 Exposure to liquidity risk

The key measures used by the Group for measuring liquidity risk are advances to stable resources (which is a regulatory measure) as well as the ratio of net liquid assets, i.e., total assets by maturity against total liabilities by maturity.

The following table summarises the maturity profile of the cash flows of the Group's financial assets and financial liabilities at the end of reporting period. The amounts disclosed in the table are determined on the basis of the remaining period at the end of reporting period to the contractual maturity date.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the management expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

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

38. Financial risk management (continued)

38.2 Liquidity risk (continued)

38.2.2 Exposure to liquidity risk (continued)

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

	Less than 3 months AED'000	3 to 6 months AED'000	6 to 12 months AED'000	One year + AED'000	No fixed maturity AED'000	Total AED'000
FINANCIAL ASSETS						
Cash and balances with the Central Bank of the U.A.E.	300,000	-	200,000	-	1,061,539	1,561,539
Deposits and balances due from banks	890,642	-	-	-	-	890,642
Loans and advances to customers	4,438,995	1,011,986	825,089	5,058,667	-	11,334,737
Islamic financing and investing assets	9,774	9,580	19,159	133,315	-	171,828
Financial assets at fair value	-	-	-	-	98,385	98,385
Other financial assets measured at amortised cost	-	7,346	-	641,578	-	648,924
Receivables and other assets	751,214	173,389	15,538	-	-	940,141
Total	6,390,625	1,202,301	1,059,786	5,833,560	1,159,924	15,646,196
FINANCIAL LIABILITIES						
Deposits and balances due to banks	1,094,320	734,600	100,000	-	-	1,928,920
Customers' deposits	5,703,529	1,843,541	2,416,832	1,127,119	-	11,091,021
Islamic customers' deposits	-	-	-	-	14,252	14,252
Payables and other liabilities	887,190	173,389	15,538	-	-	1,076,117
Total	7,685,039	2,751,530	2,532,370	1,127,119	14,252	14,110,310
Liquidity gap	(1,294,414)	(1,549,229)	(1,472,584)	4,706,441	1,145,672	1,535,886

38. Financial risk management (continued)

38.2 Liquidity risk (continued)

38.2.2 Exposure to liquidity risk (continued)

The maturity profile of financial assets and financial liabilities at 31 December 2014 (Restated) was as follows:

	Less than 3 months AED'000	3 to 6 months AED'000	6 to 12 months AED'000	One year + AED'000	No fixed maturity AED'000	Total AED'000
FINANCIAL ASSETS						
Cash and balances with the Central Bank of the U.A.E.	773,773	-	-	-	-	773,773
Deposits and balances due from banks	1,461,385	-	-	-	-	1,461,385
Loans and advances to customers	4,155,871	900,838	1,095,503	7,189,312	-	13,341,524
Financial assets at fair value	-	-	-	-	343,269	343,269
Other financial assets measured at amortised cost	-	73,352	18,333	1,568,917	-	1,660,602
Receivables and other assets	1,043,312	348,611	6,705	-	-	1,398,628
Total	7,434,341	1,322,801	1,120,541	8,758,229	343,269	18,979,181
FINANCIAL LIABILITIES						
Deposits and balances due to banks	511,157	-	-	734,600	-	1,245,757
Customers' deposits	7,293,598	4,159,722	2,831,098	254,299	-	14,538,717
Payables and other liabilities	1,124,231	348,611	6,705	-	-	1,479,547
Total	8,928,986	4,508,333	2,837,803	988,899	-	17,264,021
Liquidity gap	(1,494,645)	(3,185,532)	(1,717,262)	7,769,330	343,269	1,715,160

The previous table shows discounted cash flows on the Group's financial assets and financial liabilities on the basis of their earliest possible contractual maturity.

38. Financial risk management (continued)

38.3 Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income and/or the value of the financial instrument. The Group manages its market risk in order to achieve an optimum return while maintaining market risk exposure within prudent limits.

38.3.1 Management of market risk

The Board of directors has set risks limits based on sensitivity analysis and notional limits which are closely monitored by the Risk Management Department, reported frequently to Senior Management and discussed monthly by the ALCO.

The Group separates its exposure to market risk between trading and non-trading portfolios with overall responsibility vested in the ALCO. The Risk Management Department is responsible for the development of detailed risk management policies and for the day to day review of their implementation subject to the review and approval by ALCO.

38.3.2 Exposure to interest rate risk

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rate will adversely affect the value of the financial instruments and the related income. The Group manages the risk principally through monitoring interest rate gaps, matching the re-pricing profile of assets and liabilities and by having pre-approved limits for repricing brands. The ALCO monitors compliance with these limits and is assisted by the Risk Management Department for day to day monitoring of activities.

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

38. Financial risk management (continued)

38.3 Market risk (continued)

38.3.2 Exposure to interest rate risk (continued)

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement as at 31 December 2015:

Interest Rate Sensitivity Gap:

	Less than 3 months AED'000	3 to 6 months AED'000	6 to12 months AED'000	One year + AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with the Central Bank of the U.A.E.	300,000	-	200,000	-	1,061,539	1,561,539
Deposits and balances due from banks	890,642	-	-	-	-	890,642
Loans and advances to customers	3,466,218	1,011,986	825,089	5,058,667	972,777	11,334,737
Islamic financing and investing assets	9,774	9,580	19,159	133,315	-	171,828
Financial assets measured at fair value	-	-	-	-	98,385	98,385
Other financial assets measured at amortised cost	-	7,346	-	641,578	-	648,924
Property inventory	-	-	-	-	443,457	443,457
Receivables and other assets	-	-	-	-	993,680	993,680
Investment properties	-	-	-	-	106,501	106,501
Property and equipment	-	-	-	-	227,377	227,377
Total assets	4,666,634	1,028,912	1,044,248	5,833,560	3,903,716	16,477,070
Liabilities and Equity						
Deposits and balances due to banks	1,094,320	734,600	100,000	-	-	1,928,920
Customers' deposits	2,557,366	1,843,541	2,416,832	1,127,119	3,146,163	11,091,021
Islamic customers' deposits	-	-	-	-	14,252	14,252
Payables and other liabilities	-	-	-	-	1,177,608	1,177,608
Total equity	-	-	-	-	2,265,269	2,265,269
Total liabilities and equity	3,651,686	2,578,141	2,516,832	1,127,119	6,603,292	16,477,070
Interest rate sensitivity gap	1,014,948	(1,549,229)	(1,472,584)	4,706,441	(2,699,576)	-
Cumulative interest rate sensitivity gap	1,014,948	(534,281)	(2,006,865)	2,699,576	-	-

38. Financial risk management (continued)

38.3 Market risk (continued)

38.3.2 Exposure to interest rate risk (continued)

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement as at 31 December 2014 (Restated):

Interest Rate Sensitivity Gap:

	Less than 3 months AED'000	3 to 6 months AED'000	6 to12 months AED'000	One year + AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with the Central Bank of the U.A.E.	-	-	-	-	773,773	773,773
Deposits and balances due from banks	1,232,574	-	-	-	228,811	1,461,385
Loans and advances to customers	3,510,221	900,838	1,095,503	7,189,312	645,650	13,341,524
Financial assets at fair value	-	-	-	-	343,269	343,269
Other financial assets measured at amortised cost	-	73,352	18,333	1,568,917	-	1,660,602
Property inventory	-	-	-	-	280,218	280,218
Receivables and other assets	-	-	-	-	1,493,898	1,493,898
Investment properties	-	-	-	-	114,116	114,116
Property and equipment	-	-	-	-	214,285	214,285
Total assets	4,742,795	974,190	1,113,836	8,758,229	4,094,020	19,683,070
Liabilities and Equity						
Deposits and balances due to banks	319,007	-	-	734,600	192,150	1,245,757
Customers' deposits	3,693,042	4,159,722	2,831,098	254,299	3,600,556	14,538,717
Payables and other liabilities	-	-	-	-	1,598,894	1,598,894
Total equity	-	-	-	-	2,299,702	2,299,702
Total liabilities and equity	4,012,049	4,159,722	2,831,098	988,899	7,691,302	19,683,070
Interest rate sensitivity gap	730,746	(3,185,532)	(1,717,262)	7,769,330	(3,597,282)	-
Cumulative interest rate sensitivity gap	730,746	(2,454,786)	(4,172,048)	3,597,282	-	-

38. Financial risk management (continued)

38.3 Market risk (continued)

38.3.2 Exposure to interest rate risk (continued)

Overall non-trading interest rate risk positions are managed by the Treasury and ALM departments, which use investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's non-trading activities.

38.3.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the U.A.E. Dirham. The Board of Directors has set limits on positions by currency. Positions are closely monitored to ensure positions are maintained within established limits. At 31 December the Group had the following significant net exposure denominated in foreign currencies:

	Net spot position AED'000	**Forward position AED'000**	**Total 2015 AED'000**	Total 2014 AED'000
Currency				
US Dollar	**1,170,710**	**(21,221)**	**1,149,489**	2,238,561
Great Britain Pound	**(157)**	**-**	**(157)**	(33,272)
Japanese Yen	**142**	**-**	**142**	108
Euro	**2,091**	**(2,406)**	**(315)**	93,567
Other	**-**	**-**	**-**	625,088

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10% increase and decrease in the AED against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit where the US$ strengthens 10% against the relevant currency. For a 10% weakening of the US$ against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	Profit or loss	
	2015 AED	2014 AED
Great Britain Pound	**(16)**	(3,327)
Japanese Yen	**14**	11
Euro	**(32)**	9,357

There is no exchange rate risks relating to financial assets and financial liabilities denominated in United States Dollars (USD), which is pegged to the UAE Dirhams.

38. Financial risk management (continued)

38.3 Market risk (continued)

38.3.4 Other price risks

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 5% higher/lower, profit for the year and other comprehensive income as at year end would have been higher/lower by AED Nil and AED 5 million respectively, (2014: AED 8 million and AED 9 million).

39. Capital management

The Group's lead regulator, the Central Bank of the U.A.E., sets and monitors regulatory capital requirements.

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern and to increase returns for shareholders; and
- To comply with regulatory capital requirements set by the Central Bank of the U.A.E.

In implementing current capital requirements, the Group calculates its capital adequacy ratio in accordance with the guidelines issued by the Central Bank of the U.A.E. that essentially prescribe that this is a ratio of capital to risk weighted assets.

Regulatory capital

The Central Bank of the U.A.E. sets and monitors capital requirements for the Group as a whole.

The Central Bank of the U.A.E. adopted Basel Two capital regime in November 2009. The Bank calculates its Capital Adequacy Ratio in line with guidelines issued by the Central Bank of the U.A.E. The minimum capital ratio prescribed by the Central Bank is 12% of Risk Weighted Assets (RWA) calculated as per the guidelines issued by them.

The Group’s regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes paid-up share capital, retained earnings, reserves and non-controlling interests in the equity of subsidiaries less than wholly owned after deductions for goodwill and intangible assets, if any.

- Tier 2 capital, which includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of credit RWA), qualifying subordinated liabilities and the element of the properties revaluation reserve (45%) and of investment revaluation reserve (45%) relating to unrealised gains on investments classified as financial assets measured at FVTOCI.

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. The tier 1 capital must be 7% of RWA and Tier 2 Capital cannot be more than 67% of Tier 1 Capital.

39. Capital management (continued)

Regulatory capital (continued)

The bank's RWA are weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. The bank is following the standardized measurement approach for credit, market and operational risk, as per Pillar 1 of Basel 2.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Group's management of capital during the year.

The Group's regulatory capital position is as follows:

Capital adequacy

		2015 AED'000	2014 AED'000 (Restated)
Tier 1 capital			
Issued and paid up capital		**1,737,383**	1,654,651
Tier 1 Capital Securities, net		**457,656**	-
Statutory reserve		**205,157**	205,157
General reserve		**130,445**	130,445
(Accumulated losses)/retained earnings		**(352,842)**	288,252
Non-controlling interest		**443**	466
Total		**2,178,242**	2,278,971
Tier 2 capital			
Allowance for collective impairment		**183,873**	210,294
Assets revaluation reserve		**28,473**	(44,239)
Total		**212,346**	166,055
Total capital base	**(A)**	**2,390,588**	2,445,026
Risk-weighted assets			
Credit risk		**14,709,861**	18,040,122
Market risk		**892**	318,540
Operational risk		**1,436,940**	1,281,991
Total risk-weighted assets	**(B)**	**16,147,693**	19,640,653
Risk asset ratio	**[(A)/(B) x 100]**	**14.8%**	12.5%

39. Capital management (continued)

Capital allocation

The Group also assesses internally its capital requirements taking into consideration its growth requirements and business plans, and quantifies its regulatory and risk/economic capital requirements within its integrated ICAAP Framework. Risks such as interest rate risk on the banking book, concentration risk, stress testing, strategic risk, legal and compliance risk, and reputational risk are all part of the ICAAP.

The Group also calculates Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis.

40. Restatement

During the year the management identified certain adjustments with respect to its fee and commission income and fair value of derivative financial instruments relating to prior periods.

As required by IAS 8, the above has been adjusted retrospectively in the consolidated financial statements. The retrospective adjustment had the following impacts on the consolidated financial statements:

- Payables and other liabilities as at 1 January 2014 increased by AED 28,335 thousands;
- Retained earnings as at 1 January 2014 decreased by AED 28,335 thousands;
- Fee and commission income for the year ended 31 December 2014 decreased by AED 8,615 thousands;
- Other operating income for year ended 31 December 2014 decreased by AED 2,915 thousands; and
- Basic and diluted earnings per share for year ended 31 December 2014 decreased by AED 0.010 per share.

41. Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2015 were approved by the Board of Directors and authorized for issue on 11 February 2016.