EMIRATES NBD PJSC

GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

These Audited Financial Statements are subject to Central Bank of UAE Approval and adoption by Shareholders at the Annual General Meeting

EMIRATES NBD PJSC

GROUP CONSOLIDATED FINANCIAL STATEMENTS

Contents	**Page**

Ernst & Young
P.O. Box 9267
28th Floor, Al Saqr Business Tower
Sheikh Zayed Road
Dubai, United Arab Emirates

Tel: +971 4 332 4000
Fax: +971 4 332 4004
dubai@ae.ey.com
ey.com/mena

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMIRATES NBD PJSC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Emirates NBD PJSC (the "Bank") and its subsidiaries (collectively referred to as 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 cash flows and consolidated statement of changes in equity 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 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.

Auditors' 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 auditors' 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.

Opinion

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

EY
Building a better working world

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMIRATES NBD PJSC (continued)

Report on other legal and regulatory requirements

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

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

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

iii) the Group has maintained proper books of account;

iv) the consolidated financial information included in the Directors' report is consistent with the books of account and records of the Group;

v) investments in shares and stocks are included in note 6 and 7 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2015;

vi) note 41 reflects the disclosures relating to related party transactions and the terms under which they were conducted;

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

viii) note 50 reflects the social contributions made during the year.

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

Ernst & Young

Ernst & Young

Signed by:
Joseph Murphy
Partner
Registration No. 492

17 January 2016

Dubai, United Arab Emirates

Emirates NBD

GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Notes	2015 AED 000	2014 AED 000
ASSETS			
Cash and deposits with Central Bank	4	54,974,670	56,638,973
Due from banks	5	39,836,584	19,812,067
Trading securities	6	1,678,869	832,255
Investment securities	7	15,926,581	14,479,676
Loans and receivables	8	226,696,541	212,019,599
Islamic financing receivables	10	43,884,317	33,954,142
Investments in associates and joint ventures	11	1,615,021	1,781,072
Positive fair value of derivatives	36	2,669,079	1,310,455
Investment properties	12	805,937	1,213,077
Customer acceptances	40	3,712,749	3,859,864
Property and equipment	13	2,396,314	2,659,787
Goodwill and intangibles	14	6,030,825	6,156,380
Other assets	15	6,332,688	8,303,644
TOTAL ASSETS		**406,560,175**	**363,020,991**
LIABILITIES			
Due to banks	16	18,822,719	15,385,907
Customer deposits	17	224,385,213	203,971,458
Islamic customer deposits	18	62,846,692	54,287,171
Repurchase agreements with banks	19	248,334	35,369
Debt issued and other borrowed funds	20	31,287,342	26,697,691
Sukuk payable	9	3,672,500	3,673,000
Negative fair value of derivatives	36	2,610,205	1,645,777
Customer acceptances	40	3,712,749	3,859,864
Other liabilities	21	8,225,894	6,701,837
TOTAL LIABILITIES		**355,811,648**	**316,258,074**
EQUITY			
Issued capital	22	5,557,775	5,557,775
Treasury shares		(46,175)	(46,175)
Tier I capital notes	23	9,477,076	9,477,076
Share premium reserve	22	12,270,124	12,270,124
Legal and statutory reserve	24	2,778,888	2,778,888
Other reserves	24	2,869,533	2,869,533
Fair value reserve	24	476,375	891,290
Currency translation reserve	24	(207,411)	(71,739)
Retained earnings		17,566,680	13,031,219
TOTAL EQUITY ATTRIBUTABLE TO EQUITY AND NOTE HOLDERS OF THE GROUP		**50,742,865**	**46,757,991**
Non-controlling interest		5,662	4,926
TOTAL EQUITY		**50,748,527**	**46,762,917**
TOTAL LIABILITIES AND EQUITY		**406,560,175**	**363,020,991**

17 JAN 2016

The attached notes 1 to 50 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 2.

Chairman　　　　Vice Chairman　　　　Chief Executive Officer

GROUP CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 AED 000	2014 AED 000
Interest and similar income	25	11,077,468	10,419,145
Interest and similar expense	25	(2,518,718)	(2,282,352)
Net interest income		**8,558,750**	**8,136,793**
Income from Islamic financing and investment products	26	2,197,678	1,833,656
Distribution on Islamic deposits and profit paid to Sukuk holders	27	(515,164)	(474,230)
Net income from Islamic financing and investment products		**1,682,514**	**1,359,426**
Net interest income and income from Islamic financing and investment products net of distribution to depositors		**10,241,264**	**9,496,219**
Fee and commission income		3,534,664	3,232,952
Fee and commission expense		(741,375)	(669,533)
Net fee and commission income	28	**2,793,289**	**2,563,419**
Net gain /(loss) on trading securities	29	80,434	110,348
Other operating income	30	2,113,079	2,271,905
Total operating income		**15,228,066**	**14,441,891**
General and administrative expenses	31	(4,719,437)	(4,388,818)
Operating profit before impairment		**10,508,629**	**10,053,073**
Net impairment loss on financial assets	32	(3,406,465)	(4,994,818)
Operating profit after impairment		**7,102,164**	**5,058,255**
Share of profit of associates and joint ventures	11	166,357	209,952
Group profit for the year before tax		**7,268,521**	**5,268,207**
Taxation charge		(144,753)	(129,177)
Group profit for the year after tax		**7,123,768**	**5,139,030**
Attributable to:			
Equity holders of the Group		7,123,032	5,138,629
Non-controlling interest		736	401
Group profit for the year		**7,123,768**	**5,139,030**
Earnings per share	35	**1.18**	**0.83**

The attached notes 1 to 50 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 2.

GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 AED 000	2014 AED 000
Group profit for the year	7,123,768	5,139,030
Items that may be reclassified subsequently to Income statement:		
Other comprehensive income		
Cash flow hedges:		
- Effective portion of changes in fair value	(21,757)	(59,527)
Fair value reserve (available-for-sale financial assets):		
- Net change in fair value	(229,423)	616,368
- Net amount transferred to income statement	(163,735)	(466,710)
Currency translation reserve	(135,672)	(77,082)
Other comprehensive income for the year	(550,587)	13,049
Total comprehensive income for the year	**6,573,181**	**5,152,079**
Attributable to:		
Equity holders of the Bank	6,572,445	5,151,678
Non-controlling interest	736	401
Total comprehensive income for the year	**6,573,181**	**5,152,079**

The attached notes 1 to 50 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 2.

GROUP CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 AED 000	2014 AED 000
OPERATING ACTIVITIES		
Group profit for the year	7,123,768	5,139,030
Adjustment for non cash items		
Impairment loss on loans and receivables	2,198,658	3,287,371
Impairment loss on Islamic financing receivables	937,879	1,307,781
Impairment loss on investment securities	80,950	265,294
Interest unwind on impaired loans	-	(87,136)
Amortisation of fair value	33,574	47,280
Discount on Investment securities	56,786	42,284
Unrealised foreign exchange gain	(151,570)	(150,829)
Amortisation of intangibles	81,000	93,000
Depreciation of property and equipment / Investment property	352,589	301,317
Share of profit of associates and joint ventures	(166,357)	(209,952)
Unrealized (gain)/loss on investments	33,756	(135,641)
Unrealized (gain)/loss on FV Hedged item	(382,942)	(125,653)
Gain on sale of fixed assets	(28,491)	(24,358)
Gain on sale of Investment properties	(142,889)	(130,878)
Revaluation gain on investment properties	-	(55,249)
Gain on sale of properties (inventories)	(83,698)	(319,379)
Operating profit before changes in operating assets and liabilities	**9,943,013**	**9,244,282**
(Increase)/decrease in interest free statutory deposits	(5,750,157)	(5,678,064)
(Increase)/decrease in certificate of deposits with Central Bank maturing after three months	(4,452,201)	(1,848,007)
(Increase)/decrease in amounts due from banks maturing after three months	450,000	(1,757,211)
Increase/(decrease) in amounts due to banks maturing after three months	1,894,143	1,350,167
(Increase)/decrease in other assets	2,213,616	1,870,490
Increase/(decrease) in other liabilities	1,408,793	(1,407,557)
(Increase)/decrease in positive fair value of derivatives	(1,354,342)	405,463
Increase/(decrease) in negative fair value of derivatives	938,389	208,711
Increase/(decrease) in customer deposits	20,413,755	8,700,255
Increase/(decrease) in islamic customer deposits	8,559,521	9,932,606
(Increase)/decrease in loans and receivables	(16,875,600)	(9,229,664)
(Increase)/decrease in Islamic financing receivables	(10,868,054)	(2,907,995)
Net cash flows from/(used in) operating activities	**6,520,876**	**8,883,476**

GROUP CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 AED 000	2014 AED 000
INVESTING ACTIVITIES		
(Increase)/decrease in investment securities	(2,014,932)	1,628,328
(Increase)/decrease in trading securities	(847,021)	551,268
(Increase)/decrease in investments in associates and joint ventures	326,015	56,520
Acquisition of Investment Properties	(32,652)	(51,438)
Disposal of Investment Properties	537,962	210,424
Addition of property and equipment	(718,755)	(323,532)
Disposal of property and equipment	702,849	144,655
Net cash flows from/(used in) investing activities	**(2,046,534)**	**2,216,225**
FINANCING ACTIVITIES		
Increase/(decrease) in deposits under repurchase agreements	212,965	(31,760)
Issuance of debt issued and other borrowed funds	10,563,141	11,714,853
Repayment of debt issued and other borrowed funds	(5,651,375)	(4,895,239)
Repayment of Sukuk borrowing	-	5,640
Interest on Tier I capital notes	(590,731)	(506,571)
Issuance of Tier I capital notes	-	1,828,579
Dividends paid	(1,943,155)	(1,387,968)
Net cash flows from/(used in) financing activities	**2,590,845**	**6,727,534**
Increase/(decrease) in cash and cash equivalents (refer Note 44)	**7,065,187**	**17,827,235**

The attached notes 1 to 50 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 2.

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	ATTRIBUTABLE TO EQUITY AND NOTE HOLDERS OF THE GROUP											
	Issued capital (a)	**Treasury shares**	**Tier I capital notes (b)**	**Share premium reserve (a)**	**Legal and statutory reserve (c)**	**Other reserves (c)**	**Fair value reserve (c)**	**Currency translation reserve (c)**	**Retained earnings**	**Total**	**Non-controlling interest**	**Group Total**
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2015	5,557,775	(46,175)	9,477,076	12,270,124	2,778,888	2,869,533	891,290	(71,739)	13,031,219	46,757,991	4,926	46,762,917
Total comprehensive income for the year	-	-	-	-	-	-	(414,915)	(135,672)	7,123,032	6,572,445	736	6,573,181
Tier I capital notes issued during the year	-	-	-	-	-	-	-	-	-	-	-	-
Interest on Tier 1 capital notes	-	-	-	-	-	-	-	-	(590,731)	(590,731)	-	(590,731)
Dividends paid	-	-	-	-	-	-	-	-	(1,943,155)	(1,943,155)	-	(1,943,155)
Transfer to reserves	-	-	-	-	-	-	-	-	-	-	-	-
Directors' fees (refer note 33)	-	-	-	-	-	-	-	-	(20,650)	(20,650)	-	(20,650)
Zakat	-	-	-	-	-	-	-	-	(33,035)	(33,035)	-	(33,035)
Balance as at 31 December 2015	5,557,775	(46,175)	9,477,076	12,270,124	2,778,888	2,869,533	476,375	(207,411)	17,566,680	50,742,865	5,662	50,748,527

In accordance with the Ministry of Economy interpretation, Directors' fees have been treated as an appropriation from equity.

The attached notes 1 to 50 form an integral part of these Group consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 2.

Notes:

(a) For further details refer to Note 22

(b) For further details refer to Note 23

(c) For further details refer to Note 24

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	ATTRIBUTABLE TO EQUITY AND NOTE HOLDERS OF THE GROUP											
	Issued capital (a)	**Treasury shares**	**Tier I capital notes (b)**	**Share premium reserve (a)**	**Legal and statutory reserve (c)**	**Other reserves (c)**	**Fair value reserve (c)**	**Currency translation reserve (c)**	**Retained earnings**	**Total**	**Non-controlling interest**	**Group Total**
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2014	5,557,775	(46,175)	7,648,497	12,270,124	2,778,888	2,869,533	801,159	5,343	9,825,643	41,710,787	4,525	41,715,312
Total comprehensive income for the year	-	-	-	-	-	-	90,131	(77,082)	5,138,629	5,151,678	401	5,152,079
Tier I capital notes issued during the year	-	-	1,828,579	-	-	-	-	-	-	1,828,579	-	1,828,579
Interest on Tier 1 capital notes	-	-	-	-	-	-	-	-	(506,571)	(506,571)	-	(506,571)
Dividends paid	-	-	-	-	-	-	-	-	(1,387,968)	(1,387,968)	-	(1,387,968)
Transfer to reserves	-	-	-	-	-	-	-	-	-	-	-	-
Directors' fees (refer note 33)	-	-	-	-	-	-	-	-	(14,400)	(14,400)	-	(14,400)
Zakat	-	-	-	-	-	-	-	-	(24,114)	(24,114)	-	(24,114)
Balance as at 31 December 2014	5,557,775	(46,175)	9,477,076	12,270,124	2,778,888	2,869,533	891,290	(71,739)	13,031,219	46,757,991	4,926	46,762,917

In accordance with the Ministry of Economy interpretation, Directors' fees have been treated as an appropriation from equity.

The attached notes 1 to 50 form an integral part of these Group consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 2.

Notes:

(a) For further details refer to Note 22

(b) For further details refer to Note 23

(c) For further details refer to Note 24

1 CORPORATE INFORMATION

Emirates NBD PJSC (the "Bank") was incorporated in the United Arab Emirates on 16 July 2007 consequent to the merger between Emirates Bank International PJSC ("EBI") and National Bank of Dubai PJSC ("NBD"), under the Commercial Companies Law (Federal Law Number 8 of 1984 as amended) as a Public Joint Stock Company. The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the existing Federal Law No. 8 of 1984. The Bank is currently assessing the impact of the new law and expects to be fully compliant on or before the end of grace period on 30 June 2016.

The consolidated financial statements for the year ended 31 December 2015 comprise the financial statements of the Bank and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures.

The Bank is listed on the Dubai Financial Market (TICKER: "EMIRATESNBD"). The Group's principal business activities are corporate banking, consumer banking, treasury and Islamic banking. The Bank's website is www.emiratesnbd.com. For details of activities of subsidiaries, refer to Note 38.

The registered address of the Bank is Post Box 777, Dubai, United Arab Emirates ("UAE").

The parent company of the Group is Investment Corporation of Dubai, a company in which the Government of Dubai is the majority shareholder.

2 BASIS OF PREPARATION

(a) Statement of compliance:

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and applicable requirements of the laws of the UAE.

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

These Group consolidated financial statements were approved for issue by the Board of Directors on 17 January 2016.

(b) Basis of measurement:

The Group consolidated financial statements have been prepared under the historical cost basis except for the following:

- derivative financial instruments are measured at fair value;
- financial instruments classified as trading and at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value; and
- recognised assets and liabilities that are hedged are measured at fair value in respect of the risk that is hedged.

2 BASIS OF PREPARATION (continued)

(b) Basis of measurement (continued):

The presentation currency of the consolidated financial statements is the United Arab Emirates Dirham (AED). The functional currency for a significant proportion of the Group's assets, liabilities, income and expenses is also AED. However, certain subsidiaries have functional currencies other than AED and the AED is the presentation currency.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group consolidated financial statements are disclosed in Note 3 (a).

(c) Principles of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control.

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group re-assesses 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. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The list of the Group's subsidiary companies is shown in Note 38.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Bank with the exception of Emirates Financial Services PSC, an insignificant subsidiary, whose year end is 31 March and hence the Group uses their reviewed 12 months accounts as at 31 December. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated.

2 BASIS OF PREPARATION (continued)

(c) Principles of consolidation (continued)

(a) Subsidiaries (continued)

Basis of consolidation (continued)

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 in profit or loss. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are restated to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in Note 3. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

2 BASIS OF PREPARATION (continued)

(c) Principles of consolidation (continued)

(b) Special Purpose Entities

Special Purpose Entities (SPEs) are entities that are created to accomplish a well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if the Group is exposed to variable returns from its involvement in the SPE and has the ability to affect those returns through its power over the SPE based on an evaluation of the substance of its relationship with the Group.

The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation;
- The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE; or
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Group has control over an SPE is carried out at inception and reassessed at each period end date.

Information about the Group's securitisation activities is set out in Note 9.

(c) Fund Management

The Group manages and administers funds on behalf of investors. The financial statements of these funds are not included in these consolidated financial statements. Information about the Group's fund management activity is set out in Note 46.

(d) Fiduciary activities

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in these consolidated financial statements (refer Note 47).

(e) Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Bank and is presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from equity attributable to owners of the Bank.

2 BASIS OF PREPARATION (continued)

(c) Principles of consolidation (continued)

(e) Transactions with non-controlling interests (continued)

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

(f) Joint Ventures

The Group has interests in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

The consolidated financial statements include the Group's share of the total recognised gains and losses of its jointly controlled entities on an equity accounted basis, from the date that joint control commences until the date that joint control ceases. When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported as nil and recognition of losses is discontinued except to the extent of the Group's commitment (if any).

The carrying amounts of the jointly controlled entities are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount is estimated and an impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. The impairment loss is charged to income statement.

Upon loss of joint control, the Group measures any retained investment at its fair value. Any difference between the carrying amount of the former joint venture entity upon loss of joint venture control and the aggregate of the fair value of the retained investment and proceeds from disposal is recognised in the income statement.

(g) Associates

Associates are the entities over which the Group has significant influence but not control, generally accompanying a shareholding of over 20% of the voting rights, not being a subsidiary or a joint venture.

An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

2 BASIS OF PREPARATION (continued)

(c) Principles of consolidation (continued)

(g) Associates (continued)

Under the equity method, the investment in associate is measured in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate.

The profit or loss reflects the share of the results of operations of the associates. Where there has been a change recognised in other comprehensive income by the associates, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associates.

The Group's share of the profit or loss of its associates is shown on the face of the consolidated income statement.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the profit or loss.

The financial statements of the associates are prepared as of the same reporting date as for the Group. Where necessary, adjustments are made in the Group financial statements to align the accounting policies of the Associates in line with those of the Group.

Upon loss of significant influence over the associate, the Group measures any retained investment at its fair value.

Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the aggregate of the retained investment and proceeds from disposal is recognised in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Use of estimates and judgements

The preparation of the Group consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired loans and receivables as well as allowances for impairment provision for unquoted investment securities. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

Significant items where the use of estimates and judgments are required are outlined below:

(i) Allowances for impairment of loans and receivables and Islamic financing receivables

The Group reviews its loans and receivables portfolio and Islamic financing receivables to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the contractual future cash flows from a loan or homogenous group of loans or Islamic financing receivables. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss.

In addition to specific allowance against individually significant loans and receivables and Islamic financing receivables, the Group also makes a collective impairment allowance to recognise that at any reporting date, there will be an amount of loans and receivables and Islamic financing receivables which are impaired even though a specific trigger point for recognition of the loss has not yet been evidenced (known as the “emergence period’).

(ii) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from quoted prices, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not possible, a degree of judgment is required in establishing fair values. The judgments include consideration of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Fair values are subject to a control framework designed to ensure that they are either determined or validated, by a function independent of the risk taker.

(iii) Impairment of available-for-sale investment securities

The Group determines the impairment of available-for-sale investment securities when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates several market and non-market factors.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Use of estimates and judgements (continued)

(iv) Impairment of goodwill

On an annual basis, the Group determines whether goodwill is impaired. This requires an estimation of the recoverable amount using value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(v) Impairment loss on investment in associates and jointly controlled entities

Management reviews its share of investments in associates and jointly controlled entities to assess impairment on a regular basis. In determining the assessment, management compares the recoverable amount with the carrying value of the investment. Estimating recoverable amount using value in use requires the Group to make an estimate of the expected future cash flows from the associates and jointly controlled entities and choosing a suitable discount rate in order to calculate the present value of those cash flows.

.

(vi) Contingent liability arising from litigations

Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

(b) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of principal market, in the most advantageous market for the asset and liabilities.

If an asset or a liability measured at fair value has a ‘Bid’ price and an ‘Ask’ price, then the Group measures assets and long positions at a ‘Bid’ price and liabilities and short positions at an ‘Ask’ price.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Fair value is applicable to both financial and non-financial instruments.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments

(i) Classification

Financial assets:

- Trading securities:

  Trading assets are those assets that the Group acquires for the purpose of selling in the near term, or holds as part of a portfolio that is managed together for short-term profit taking.

  Trading securities are initially recorded at fair value. Gains and losses arising from changes in fair values are included in the consolidated income statement in the year in which they arise. Interest earned and dividends received are included in interest income and other operating income respectively.

- Investment securities:

  (1) Held-to-maturity

  Held-to-maturity assets are non-derivative financial assets, with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These assets are debt instruments.

  Held-to-maturity ("HTM") investments are carried at amortised cost (less impairment, if any).

  Sale of HTM assets is allowed only under the following circumstances:

  - The investment is close enough to maturity as to have no impact on fair value;
  - The principal is substantially received;
  - Isolated events beyond the Group's control;
  - Significant credit deterioration;
  - Major business combination or disposal; or
  - Increase in regulatory capital requirements.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(i) Classification (continued)

(2) Available-for-sale

Available-for-sale assets are financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity. Available-for-sale assets include certain debt and equity investments. These assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale (AFS) financial assets may be freely sold or hedged. The differences between cost and fair value is taken to the Consolidated Statement of Other Comprehensive Income and recognised as a separate component in the statement of financial position, except in the case of impairment where the cumulative loss is taken to the income statement. When the financial asset is sold, the full quantum of the difference between the fair value and cost, posted previously to the Consolidated Statement of Other Comprehensive Income, is transferred to the income statement.

(3) Designated at fair value through profit or loss

The Group designates financial assets and liabilities at fair value through profit or loss in the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

- Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are carried at amortised cost (less impairment) and include:

- Originated loans and syndicated loans funded on origination; and
- Other debt securities acquired (purchased) by the Group either from the issuer or another source, provided that they are not quoted in an active market.

Financial liabilities:

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Group becomes a party to contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets or liabilities designated at fair value through profit or loss or available-for-sale assets are recognised. Loans and receivables are recognised on the day they are transferred to or acquired by the Group.

(iii) Derecognition

Financial assets

The Group derecognises financial assets when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of the ownership of the financial assets are transferred. Any interest in derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending, repurchase transactions and asset-backed securitisations.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Group retains all or substantially all the risks and rewards of ownership of such assets.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

(iv) Measurement

A financial asset or a financial liability is recognised initially at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be measured reliably is stated at cost, including transaction costs, less impairment allowances.

All other financial assets and non-trading financial liabilities are measured at amortised cost less impairment allowances.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(v) Embedded derivatives

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

(vi) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques and option pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

(vii) Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in the Consolidated Statement of Other Comprehensive Income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in the Consolidated Statement of Other Comprehensive Income is recognized in the Income Statement.

(viii) Impairment

Impairment of loans and advances

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of impairment allowance accounts.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(viii) Impairment (continued)

Individually assessed loans and advances

For all loans that are considered individually significant, the Group assesses on a case-by-case basis each quarter and more frequently when circumstances require whether there is any objective evidence of impairment. The criteria used by the Group to determine that there is such objective evidence include:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- decline in the realisable value of the security;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- a significant downgrading in credit rating by an external credit rating agency.

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- the Group’s aggregate exposure to the customer;
- the viability of the customer’s business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors’ commitments ranking ahead of, or pari passu with, the Group and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the ability of the borrower to obtain, and make payments in, the currency of the loan if not denominated in local currency; and
- when available, the secondary market price of the debt.

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan’s current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(viii) Impairment (continued)

Collectively assessed loans and advances

Impairment is assessed on a collective basis in two circumstances:

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

Incurred but not yet identified impairment (Corporate loans)

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group has incurred as a result of events occurring before the balance sheet date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

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

Homogeneous groups of loans and advances (Consumer loans)

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans that are not considered individually significant, because individual loan assessment is impracticable.

Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group.

Write-off of loans and advances

Loans (and the related impairment allowance) are normally written off, in full, when there is no realistic prospect of recovery. Where loans are secured, this is after receipt of any proceeds from the realisation of security, if any.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(viii) Impairment (continued)

Reversals of impairment

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

Impairment of Available for sale securities

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

Reversals of impairment

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

Available-for-sale debt securities

A subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value.

Available-for-sale equity securities

Subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Customer loyalty programme

The Group operates a rewards programme which allows customers to accumulate points when they purchase products on the Group's credit cards. The points can then be redeemed for shopping rewards, cash back or air miles, subject to a minimum number of points being obtained. While some aspects of the programme are administered in-house, third party providers are used for certain other aspects of the programme.

In the case of the in-house administered aspects, the sale proceeds received are allocated between the products sold and the points issued. The proceeds allocated to the points are equal to their fair value. Fair value is determined by applying statistical techniques. The fair value of the points issued is deferred and recognised as revenue when the points are redeemed.

For aspects where third party providers are used, the consideration allocated to the awards credits collected on behalf of the third party are charged to the income statement at the time of supplying the rewards.

(e) Property related income

Property related income includes rental income, which is recognised on a straight line basis over the term of the lease.

(f) Revenue recognition

Interest and similar income and expense are recognised in the consolidated income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

The calculation of the effective interest rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest and similar income and expense presented in the consolidated income statement include:

- interest on financial assets and liabilities at amortised cost on an effective interest basis;
- interest on available-for-sale investment securities on an effective interest basis; and
- interest on held for trading securities on an effective interest basis.

Fee income is earned from a diverse range of services provided by the Group to its customers. Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of a transaction for a third-party, such as an arrangement for the acquisition of shares or other securities);

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Revenue recognition (continued)

- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and

- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in 'Interest income'.

Other fees and commission income and expense are recognised as the related services are performed or received. Dividend income is recognised when the Group's right to receive the dividend is established.

(g) Foreign currencies

Monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting 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.

In the Group consolidated financial statements, assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at rates of exchange ruling at the reporting date, and the resulting gains and losses are taken to the Group consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the exchange rate at the reporting date.

Forward exchange contracts are valued at market rates applicable to their respective maturities.

Exchange differences arising from the translation of the net investment in overseas operations are taken directly to currency translation reserve.

(h) Property, equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or are 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 repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land and fixed assets not commissioned are not depreciated. The estimated useful life of fixed assets for the Group is as follows:

Freehold premises	25 - 60 years
Freehold improvements	10 years
Leasehold improvements	7 years
Furniture, fixtures and office equipment	5 years
Computer hardware and software	4 - 5 years
Core banking software	5 - 7 years
Motor vehicles	3 - 5 years

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property, equipment and depreciation (continued)

Assets are depreciated on a straight-line basis over their estimated useful lives as given above.

Fixed assets not commissioned are stated at cost. When commissioned, they are transferred to the appropriate property and equipment category and depreciated in accordance with the Group's policies.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Group consolidated income statement.

(i) Inventory

Properties acquired in settlement of debt are held as inventory and are stated at lower of cost or net realisable value. Directly attributable costs incurred in the acquisition of inventory is included as part of cost of the inventory.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date.

(j) Income taxes and deferred taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Bank and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be settled with the tax authorities.

Deferred tax is accounted for using the asset and liability method. Deferred tax assets and liabilities are recognised for the full tax consequences of all temporary differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Recognition of deferred tax assets are, however, restricted to the extent that it is probable that sufficient taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured using tax rates that are expected to apply to the period in which the asset is expected to realise or the liability is expected to settle.

Deferred tax assets are reviewed at the end of each year to reduce the carrying amount by the extent to which it is no longer probable that sufficient taxable profits will be available to utilise the differences.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Investment properties

The Group holds certain properties as investments to earn rental income, for capital appreciation, or both. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less depreciation and impairment (if any).

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in ‘Other operating income’ in the year of retirement or disposal.

Transfers are made to investment properties when, and only when there is a change in use evidenced by ending of owner-occupation, commencement of an operating lease of a significant portion of the property to another party or ending of construction or development. Transfers are made from investment properties when and only when there is a change in use based on the business model.

(l) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. The financial guarantee liability is carried at amortised cost when payment under the contract has become probable.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Employee benefits

(i) Pension obligations

The Group operates a pension scheme in respect of eligible UAE national employees in compliance with the UAE Federal Law on Pensions and Social Security. Arrangements for benefits for overseas employees is made in accordance with local regulations and customs. Full provision is made for all accrued benefits.

The Group also pays contributions to trustee administered funds on a contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

(ii) Termination gratuity benefit scheme

In compliance with UAE labour law, the Group has a termination gratuity benefit scheme covering all of its expatriate salaried employees who have been employed with the Group for more than one year. The provision for gratuity is recorded through the income statement.

(n) Hedging instruments

Hedging instruments include futures, forwards, options and swaps in the interest rate and foreign exchange markets. The Group utilises these instruments to satisfy the requirements of its customers, for proprietary trading purposes and to hedge its own exposure to interest rates and currency risk.

Where there is a hedging relationship as defined by IAS 39 between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value, with any resultant gains and losses being accounted as set out below.

The fair value of derivative hedging instruments is calculated in the same way as the fair value of financial instruments (refer Note 3 (a) (ii)).

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Hedging instruments (continued)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the exposure to changes in fair value of recognised assets or liabilities or firm commitments (fair value hedge);
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge); or
- Hedge of net investment in a foreign operation.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

(i) Fair value hedge

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of derivative is recognised in other comprehensive income within ‘Cash flow hedges – fair value gains/(losses)’. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement.

The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income are removed from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting or the hedge designation is revoked, then hedge accounting is discontinued prospectively, any cumulative gain or loss recognised in other comprehensive income at that time remains in equity until the forecast transaction is eventually recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Hedging instruments (continued)

(iii) Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income in the translation reserve. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in income statement. The amount recognised in other comprehensive income is reclassified to the income statement as an adjustment on disposal of the foreign operation.

(iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(o) Cash and cash equivalents

Cash and cash equivalents consist of cash, balances with the Central Bank of the UAE and balances with banks and financial institutions with an original maturity of three months or less, less balances due to banks and financial institutions with an original maturity of three months or less.

(p) Offsetting financial instruments

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

(q) Sale and repurchase agreements

Securities sold subject to repurchase agreements (‘repos’) are disclosed in the notes to the Group consolidated financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included as a separate deposit. Securities purchased under agreements to resell (‘reverse repos’) are recorded as loans and receivables to either banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(r) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the Group consolidated income statement over the period of the borrowings using the effective interest method.

(s) Leases

The total payments made under operating leases, such as leases for premises, are charged to the Group consolidated income statement on a straight line basis over the period of the lease.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Islamic financing receivables

Islamic financing receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These products are carried at amortised cost less impairment.

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

An agreement whereby the Group sells to a customer a commodity, which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

Istissna'a

An agreement between the Group and a customer whereby the Group would sell to the customer a developed property according to agreed upon specifications. The Group would develop the property either on its own or through a subcontractor and then hand it over to the customer on a fixed date at an agreed price.

Ijara

An agreement, whereby the Group (lessor) leases an asset to a customer (lessee), for a specific period and against certain rent installments. Ijara could end by transferring the ownership of the asset to the lessee at the end of the agreement or substantially all the risks and returns related to the ownership.

Mudaraba

An agreement between two parties; wherein one of them provides the funds and is called Rab-Ul-Mal and the other provides efforts and expertise and is called the Mudarib and he is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudaraba income. In case of normal loss; the Rab-Ul-Mal would bear the loss of his funds while the Mudarib would bear the loss of his efforts. However, in case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, only the Mudarib would bear the losses. The Group may act as Mudarib when accepting funds from depositors and as Rab-Ul-Mal when investing such funds on a Mudaraba basis.

Wakala

An agreement whereby the Group provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Islamic financing receivables (continued)

(ii) Revenue recognition

Revenue is recognised on the above Islamic products as follows:

Murabaha

The profit is quantifiable and contractually determined at the commencement of the contract. Profit is recognised as it accrues over the life of the contract using an effective profit method on the balance outstanding.

Istissna'a

Istissna'a revenue and the associated profit margin (difference between the cash price to the customer and the bank's total Istissna'a cost) are accounted for on a time proportion basis.

Ijara

Income from Ijara is recognised on an accrual basis over the period of the contract.

Mudaraba

Income on Mudaraba financing is recognised on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

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.

(u) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries.

Goodwill on acquisitions

Goodwill acquired in a business combination represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, including intangibles, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the Group consolidated income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Intangible assets (continued)

(i) Goodwill (continued)

Measurement

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the profit and loss account. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss of disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

(ii) Capitalised software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. For estimated useful life of software, refer note 3(h).

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Intangible assets (continued)

(iii) Other intangible assets

Intangibles acquired separately are measured on initial recognition at cost. The cost of the intangibles acquired in a business combination is at fair value as at the date of acquisition. Following initial recognition, intangibles are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible asset are assessed to be either finite of indefinite. Intangibles with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and amortisation method for intangibles with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in an accounting estimate. The amortisation expense on intangibles with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangibles.

(v) Impairment of non financial assets

The carrying amounts of the Group's non-financial assets, other than investment properties and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit (group or units) on a pro rata basis.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Assets held for sale

Assets and liabilities are classified as held for sale if their carrying amount is to be primarily recovered through a sale transaction that is highly probable to complete within one year from the date of classification, rather than through continuing use. Such assets and liabilities are not netted. In the period where an asset or liability is recognised for the first time as held for sale, these assets and liabilities are shown separately on the face of the statement of financial position. However, the statement of financial position for the comparative prior period presented is not restated.

These assets and liabilities held for sale are measured at the lower of the carrying amount and fair value less cost to sell. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

(x) Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries,

   (i) controls, is controlled by, or is under common control with, the Group;
   (ii) has an interest in the Group that gives it significant influence over the Group; or
   (iii) has joint control over the Group;

(b) the party is an associate;
(c) the party is a jointly-controlled entity;
(d) the party is a member of the key management personnel of the Group;
(e) the party is a close member of the family of any individual referred to in (a) or (d); or
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(y) Operating segments

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge.

The segment managers report directly to the management of the Group who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 37.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Changes in accounting policies

During the year, the Group changed its accounting policy with respect to the subsequent measurement of investment property from fair value model to the cost model. As a result the Group will not record change in the fair value in income statement and will record the depreciation and impairment (if any) on its investment properties. The Group will still disclose the fair value of these assets.

The entire portfolio of Group’s investment properties relates to Emirates Islamic Bank (EIB). The Group believes that subsequent measurement using the cost model provides more appropriate representation of the substance of these assets.

The impact of the change in accounting policy from fair value model to the cost model was insignificant and therefore is adjusted in the current year financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) New standards and interpretations not yet effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2015, with the Group not opting for early adoption. These have, therefore, not been applied in preparing these consolidated financial statements.

Standard	**Description**	**Effective date (early adoption permitted)**
Amendments to IAS 1 – Disclosure Initiative	The amendments provide clarifications and narrow-focus improvements on materiality, presentation of primary statements, structure of notes, disclosure of accounting policies, and presentation of OCI arising from equity accounted investments. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose and how to structure notes in their financial statements.	1 January 2016
Amendments to IFRS 11 – Accounting for acquisition of interests in Joint Operations	The amendments clarify that when acquiring an interest in a joint operation where the activity of the joint operation constitutes a business, all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in IFRS 11, are to be applied. The requirements apply to the acquisition of both the initial interest and additional interests in a joint operation but any previously held interest in the joint operation would not be re-measured.	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities – Applying the consolidation exception	The amendments define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.	1 January 2016
Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortization	The amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.	1 January 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) New standards and interpretations not yet effective (continued)

IFRS 10 Consolidated Financial Statements and IAS 28 - Investments in Associates & Joint Ventures	The amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows: (a) require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations). (b) require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors’ interests in that associate or joint venture.	1 January 2016
IFRS 15, ‘Revenue from contracts with Customers’.	This is the converged standard on revenue recognition. It replaces IAS 11, ‘Construction contracts’, IAS 18,’Revenue’ and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers.	1 January 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) New standards and interpretations not yet effective (continued)

IFRS 9, 'Financial instruments'	The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. **(a) Classification and measurement** IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: a) amortised cost, b) fair value through other comprehensive income (OCI); and c) fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. **(b) Impairment** There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis. **(c) Hedging** IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.	1 January 2018

The Group is in the process of analyzing the impact of IFRS 9. The Group has assessed the impact of other standards, amendments to standards, revisions and interpretations. Based on the assessment, the above standards, amendments to standards, revisions and interpretations have no material impact on the consolidated financial statements of the Group as at the reporting date.

4 CASH AND DEPOSITS WITH CENTRAL BANK

	2015 AED 000	2014 AED 000
Cash	3,694,925	3,305,995
Interest free statutory deposits with Central Banks	30,393,247	24,643,090
Interest bearing placements with Central Banks	3,214,873	1,918,037
Murabahas and Interest bearing certificates of deposits with Central Banks	17,671,625	26,771,851
	54,974,670	56,638,973

The reserve requirements which are kept with the Central Banks of the countries in which the Group operates are not available for use in the Group's day to day operations and cannot be withdrawn without the approval of the Central Banks. The level of reserves required changes periodically in accordance with the directives of the Central Banks.

5 DUE FROM BANKS

31 December 2015	Local (UAE) AED 000	Foreign AED 000	Total AED 000
Time loans	2,876,763	21,707,558	24,584,321
Overnight, call and short notice	2,212,432	13,064,032	15,276,464
Gross due from banks	5,089,195	34,771,590	39,860,785
Specific allowances for impairment	-	(24,201)	(24,201)
	5,089,195	34,747,389	39,836,584

31 December 2014	Local (UAE) AED 000	Foreign AED 000	Total AED 000
Time loans	1,816,526	12,559,607	14,376,133
Overnight, call and short notice	831,678	4,635,033	5,466,711
Gross due from banks	2,648,204	17,194,640	19,842,844
Specific allowances for impairment	-	(30,777)	(30,777)
	2,648,204	17,163,863	19,812,067

The average yield on these placements was 2.1% p.a. (2014: 1.5% p.a.)

6 TRADING SECURITIES

31 December 2015	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
Government bonds	1,156	1,347	8,203	10,706
Corporate bonds	404,291	9,327	1,136,058	1,549,676
Others	118,487	-	-	118,487
	523,934	10,674	1,144,261	1,678,869

31 December 2014	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
Government bonds	43,559	85,306	22,615	151,480
Corporate bonds	146,386	91,452	309,198	547,036
Others	133,739	-	-	133,739
	323,684	176,758	331,813	832,255

7 INVESTMENT SECURITIES

31 December 2015	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
HELD TO MATURITY:				
Government bonds	11,485	75,056	-	86,541
Corporate bonds	146,520	15,225	-	161,745
	158,005	90,281	-	248,286
AVAILABLE-FOR-SALE:				
Government bonds	548,044	5,985,288	1,953,925	8,487,257
Corporate bonds	1,562,779	687,668	2,922,051	5,172,498
Equity	547,821	808,241	74,062	1,430,124
Others	68,560	64,710	306,909	440,179
	2,727,204	7,545,907	5,256,947	15,530,058
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Others	72,560	1,651	74,026	148,237
	72,560	1,651	74,026	148,237
	2,957,769	7,637,839	5,330,973	15,926,581

7 INVESTMENT SECURITIES (continued)

31 December 2014	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
HELD TO MATURITY:				
Government bonds	11,811	142,473	-	154,284
Corporate bonds	257,720	26,724	-	284,444
	269,531	169,197	-	438,728
AVAILABLE-FOR-SALE:				
Government bonds	516,808	4,959,446	1,757,702	7,233,956
Corporate bonds	1,871,708	1,329,083	1,024,737	4,225,528
Equity	694,202	845,688	110,492	1,650,382
Others	65,529	85,337	513,609	664,475
	3,148,247	7,219,554	3,406,540	13,774,341
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Others	135,367	1,540	129,700	266,607
	135,367	1,540	129,700	266,607
	3,553,145	7,390,291	3,536,240	14,479,676

Included in available-for-sale investment securities is an amount of AED 248 million (2014: AED 35 million), pledged under repurchase agreements with banks (refer Note 19).

Investment securities include investments in real estate funds as follows:

	2015 AED 000	2014 AED 000
Designated at fair value through profit or loss	8,106	11,165
Available-for-sale	334,296	404,998
	342,402	416,163

8 LOANS AND RECEIVABLES

		2015	2014
(a)	By Type	AED 000	AED 000
	Overdrafts	101,438,537	87,116,930
	Time loans	127,828,462	127,118,115
	Loans against trust receipts	8,244,741	6,655,541
	Bills discounted	2,640,618	3,172,386
	Credit card receivables	4,493,159	3,726,677
	Others	606,838	957,616
	Gross loans and receivables	245,252,355	228,747,265
	Other debt instruments	114,314	143,317
	Total loans and receivables	245,366,669	228,890,582
	Less: Allowances for impairment	(18,670,128)	(16,870,983)
		226,696,541	212,019,599
	Total of impaired loans and receivables	15,091,904	15,800,839

		2015	2014
(b)	By Business Units	AED 000	AED 000
	Corporate banking	196,935,369	185,049,273
	Consumer banking	29,602,250	26,540,089
	Treasury	33,238	45,328
	Others	125,684	384,909
		226,696,541	212,019,599

8 LOANS AND RECEIVABLES (continued)

	2015 AED 000	2014 AED 000
Movement in allowances for specific impairment		
Balance as at 1 January	13,186,654	13,847,374
Allowances for impairment made during the year	1,852,459	3,799,146
Write back /recoveries made during the year	(1,500,540)	(867,980)
Interest unwind on impaired loans	-	(87,136)
Amounts written off during the year	(391,487)	(3,492,292)
Exchange and other adjustments	(7,355)	(12,458)
Balance as at 31 December	13,139,731	13,186,654
Movement in allowances for collective impairment		
Balance as at 1 January	3,684,329	3,336,636
Allowances for impairment made during the year	1,846,739	356,205
Exchange and other adjustments	(671)	(8,512)
Balance as at 31 December	5,530,397	3,684,329
Total	18,670,128	16,870,983

9 LOANS SECURITISATION

(a) Incorporation of Emirates NBD Asset Finance Companies in Ireland and Cayman Islands for asset securitisation

On 8 June 2012, ENBD Asset Finance Company No.1 Limited and on 1 June 2012, ENBD Asset Finance Company No.2 Limited were incorporated under the respective Companies Law (Ireland and Cayman Islands) as Special Purpose Entities (SPEs). The principal activities of these companies are to purchase portfolios of loans through issuance of notes.

On 9 October 2012, the Group transferred corporate loans and receivables amounting to AED 1,876 million to ENBD Asset Finance Company No.1 Limited (incorporated under Ireland companies law). However, the Group is exposed to all the credit risk and rewards associated with the transferred assets and hence the Group continues to recognise these assets within loans and receivables and the transfers are accounted for as secured financing transactions. The associated liability of AED 1,876 million, secured by these assets, is included under debt issued and other borrowed funds and is carried at amortised cost. Further, the Group through ENBD Asset Finance Company No.2 Limited (incorporated under Cayman Islands companies law), entered into a total return swap contract referencing these notes' liability, thereby retaining all the risks and rewards associated with the loan exposures.

On 28th October 2014, the Group transferred out loans and receivables amounting to AED 918 million and through ENBD Asset Finance Company No.2 Limited (incorporated under Cayman Islands companies law), entered into a total return swap contract referencing such loans and receivables thereby retaining all the risks and rewards associated with the loan exposure. The funding of AED 918 million secured by these assets is included under debt issued and other borrowed funds carried at amortised cost.

Since the Group is exposed to variable returns from its involvement in the SPEs and has the ability to affect those returns through its power over the SPEs, these SPEs are consolidated in compliance with IFRS 10.

As at 31 December 2015, the corporate loans and receivables balance transferred to Ireland and Cayman SPEs is AED 2,282 million [2014: AED 2,334 million] and the associated liability secured by these assets and included under debt issued and other borrowed funds is AED 2,282 million [2014: AED 2,334 million].

(b) Incorporation of Emirates NBD Auto Finance Limited and Emirates NBD Auto Financing Limited for asset securitisation

On 10 September 2009, Emirates NBD Auto Finance Limited ("APC") was incorporated under the Companies (Jersey) Law, 1991 and registered in Jersey as a limited company. The principal activity of the Company is to purchase portfolios of loans through the issuance of notes.

On 10 September 2009, Emirates NBD Auto Financing Limited ("Repack") was incorporated under the Companies (Jersey) Law, 1991 and registered in Jersey as a limited company. The principal activity of the Company is to invest in notes and securities through the issuance of notes.

On 10 August 2010, the Group transferred retail auto loans and receivables amounting to AED 968.5 million to APC (as at 31 December 2010). However, the Group is exposed to credit risk associated with the transferred assets. Due to retention of the risks and rewards of the transferred assets, the Group continues to recognize these assets within loans and receivables and the transfers are accounted for as secured financing transactions. The associated liability of AED 857 million, secured by these assets, was included under debt issued and other borrowed funds and is carried at amortised cost.

9 LOANS SECURITISATION (continued)

(b) Incorporation of Emirates NBD Auto Finance Limited and Emirates NBD Auto Financing Limited for asset securitisation (continued)

During the year, the directors of Emirates NBD Auto Finance Limited ("APC") and Emirates NBD Auto Financing Limited ("Repack") have decided to discontinue the operations and liquidate the companies post completing all the formalities relating to the closure of business. As a result, on 8 October 2015, the Company made full repayment of floating rates APC notes to the noteholders.

As at 31 December 2015, the auto loans and receivables includes AED Nil [2014: AED 405 million] auto loans buy-back and AED Nil [2014: AED 182 million] associated liability secured by these assets from APC and Repack.

(c) Consolidation of the Group's Tranche of Emblem Finance Company No. 2 Limited (multi-seller SPE) for asset securitisation

On 22 November 2010, the Group transferred corporate loans and receivables amounting to AED 2,193 million (as at 31 December 2010) to Emblem Finance Company No. 2 Limited (Multi-seller SPE). However, the Group is exposed to all of the credit risk and rewards associated with the transferred assets and hence the Group continues to recognise these assets within loans and receivables and the transfers are accounted for as secured financing transactions. The associated liability of AED 2,193 million, secured by these assets, was included under debt issued and other borrowed funds and is carried at amortised cost.

Since the Group is exposed to variable returns from its involvement in the SPEs and has the ability to affect those returns through its power over the SPEs, these SPEs are consolidated in compliance with IFRS 10.

As at 31 December 2015, the corporate loans and receivables balance transferred to Multi-seller SPE is AED Nil [2014: AED 182 million] and the associated liability secured by these assets and included under debt issued and other borrowed funds is AED Nil [2014: AED 180 million].

(d) Securitisation of Islamic Financing Receivables

During 2012, the Group transferred certain identified ijara assets of AED 3.7 billion (the "co-owned assets") of its Subsidiary, Emirates Islamic Bank, to EIB Sukuk company limited – (the "Issuer"), a special purpose vehicle formed for the issuance of the sukuk to raise two tranches of US Dollar denominated medium term finance amounting to USD 500 million each (AED 3.7 billion) via a Sharia'a compliant sukuk financing arrangement. This medium term finance is carried at amortised cost. The sukuks are listed on the London Stock Exchange.

In substance, the co-owned assets remain in control of the Group; accordingly these assets continue to be recognised by the Group. In case of any default, the Group has provided an undertaking to make good all losses to the sukuk holders. The sukuks will be due for maturity during January 2017 and June 2017 respectively. The assets are in the control of the Group and shall continue to be serviced by the Group.

9 LOANS SECURITISATION (continued)

(d) Securitisation of Islamic Financing Receivables (continued)

The Issuer will pay a semi-annual distribution amount from returns received in respect of the co-owned assets. Such proceeds are expected to be sufficient to cover the semi-annual distribution amount payable to the sukuk holders on the semi-annual distribution dates. Upon maturity of the sukuk, the Group has undertaken to repurchase the assets at the exercise price.

(e) Securitisation of other Loans and Receivables

In November 2014, the Group transferred corporate loans and receivables to an SPE amounting to AED 1,836 million. However, the Group had retained substantially all of the credit risk and rewards associated with the transferred assets and hence the Group continued to recognise these assets within loans and receivables and the transfers were accounted for as secured financing transactions. The associated liability of AED 1,836 million, secured by these assets, was included under debt issued and other borrowed funds and was carried at amortised cost. The associated liablility as at 31 December, 2014 was AED 1,836 million.

In November 2015, the Group fully repaid the above said liability of AED 1,836 million.

10 ISLAMIC FINANCING RECEIVABLES

	2015 AED 000	2014 AED 000
Murabaha	31,180,923	24,696,055
Ijara	15,124,343	11,774,940
Credit cards receivable	896,408	606,923
Wakala	1,676,497	1,489,894
Istissna'a	1,180,460	1,084,847
Others	928,030	920,351
Total Islamic financing receivables	50,986,661	40,573,010
Less: Deferred income	(2,533,031)	(2,466,395)
Less: Allowances for impairment	(4,569,313)	(4,152,473)
	43,884,317	33,954,142
Total of impaired Islamic financing receivables	5,750,107	5,310,387

Corporate Ijara assets amounting to AED 3.7 billion [2014: 3.7 billion] were securitised for the purpose of issuance of Sukuk liability (refer Note 9).

10 ISLAMIC FINANCING RECEIVABLES (continued)

	2015 AED 000	2014 AED 000
Movement in allowances for specific impairment		
Balance as at 1 January	3,642,639	2,966,580
Allowances for impairment made during the year	1,412,178	1,523,078
Write back / recoveries made during the year	(504,412)	(263,851)
Amounts written off during the year	(521,039)	(583,168)
Balance as at 31 December	4,029,366	3,642,639
Movement in allowances for collective impairment		
Balance as at 1 January	509,834	461,280
Allowances for impairment made during the year	30,113	48,554
Balance as at 31 December	539,947	509,834
Total	4,569,313	4,152,473

11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

	2015 AED 000	2014 AED 000
Investments in associates	200,467	211,605
Investments in joint venture	1,414,554	1,569,467
Total	1,615,021	1,781,072

The Group's share of profit of associates and joint venture is as below:

	2015 AED million	2014 AED million
Share of profit	166	210

11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE (continued)

The following is the aggregated financial information of the associate and joint venture:

	2015 AED million	2014 AED million
Assets	9,485	6,714
Liabilities	7,314	4,714
Revenue	1,308	1,245
Profit/(Loss)	329	388

12 INVESTMENT PROPERTIES

The movement in investment properties during the year is as follows:

	2015 AED 000	2014 AED 000
Balance as at 1 January	1,213,077	1,185,936
Additions	32,652	51,438
Disposal	(395,073)	(79,546)
Impact of change in accounting policy*	(21,079)	-
Depreciation	(23,640)	-
Fair value revaluation gain*	-	55,249
Balance as at 31 December	805,937	1,213,077

*The Group changed its accounting policy during the year (refer Note 3(z)).

Investment properties comprise freehold land and buildings. Rental income from investment properties recorded in other income is AED 54.7 million (2014: AED 50.4 million).

The fair value of investment properties as at 31 December 2015 is not materially different from their carrying value.

13 PROPERTY AND EQUIPMENT

	Freehold land and property	Leasehold premises and improvements	Others (a)	Fixed assets not commissioned (b)	Total
	AED 000	AED 000	AED 000	AED 000	AED 000
COST					
Balance as at 1 January 2015	2,463,912	389,407	1,308,146	315,704	4,477,169
Additions	154,810	31,560	214,634	317,751	718,755
Disposals / Transfers	(411,673)	(31,859)	(33,425)	(336,878)	(813,835)
As at 31 December 2015	2,207,049	389,108	1,489,355	296,577	4,382,089
ACCUMULATED DEPRECIATION					
Balance as at 1 January 2015	523,628	286,676	1,007,078	-	1,817,382
Charge for the year	76,217	39,767	191,886	-	307,870
Disposals	(89,696)	(21,604)	(28,177)	-	(139,477)
As at 31 December 2015	510,149	304,839	1,170,787	-	1,985,775
Net book value as at 31 December 2015	1,696,900	84,269	318,568	296,577	2,396,314

Notes:

(a) Others represent furniture, office equipment, motor vehicles, computer systems and hardware.
(b) Fixed assets not commissioned represent expenditure incurred on assets and projects which are under development and are not ready for use.

13 PROPERTY AND EQUIPMENT (continued)

	Freehold land and property	Leasehold premises and improvements	Others (a)	Fixed assets not commissioned (b)	Total
	AED 000	AED 000	AED 000	AED 000	AED 000
COST					
Balance as at 1 January 2014	2,431,214	387,850	1,183,334	299,365	4,301,763
Additions	42,908	11,805	138,321	130,498	323,532
Disposals / Transfers	(10,210)	(10,248)	(13,509)	(114,159)	(148,126)
As at 31 December 2014	2,463,912	389,407	1,308,146	315,704	4,477,169
ACCUMULATED DEPRECIATION					
Balance as at 1 January 2014	451,204	247,066	845,624	-	1,543,894
Charge for the year	78,709	42,974	179,634	-	301,317
Disposals	(6,285)	(3,364)	(18,180)	-	(27,829)
As at 31 December 2014	523,628	286,676	1,007,078	-	1,817,382
Net book value as at 31 December 2014	1,940,284	102,731	301,068	315,704	2,659,787

Notes:

(a) Others represent furniture, office equipment, motor vehicles, computer systems and hardware.
(b) Fixed assets not commissioned represent expenditure incurred on assets and projects which are under development, and are not ready for use.

14 GOODWILL AND INTANGIBLES

	Goodwill	Intangibles on Acquisition				Total
		Banking license	Software	Customer relationships	Core deposit intangibles	
31 December 2015	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Cost:						
Balance as at 1 January	5,632,648	348,596	9,281	157,490	662,223	6,810,238
Foreign exchange movement*	(11,448)	(30,276)	-	-	(2,831)	(44,555)
	5,621,200	318,320	9,281	157,490	659,392	6,765,683
Less: Amortisation and impairment						
Balance as at 1 January	4,903	-	9,281	154,174	485,500	653,858
Amortisation and impairment for the year	-	-	-	2,000	79,000	81,000
Balance as at 31 December	4,903	-	9,281	156,174	564,500	734,858
Net Goodwill and Intangibles	5,616,297	318,320	-	1,316	94,892	6,030,825
31 December 2014						
Cost:	5,632,648	348,596	9,281	157,490	662,223	6,810,238
Less: Amortisation and impairment	4,903		9,281	154,174	485,500	653,858
Net Goodwill and Intangibles	5,627,745	348,596	-	3,316	176,723	6,156,380

*Foreign exchange movement relates to translation of acquired Goodwill and intangibles pertaining to Emirates NBD Egypt using the period end exchange rate.

Impairment testing of goodwill

The goodwill acquired through business combinations with indefinite life is reviewed annually for impairment by comparing the recoverable amount based on value-in-use calculations for cash generating units (CGUs) to which goodwill has been allocated with its carrying value.

The goodwill has been allocated to four cash-generating units:

- Corporate banking
- Consumer banking
- Treasury
- Emirates NBD Egypt

14 GOODWILL AND INTANGIBLES (continued)

Key assumptions used in impairment testing for goodwill

The recoverable amount of the cash-generating units has been determined based on a value in use calculation, using cash flow projections covering a five-year period and by applying a terminal growth rate thereafter.

The calculation of value in use in the cash-generating units is most sensitive to the following assumptions:

- Interest margins;
- Discount rates;
- Market share during the projection period;
- Projected growth rates used to extrapolate cash flows beyond the projection period;
- Current local Gross Domestic Product ("GDP"); and
- Local inflation rates.

Interest margins

Interest margins are based on average values achieved in the three years preceding the start of the budget period. These are changed over the budget period for anticipated market conditions.

Discount rates

Discount rates reflect management's estimate of return on capital employed ("ROCE") required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital ("WACC").

Projected growth rate, GDP and local inflation rates

Assumptions are based on published industry research.

At 31 December 2015, the goodwill allocated to Corporate Banking was AED 3,589 million (2014: AED 3,589 million), the goodwill allocated to Consumer Banking was AED 1,700 million (2014: AED 1,700 million) and the goodwill allocated to Treasury was AED 206 million (2014: AED 206 million).

The recoverable amount of goodwill of CGUs, determined on the basis of value in use calculation, uses cash flow projections covering a five year period, with a terminal growth rate of 2% applied thereafter. The forecast cash flows have been discounted at a rate of 9.6%. A one percentage point change in the discount rate or the terminal growth rate would reduce the recoverable amount of the CGUs as mentioned in the table below:

Cash generating units (CGUs)	One percentage change in discount rate (AED million)	One percentage change in terminal growth rate (AED million)
Corporate Banking	8,249	6,205
Consumer Banking	6,112	4,597
Treasury	456	343
Emirates NBD Egypt S.A.E	755	568

14 GOODWILL AND INTANGIBLES (continued)

Intangibles:

Acquired intangibles are recognised at their “fair value” upon initial recognition.

The specific criteria which needs to be satisfied for an intangible asset to be recognised separately from goodwill in an acquisition is that the intangible asset must be clearly identifiable, in that it either;

- Be separable, that is, be capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or

- Arise from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangibles, excluding banking license, are amortised using the straight-line method over the useful life of the asset, which is estimated to be between 3 and 11 years. If an indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised if the recoverable amount is lower than the carrying amount.

15 OTHER ASSETS

	2015 AED 000	2014 AED 000
Accrued interest receivable	1,368,182	1,147,020
Islamic Profit receivable	111,030	69,322
Prepayments and other advances	217,282	197,410
Sundry debtors and other receivables	772,539	538,733
Inventory	1,697,821	1,921,268
Fair value of deposit (a)	286,342	352,706
Fair value of guarantee (b)	-	2,000,000
Others	1,879,492	2,077,185
	6,332,688	8,303,644

(a) On acquisition of Dubai Bank in October 2011, the Group received a deposit from the Ministry of Finance of the UAE amounting to AED 2.8 billion at a discount compared to the market available interest rate. As per the Group policy, the financial liability should be recognised initially at its fair value plus the transaction costs that are directly attributable to the acquisition or issue of the financial liability. Since the deposit was received at an interest rate which is below the market available interest rate, a fair value gain of AED 543 million was recognised in the financial statements in 2011, which will be amortised over the term of the deposit (8 years) at the effective interest rate.

(b) In connection with the acquisition of Dubai Bank, the Government of Dubai had provided a guarantee up to AED 2 billion for 7 years from the date of acquisition for any losses relating to the assets and liabilities that existed on the date of acquisition. In 2013, the claims under the guarantee reached the maximum limit of AED 2 billion. During the first quarter of 2015, the full amount of the guarantee amounting to AED 2 billion was settled.

16 DUE TO BANKS

	2015 AED 000	2014 AED 000
Demand and call deposits	950,866	544,154
Balances with correspondent banks	1,881,510	1,380,808
Time and other deposits	15,990,343	13,460,945
Current account with Central Bank	-	-
	18,822,719	15,385,907

The interest rates paid on the above averaged 1.3% p.a. (2014: 1.6% p.a).

17 CUSTOMER DEPOSITS

		2015	2014
(a)	<u>By Type</u>	AED 000	AED 000
	Demand, call and short notice	111,115,942	108,080,227
	Time	83,812,177	69,990,834
	Savings	23,240,420	21,644,089
	Others	6,216,674	4,256,308
		224,385,213	203,971,458

		2015	2014
(b)	<u>By Business Units</u>	AED 000	AED 000
	Corporate banking	94,507,561	80,595,940
	Consumer banking	115,913,904	110,784,897
	Treasury	13,963,748	12,590,621
		224,385,213	203,971,458

The interest rates paid on the above deposits averaged 0.7% p.a.in 2015 (2014: 0.7% p.a.).

18 ISLAMIC CUSTOMER DEPOSITS

		2015 AED 000	2014 AED 000
(a)	By Type		
	Demand, call and short notice	16,392,969	12,526,745
	Time	37,043,425	33,173,514
	Savings	9,066,927	8,319,275
	Others	343,371	267,637
		62,846,692	54,287,171

		2015 AED 000	2014 AED 000
(b)	By Business Units		
	Corporate banking	24,351,443	19,407,346
	Consumer banking	38,155,927	33,564,175
	Treasury	339,322	1,315,650
		62,846,692	54,287,171

19 REPURCHASE AGREEMENTS WITH BANKS

Deposits under repurchase agreements represent borrowings from banks and are secured by a portfolio of investment securities and cash collateral as follows:

	2015 AED 000	2014 AED 000
Available-for-sale investment securities	248,334	35,369
	248,334	35,369

20 DEBT ISSUED AND OTHER BORROWED FUNDS

	2015 AED 000	2014 AED 000
Medium term note programme*	26,067,612	19,228,151
Term loans from banks	2,938,000	2,938,000
Borrowings raised from loan securitisations (refer Note 9)	2,281,730	4,531,540
	31,287,342	26,697,691

*Includes Tier 2 notes amounting to AED 4,341 million (2014: AED 4,341 million) raised through public and private placements.

	2015 AED 000	2014 AED 000
Balance as at 1 January	26,697,691	20,110,692
New issues	10,563,141	11,714,853
Repayments	(5,651,375)	(4,895,239)
Other movements*	(322,115)	(232,615)
Balance at end of period	31,287,342	26,697,691

*Represents exchange rate movement on debts issued in foreign currency. The Group hedges the foreign currency risk on public issuances through derivative financial instruments.

As at 31 December 2015, the outstanding medium term borrowings totalling AED 31,287 million (2014: AED 26,698 million) is falling due as below:

	2015 AED millions	2014 AED millions
2015	-	3,598
2016	9,123	4,759
2017	5,261	4,111
2018	1,199	1,199
2019	5,173	5,288
2020	1,596	226
2022	4,552	1,357
2023	3,605	5,441
2024	583	628
2025	115	-
2026	80	91
	31,287	**26,698**

The interest rate paid on the above averaged 3.1% p.a in 2015 (2014: 3.2% p.a.).

21 OTHER LIABILITIES

	2015 AED 000	2014 AED 000
Accrued interest payable	764,628	440,252
Profit payable to Islamic depositors	214,605	138,998
Managers' cheques	1,476,011	975,285
Trade and other payables	1,764,068	1,213,681
Staff related liabilities	1,043,050	915,183
Provision for taxation (refer Note 34)	89,516	69,971
Others	2,874,016	2,948,467
	8,225,894	6,701,837

22 ISSUED CAPITAL AND SHARE PREMIUM RESERVE

Authorised, issued and fully paid: 5,557,774,724 ordinary shares of AED 1 each (2014: 5,557,774,724 ordinary shares).

Movement of ordinary shares in issue during the year is made up as follows:

	Number of shares	Share capital AED 000	Share premium reserve AED 000
As at 1 January 2015	5,557,774,724	5,557,775	12,270,124
Issue of bonus shares	-	-	-
As at 31 December 2015	5,557,774,724	5,557,775	12,270,124
As at 1 January 2014	5,557,774,724	5,557,775	12,270,124
Issue of bonus shares	-	-	-
As at 31 December 2014	5,557,774,724	5,557,775	12,270,124

At the forthcoming Annual General Meeting which will be held on 15 February 2016, the Group is proposing a cash dividend of AED 0.40 per share for the year (2014: AED 0.35 per share) amounting to AED 2,223 million (2014: AED 1,945 million).

23 TIER I CAPITAL NOTES

The Group has issued a number of regulatory Tier 1 capital notes with details mentioned in the table below. The notes are perpetual, subordinated and unsecured. The Group can elect not to pay a coupon at its own discretion. Note holders will not have a right to claim the coupon and such event will not be considered an event of default. The notes carry no maturity date and have been classified as equity.

Issuance Month/year	Issued Amount	Coupon rate
September 2014	USD 500 million (AED 1.83 billion)	Fixed interest rate with a reset after six years
May 2013	USD 1 billion (AED 3.67 billion)	Fixed interest rate with a reset after six years
June 2009	AED 4 billion	Fixed interest rate for the first five years and on a floating rate basis thereafter.

24 RESERVES

Legal and statutory reserves

In accordance with the Bank's Articles of Association, and in compliance with Article 82 of Union Law No.10 of 1980, a minimum of 10% of profit should be transferred to a non-distributable legal and statutory reserve until such time as this reserve equals 50% of the Bank's issued capital. Since the legal reserve is equal to 50% of the Bank's issued capital profit was not appropriated to the legal reserve during the year.

10% of the profit is also transferable to a non-distributable regular reserve until such time as this reserve equals 10% of the Bank's issued capital.

	Legal and statutory reserve AED 000	Regular reserve AED 000	Other reserves AED 000	Total AED 000
At 1 January 2015	2,778,888	555,800	2,313,733	5,648,421
Transfer from retained earnings	-	-	-	-
At 31 December 2015	2,778,888	555,800	2,313,733	5,648,421

Prior year comparatives are shown in the statement of changes in equity.

Fair value reserve

Fair value reserve includes the net change in fair value of available-for-sale financial assets and the net effective portion of changes in fair value of cash flow hedges.

Currency translation reserve

Currency translation reserve represents the exchange differences arising from re-translating the opening net investment in foreign operations.

25 NET INTEREST INCOME

	2015 AED 000	2014 AED 000
Interest and similar income		
Loans and receivables to customers	9,902,794	9,346,446
Loans and receivables to banks	348,735	326,204
Other debt securities	2,267	6,706
Available-for-sale investment securities	680,660	543,832
Held to maturity investment securities	3,710	4,837
Trading securities and designated at fair value through profit or loss investment securities	48,275	35,657
Others	91,027	155,463
Total interest income	11,077,468	10,419,145
Interest and similar expense		
Deposits from customers	(1,384,311)	(1,452,517)
Borrowings from banks and financial institutions	(130,676)	(100,123)
Securities lent and repurchase agreements	(3,287)	(335)
Others	(1,000,444)	(729,377)
Total interest expense	(2,518,718)	(2,282,352)
Net interest income	8,558,750	8,136,793

Included in interest income for the year 31 December 2015 is a total of AED Nil (2014: AED 87 million) relating to interest unwind on impaired financial assets.

26 INCOME FROM ISLAMIC FINANCING AND INVESTMENT PRODUCTS

	2015 AED 000	2014 AED 000
Murabaha	1,371,086	993,722
Ijara	662,074	613,721
Istissna'a	31,485	24,499
Wakala	29,279	12,543
Others	103,754	189,171
	2,197,678	1,833,656

27 DISTRIBUTION ON ISLAMIC DEPOSITS AND PROFIT PAID TO SUKUK HOLDERS

	2015 AED 000	2014 AED 000
Distribution to depositors	349,121	308,835
Profit paid to sukuk holders	166,043	165,395
	515,164	474,230

Distribution on Islamic deposits represents the share of income between depositors and equity holders. The allocation and distribution to depositors is approved by the Fatwa and Sharia’a Supervisory Board of the Islamic banking subsidiaries.

Profit paid to sukuk holders represents the distribution of returns received in respect of leased assets transferred to the EIB Sukuk Company Limited which was specifically formed for this transaction.

28 NET FEE AND COMMISSION INCOME

	2015 AED 000	2014 AED 000
Commission income on Trade finance products / services	719,327	685,116
Fee income	2,582,651	2,275,907
Brokerage fees	60,805	106,060
Portfolio and other management fees	171,881	165,869
Total fee and commission income	3,534,664	3,232,952
Fee and commission expense	(741,375)	(669,533)
	2,793,289	2,563,419

29 NET GAIN / (LOSS) ON TRADING SECURITIES

	2015 AED 000	2014 AED 000
Realised gain / (loss) on trading securities	(407)	67,226
Unrealised gain / (loss) on trading securities	80,841	43,122
	80,434	110,348

30 OTHER OPERATING INCOME

	2015 AED 000	2014 AED 000
Dividend income	63,059	51,512
Gain from sale of available-for-sale investment securities	163,735	466,710
Gain / (loss) from investment securities designated at fair value through profit or loss	(25,164)	51,526
Rental income	94,210	105,344
Revaluation gain on investment properties	-	55,249
Gain on sale of properties (investment properties / inventories)	226,587	450,257
Foreign exchange income*	1,010,626	1,020,441
Derivative income	107,534	20,022
Other income (net)	472,492	50,844
	2,113,079	2,271,905

*Foreign exchange income comprises trading and translation gain and gain on dealings with customers.

31 GENERAL AND ADMINISTRATIVE EXPENSES

	2015 AED 000	2014 AED 000
Staff cost	3,082,824	2,780,274
Occupancy cost	358,471	364,012
Equipment and supplies	139,544	131,179
Information technology cost	147,730	161,256
Communication cost	148,562	135,048
Service, legal and professional fees	122,018	68,085
Marketing related expenses	104,706	118,409
Depreciation	307,870	301,317
Amortisation of intangibles	81,000	93,000
Others	226,712	236,238
	4,719,437	4,388,818

32 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

The charge to the income statement for the net impairment loss on financial assets is made up as follows:

	2015 AED 000	2014 AED 000
Net impairment of loans and receivables (refer note 8)	2,198,658	3,287,371
Net impairment of Islamic financing receivables (refer note 10)	937,879	1,307,781
Net impairment of investment securities	80,950	265,294
Net impairment of due from banks / other assets	11,329	(4,853)
Bad debt written off / (recovery) - net	177,649	139,225
	3,406,465	4,994,818

33 DIRECTORS FEES

This comprises of fees payable to the directors of the Group of AED 20.65 million (2014: AED 14.40 million).

34 TAXATION

At 31 December 2015 provisions for tax payable on overseas branch operations amount to AED 89.5 million (2014: AED 69.9 million) (refer Note 21).

35 EARNINGS PER SHARE

The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders (further adjusted for interest expense on tier I capital notes) of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all diluted potential ordinary shares, if any.

	2015 AED 000	2014 AED 000
Profit for the year attributable to equity holders	7,123,032	5,138,629
Deduct : Interest on Tier 1 capital notes	(590,731)	(506,571)
Net profit attributable to equity holders	6,532,301	4,632,058
Weighted average number of equity shares in issue ('000)	5,557,775	5,557,775
Earnings per share* (AED)	1.18	0.83

*The diluted and basic Earnings per share were the same at the year end.

36 DERIVATIVES

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

31 December 2015 notional amounts by term to maturity

	Positive fair value AED 000	Negative fair value AED 000	Notional amount AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	450,755	(476,605)	193,848,721	103,662,454	77,102,962	13,083,305	-	-
Foreign exchange options	649,022	(649,022)	61,188,538	1,731,223	6,213,411	53,243,904	-	-
Interest rate swaps/caps	1,482,289	(1,010,647)	151,180,913	8,904,923	22,337,607	68,085,465	36,166,422	15,686,496
Commodity options	35,685	(35,684)	298,700	-	40,099	258,601	-	-
	2,617,751	(2,171,958)	406,516,872	114,298,600	105,694,079	134,671,275	36,166,422	15,686,496
Derivatives held as cash flow hedges:								
Interest rate swaps	51,110	(47,142)	6,148,631	-	300,000	2,850,000	800,000	2,198,631
Derivatives held as fair value hedges:								
Interest rate swaps	218	(391,105)	2,980,844	-	77,854	110,175	1,508,203	1,284,612
Total	2,669,079	(2,610,205)	415,646,347	114,298,600	106,071,933	137,631,450	38,474,625	19,169,739

36 DERIVATIVES (continued)

31 December 2014 notional amounts by term to maturity

	Positive fair value AED 000	Negative fair value AED 000	Notional amount AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	285,162	(531,581)	154,455,001	81,356,384	61,950,562	11,148,055	-	-
Foreign exchange options	126,817	(126,812)	30,126,832	2,070,742	4,037,940	24,018,150	-	-
Interest rate swaps/caps	841,788	(822,805)	96,808,486	3,860,144	21,342,816	31,026,206	28,867,592	11,711,728
Commodity options	729	(729)	93,418	5,199	88,219	-	-	-
	1,254,496	(1,481,927)	281,483,737	87,292,469	87,419,537	66,192,411	28,867,592	11,711,728
Derivatives held as cash flow hedges:								
Interest rate swaps	46,827	(21,103)	4,800,000	-	1,650,000	1,200,000	1,950,000	-
Derivatives held as fair value hedges:								
Interest rate swaps	9,132	(142,747)	2,439,701	591,750	-	83,352	1,491,732	272,867
Total	1,310,455	(1,645,777)	288,723,438	87,884,219	89,069,537	67,475,763	32,309,324	11,984,595

36 DERIVATIVES (continued)

Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, the underlying amounts are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favorable to the Group and potential future fluctuations. The majority of the fair value of favorable contracts (and therefore credit risk) is exposure to financial institutions. All credit exposure is managed under approved facilities, and in many cases are collateralized under Credit Support Annex (CSA).

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to sales and position coverage. Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Interest rate derivatives trading is conducted under Board approved limits.

Derivatives held or issued for hedging purposes

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures.

The Group uses interest rate swaps and forward rate agreements to hedge against the cash flow risks arising on certain floating rate customer deposits and medium term borrowings. The Group also uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate loans and receivables. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as cash flow hedges.

The Group also uses interest rate swaps to hedge against changes in value of investment securities due to interest rate movements. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

37 OPERATING SEGMENTS

The Group is organised into the following main businesses:

(a) Corporate banking represents structured financing, current and savings accounts, customer deposits, overdrafts, trade finance and term loans for government, corporate, commercial customers, investment banking and Islamic products under Al Watani Al Islami;

(b) Consumer banking represents retail loans and deposits, private banking and wealth management, equity broking services, asset management and consumer financing;

(c) Treasury activities comprises of managing the Group's portfolio of investments, funds management, and interbank treasury operations;

(d) Islamic banking activities represent the income and fees earned and expenses paid by the Islamic banking subsidiaries; and

(e) Other operations of the Group include Emirates NBD Egypt, Tanfeeth, property management, operations and support functions.

37 OPERATING SEGMENTS (continued)

31 December 2015	Corporate banking AED 000	Consumer banking AED 000	Treasury AED 000	Islamic Banking AED 000	Others AED 000	Total AED 000
Net interest income and income from Islamic products net of distribution to depositors	3,611,082	3,538,497	(276,147)	1,675,432	1,692,400	10,241,264
Net Fees, commission and other income	1,317,389	2,152,348	475,624	739,651	301,790	4,986,802
Total operating income	4,928,471	5,690,845	199,477	2,415,083	1,994,190	15,228,066
General and administrative expenses	(344,840)	(1,942,345)	(131,357)	(983,195)	(1,317,700)	(4,719,437)
Net impairment loss on financial assets	(1,983,480)	(477,975)	11,387	(904,722)	(51,675)	(3,406,465)
Share of profit of associates and joint ventures	-	-	-	853	165,504	166,357
Taxation charge	(19,993)	(4,417)	(9,362)	-	(110,981)	(144,753)
Group profit for the year	2,580,158	3,266,108	70,145	528,019	679,338	7,123,768
Segment Assets	238,166,170	53,897,825	41,959,068	49,571,277	22,965,835	406,560,175
Segment Liabilities and Equity	116,145,755	121,330,083	27,968,543	53,600,883	87,514,911	406,560,175

37 OPERATING SEGMENTS (continued)

31 December 2014	Corporate banking AED 000	Consumer banking AED 000	Treasury AED 000	Islamic Banking AED 000	Others AED 000	Total AED 000
Net interest income and income from Islamic products net of distribution to depositors	3,509,947	3,706,361	143,886	1,402,814	733,211	9,496,219
Net Fees, commission and other income	1,305,793	1,914,887	691,283	590,508	443,201	4,945,672
Total operating income	4,815,740	5,621,248	835,169	1,993,322	1,176,412	14,441,891
General and administrative expenses	(301,868)	(1,710,485)	(92,232)	(785,176)	(1,499,057)	(4,388,818)
Net impairment loss on financial assets	(3,797,038)	(276,351)	31,656	(916,609)	(36,476)	(4,994,818)
Share of profit of associates and joint ventures	-	-	-	3,479	206,473	209,952
Taxation charge	(16,154)	(3,488)	(4,724)	-	(104,811)	(129,177)
Group profit for the year	700,680	3,630,924	769,869	295,016	(257,459)	5,139,030
Segment Assets	211,200,615	47,822,140	42,512,986	45,550,745	15,934,505	363,020,991
Segment Liabilities and Equity	98,944,283	120,277,370	24,863,759	47,507,248	71,428,331	363,020,991

38 SUBSIDIARIES ASSOCIATES AND JOINT VENTURES

The direct subsidiaries, associates and joint ventures of the Group are as follows:

	Group % Share-holding	Nature of business	Country of incorporation
As at 31 December 2015			
Subsidiaries:			
Buzz Contact Centre Solutions LLC	100	Call centre management services	Dubai, U.A.E.
Dubai Bank PJSC	100	Islamic Banking	Dubai, U.A.E.
E.T.F.S. LLC	100	Trade finance services	Dubai, U.A.E.
Emirates Financial Services PSC	100	Funds management	Dubai, U.A.E.
Emirates Funds Managers (Jersey) Limited	100	Asset management	Jersey
Emirates NBD Global Funding Limited	100	Medium term borrowing and money market transactions	Cayman Islands
Emirates NBD Properties LLC	100	Real estate	Dubai, U.A.E.
Emirates NBD Securities LLC	100	Brokerage services	Dubai, U.A.E.
Emirates NBD Asset Management Limited	100	Asset management	Dubai, U.A.E.
Emirates Islamic Bank PJSC	99.9	Islamic banking	Dubai, U.A.E.
Emirates Money Consumer Finance LLC	100	Consumer Finance	Dubai, U.A.E.
Emirates Funds LLC	100	Asset Management	Dubai, U.A.E.
Emirates NBD Capital (KSA) LLC	100	Investment Services	KSA
Emirates NBD Trust Company (Jersey) Limited	100	Trust administration services	Jersey
Tanfeeth LLC	100	Shared services organization	Dubai, U.A.E.
KSA Mortgage Company	100	Nominee Company for Mortgage Business	KSA
ENBD London Branch Nominee Company	100	Asset Management	England
Emirates NBD Egypt S.A.E	100	Banking	Egypt
Associate:			
National General Insurance Company PSC	36.7	General and life insurance	Dubai, U.A.E.
Joint venture:			
Network International LLC	51	Card processing services	Dubai, U.A.E.

Other entities consolidated by the Group based on an assessment of control are as follows:

	Nature of business
Group tranche of Emblem Finance Company No. 2 Limited	SPE for asset securitisation
Emirates NBD Auto Finance Limited	SPE for asset securitisation
ENBD Asset Finance Company No.1 Limited	SPE for asset securitisation
ENBD Asset Finance Company No.2 Limited	SPE for asset securitisation
Emirates NBD Tier 1 Limited	SPE for asset securitisation
Emirates NBD 2014 Tier 1 Limited	SPE for asset securitisation
EIB Sukuk Company Limited	SPE for asset securitisation

Any material changes in the Group's principal direct subsidiaries during the year 2015 and 2014 have been disclosed in Note 11

39 OPERATING LEASES

At 31 December, the Group's non-cancellable operating lease rentals are payable as follows:

	2015 AED 000	2014 AED 000
Less than one year	72,584	45,598
Between one and five years	108,826	105,972
More than five years	12,443	9,437
	193,853	161,007

40 COMMITMENTS AND CONTINGENCIES

(a) At 31 December, the Groups commitments and contingencies are as follows:

	2015 AED 000	2014 AED 000
Letters of credit	9,578,127	7,963,646
Guarantees	45,249,694	41,459,802
Liability on risk participations	498,516	1,027,628
Irrevocable loan commitments*	23,550,505	17,892,124
	78,876,842	68,343,200

* Irrevocable loan commitments represent a contractual commitment to permit draw downs on a facility within a defined period subject to conditions precedent and termination clauses. Since commitments may expire without being drawn down, and as conditions precedent to draw down have to be fulfilled the total contract amounts do not necessarily represent exact future cash requirements.

(b) Acceptance

Under IAS 39, acceptances are recognised on balance sheet with a corresponding liability. Accordingly, there is no off balance sheet commitment for acceptances.

(c) Capital Commitments

The Group has commitments as at 31 December 2015 for branch refurbishments and automation projects of AED 391 million (2014: AED 379 million).

41 RELATED PARTY TRANSACTIONS

Emirates NBD Group is partly owned by Investment Corporation of Dubai (55.6%), a company in which the Government of Dubai is the majority shareholder.

Deposits from and loans to government related entities, other than those that have been individually disclosed, amount to 9% (2014: 7%) and 7% (2014: 10%) respectively, of the total deposits and loans of the Group. These entities are independently run business entities, and all financial dealings with the Group are on normal commercial terms.

The Group has also entered into transactions with certain other related parties who are non government related entities. Such transactions were also made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with third parties and do not involve more than a normal amount of risk.

Related party balances and transactions are carried out on normal commercial terms and are as follows:

	2015 AED 000	2014 AED 000
Loans and receivables:		
To majority shareholder of the parent	120,747,984	106,676,423
To parent	1,469,561	824,842
To directors and related companies	1,608,377	450,861
To associates and joint ventures	26,466	-
	123,852,388	107,952,126

	2015 AED 000	2014 AED 000
Customer and Islamic deposits:		
From majority shareholder of the parent	3,828,527	3,184,351
From parent	6,686,481	6,965,485
From associates and joint ventures	195,222	534,460
	10,710,230	10,684,296

41 RELATED PARTY TRANSACTIONS (continued)

	2015 AED 000	2014 AED 000
Investment in Government of Dubai bonds	5,913	43,559
Loans to and investment in funds managed by the Group	290,802	484,491
Commitments to associates	9,468	9,066
Payments made to associates and joint ventures	287,794	214,309
Payments received from associates and joint ventures	4,915	2,950
Fees received in respect of funds managed by the Group	70,482	94,619
Interest paid to funds managed by the Group	11,566	15,151
Interest (paid by) / paid to joint ventures	(552)	413
Directors sitting fee	8,183	6,390
Key management compensation:		
Short term employment benefits	65,816	56,653
Post employment benefits	1,461	1,109
	67,277	57,762

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

No impairment losses have been recorded against balances outstanding during the year with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relations at the year end.

42 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

The Group's financial position, before taking into amount any collateral held or other credit enhancement, can be analysed by the following regions:

31 December 2015	UAE	Other GCC	International	Total
	AED 000	AED 000	AED 000	AED 000
ASSETS				
Cash and deposits with Central Bank	49,337,172	1,635,685	4,001,813	54,974,670
Due from banks	5,089,195	3,177,129	31,570,260	39,836,584
Trading securities	523,934	9,513	1,145,422	1,678,869
Investment securities	2,957,769	1,832,613	11,136,199	15,926,581
Loans and receivables	211,591,806	3,827,713	11,277,022	226,696,541
Islamic financing receivables	39,292,695	4,313,230	278,392	43,884,317
Investments in associates and joint ventures	1,597,149	-	17,872	1,615,021
Positive fair value of derivatives	1,274,785	581,438	812,856	2,669,079
Investment properties	805,937	-	-	805,937
Customer acceptances	3,299,733	40,444	372,572	3,712,749
Property and equipment	1,985,609	29,758	380,947	2,396,314
Goodwill and intangibles	5,580,018	-	450,807	6,030,825
Other assets	6,073,077	99,684	159,927	6,332,688
TOTAL ASSETS	**329,408,879**	**15,547,207**	**61,604,089**	**406,560,175**
LIABILITIES				
Due to banks	5,246,927	2,030,362	11,545,430	18,822,719
Customer deposits	182,812,014	5,537,383	36,035,816	224,385,213
Islamic customer deposits	48,157,729	14,249,171	439,792	62,846,692
Repurchase agreements with banks	130,412	-	117,922	248,334
Debt issued and other borrowed funds	-	-	31,287,342	31,287,342
Sukuk payable	3,672,500	-	-	3,672,500
Negative fair value of derivatives	435,706	149,480	2,025,019	2,610,205
Customer acceptances	3,299,734	40,442	372,573	3,712,749
Other liabilities	7,498,613	150,311	576,970	8,225,894
Total equity	50,748,527	-	-	50,748,527
TOTAL LIABILITIES AND EQUITY	**302,002,162**	**22,157,149**	**82,400,864**	**406,560,175**
Geographical distribution of letters of credit and guarantees	38,744,690	6,488,527	9,594,604	54,827,821
31 December 2014				
Geographical distribution of assets	300,246,735	28,714,093	34,060,163	363,020,991
Geographical distribution of liabilities and equity	277,200,638	25,487,935	60,332,418	363,020,991
Geographical distribution of letters of credit and guarantees	39,963,389	5,645,461	3,814,598	49,423,448

43 FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and carrying values:

The table below sets out the Group's classification of each class of financial assets and liabilities, and their carrying values.

31 December 2015	Designated at fair value through profit or loss AED 000	Held-to-maturity AED 000	Available-for-sale AED 000	Loans and receivables AED 000	Amortised cost AED 000	Hedging instruments AED 000	Total carrying value* AED 000
Financial assets							
Due from banks	-	-	-	-	39,836,584	-	39,836,584
Trading securities	1,678,869	-	-	-	-	-	1,678,869
Investment securities	148,237	248,286	15,530,058	-	-	-	15,926,581
Loans and receivables	-	-	-	226,696,541	-	-	226,696,541
Islamic financing receivables	-	-	-	43,884,317	-	-	43,884,317
Investments in associates and joint ventures	-	-	-	-	1,615,021	-	1,615,021
Positive fair value of derivatives	2,617,751	-	-	-	-	51,328	2,669,079
Others	-	-	-	-	59,627,361	-	59,627,361
	4,444,857	248,286	15,530,058	270,580,858	101,078,966	51,328	391,934,353
Financial liabilities							
Due to banks	-	-	-	-	18,822,719	-	18,822,719
Customer deposits	-	-	-	-	224,385,213	-	224,385,213
Islamic customer deposits	-	-	-	-	62,846,692	-	62,846,692
Repurchase agreements with banks	-	-	-	-	248,334	-	248,334
Debt issued and other borrowed funds	-	-	-	-	31,287,342	-	31,287,342
Sukuk payable	-	-	-	-	3,672,500	-	3,672,500
Negative fair value of derivatives	2,171,958	-	-	-	-	438,247	2,610,205
Others	-	-	-	-	11,938,643	-	11,938,643
	2,171,958	-	-	-	353,201,443	438,247	355,811,648

*The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different to their fair values.

43 FINANCIAL ASSETS AND LIABILITIES (continued)

31 December 2014	Designated at fair value through profit or loss AED 000	Held-to-maturity AED 000	Available-for-sale AED 000	Loans and receivables AED 000	Amortised cost AED 000	Hedging instruments AED 000	Total carrying value* AED 000
Financial assets							
Due from banks	-	-	-	-	19,812,067	-	19,812,067
Trading securities	832,255	-	-	-	-	-	832,255
Investment securities	266,607	438,728	13,774,341	-	-	-	14,479,676
Loans and receivables	-	-	-	212,019,599	-	-	212,019,599
Islamic financing receivables	-	-	-	33,954,142	-	-	33,954,142
Investments in associates and joint ventures	-	-	-	-	1,781,072	-	1,781,072
Positive fair value of derivatives	1,254,496	-	-	-	-	55,959	1,310,455
Others	-	-	-	-	63,575,218	-	63,575,218
	2,353,358	438,728	13,774,341	245,973,741	85,168,357	55,959	347,764,484
Financial liabilities							
Due to banks	-	-	-	-	15,385,907	-	15,385,907
Customer deposits	-	-	-	-	203,971,458	-	203,971,458
Islamic customer deposits	-	-	-	-	54,287,171	-	54,287,171
Repurchase agreements with banks	-	-	-	-	35,369	-	35,369
Debt issued and other borrowed funds	-	-	-	-	26,697,691	-	26,697,691
Sukuk payable	-	-	-	-	3,673,000	-	3,673,000
Negative fair value of derivatives	1,481,927	-	-	-	-	163,850	1,645,777
Others	-	-	-	-	10,561,701	-	10,561,701
	1,481,927	-	-	-	314,612,297	163,850	316,258,074

* The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different to their fair values.

43 FINANCIAL ASSETS AND LIABILITIES (continued)

Fair Value of financial instruments

The table below analyses financial instruments measured at fair value on a recurring basis. The different levels in the fair value hierarchy have been defined as follows:

- Level 1: quoted prices (unadjusted) in principal markets for identified assets or liabilities.
- Level 2: valuation using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: valuation using inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

31 December 2015	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
Trading securities				
Debt Securities	1,381,556	1,157	177,669	1,560,382
Others	42,729	75,758	-	118,487
	1,424,285	76,915	177,669	1,678,869
Investment Securities				
AVAILABLE-FOR-SALE:				
Debt Securities	8,311,699	5,142,625	205,431	13,659,755
Investment in equities	410,935	228,347	790,842	1,430,124
Others	-	138,112	302,067	440,179
	8,722,634	5,509,084	1,298,340	15,530,058
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Others	134,582	13,655	-	148,237
	134,582	13,655	-	148,237
Derivatives held for trading				
Positive fair value of derivatives	-	2,617,751	-	2,617,751
Derivatives held as cash flow hedges:				
Interest rate swaps	-	51,110	-	51,110
Derivatives held as fair value hedges:				
Interest rate swaps	-	218	-	218
	-	2,669,079	-	2,669,079
Derivatives held for trading				
Negative fair value of derivatives	-	(2,171,958)	-	(2,171,958)
Derivatives held as cash flow hedges:				
Interest rate swaps	-	(47,142)	-	(47,142)
Derivatives held as fair value hedges:				
Interest rate swaps	-	(391,105)	-	(391,105)
	-	(2,610,205)	-	(2,610,205)
	10,281,501	5,658,528	1,476,009	17,416,038

43 FINANCIAL ASSETS AND LIABILITIES (continued)

Valuation of financial instruments (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy.

	Available for sale financial assets AED 000	Financial assets designated at fair value through profit or loss AED 000	Financial assets held for trading AED 000	TOTAL AED 000
Balance as at 1 January 2015	1,228,199	-	-	1,228,199
Total gains or losses:				
- in profit or loss	(64,680)	-	(3,202)	(67,882)
- in other comprehensive income	(74,851)	-	-	(74,851)
Purchases	213,347	-	180,871	394,218
Issues	-	-	-	-
Settlements and other adjustments	(84,272)	-	-	(84,272)
Transfers into Level 3	80,597	-	-	80,597
Transfers out of Level 3	-	-	-	-
Balance as at 31 December 2015	1,298,340	-	177,669	1,476,009

The fair value of financial instruments classified as level 3 are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by the prices from observable current market transactions in the same instrument and are not based on observable market data. The Group employs valuation techniques, depending on the instrument type and available market data. For example, in the absence of active market, an investment's fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile and other factors. Favourable and unfavourable changes in the value of financial instruments are determined on the basis of changes in the value of the instruments as a result of varying the levels of the unobservable parameters, quantification of which is judgemental.

The sensitivity analysis of unobservable inputs used to value Level 3 financial instruments by +5% / -5% is analyzed as below:

	Effect on Other comprehensive income	
Financial Instrument category	Favorable impact (+5%)	Unfavorable impact (-5%)
Available for Sale	AED 65 million	AED (65) million

	Effect on Income statement	
Financial Instrument category	Favorable impact (+5%)	Unfavorable impact (-5%)
Held for Trading	AED 9 million	AED (9) million

During the financial year ended 31 December 2015 available for sale financial assets with a carrying amount of AED Nil (2014: AED Nil) were transferred from Level 1 to Level 2 because quoted prices in the market for such debt securities became no longer regularly available. In order to determine the fair value of such debt securities, management used a valuation technique in which all significant inputs were based on observable market data. There have been transfers from Level 2 to Level 1 amounting to AED Nil (2014: AED Nil) during the year 2015.

43 FINANCIAL ASSETS AND LIABILITIES (continued)

Valuation of financial instruments (continued)

31 December 2014	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
Trading securities				
Debt Securities	695,684	2,832	-	698,516
Others	68,944	64,795	-	133,739
	764,628	67,627	-	832,255
Investment Securities				
AVAILABLE-FOR-SALE:				
Debt Securities	7,665,407	3,794,077	-	11,459,484
Investment in equities	597,865	329,305	723,212	1,650,382
Others	-	159,488	504,987	664,475
	8,263,272	4,282,870	1,228,199	13,774,341
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Others	245,013	21,594	-	266,607
	245,013	21,594	-	266,607
Derivatives held for trading				
Positive fair value of derivatives	-	1,254,496	-	1,254,496
Derivatives held as cash flow hedges:				
Interest rate swaps	-	46,827	-	46,827
Derivatives held as fair value hedges:				
Interest rate swaps	-	9,132	-	9,132
	-	1,310,455	-	1,310,455
Derivatives held for trading				
Negative fair value of derivatives	-	(1,481,927)	-	(1,481,927)
Derivatives held as cash flow hedges:				
Interest rate swaps	-	(21,103)	-	(21,103)
Derivatives held as fair value hedges:				
Interest rate swaps	-	(142,747)	-	(142,747)
	-	(1,645,777)	-	(1,645,777)
	9,272,913	4,036,769	1,228,199	14,537,881

43 FINANCIAL ASSETS AND LIABILITIES (continued)

Valuation of financial instruments (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy.

	Available for sale financial assets	Financial assets designated at fair value through profit or loss	Financial assets held for trading	TOTAL
	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2014	1,601,597	37,626	-	1,639,223
Total gains or losses:				
- in profit or loss	(45,502)	-	-	(45,502)
- in other comprehensive income	24,011	-	-	24,011
Purchases	-	-	-	-
Issues	-	-	-	-
Settlements and other adjustments	(326,316)	(37,626)	-	(363,942)
Transfers into Level 3	-	-	-	-
Transfers out of Level 3	(25,591)	-	-	(25,591)
Balance as at 31 December 2014	1,228,199	-	-	1,228,199

44 NOTES TO THE GROUP CONSOLIDATED CASH FLOW STATEMENT

		2015	2014
		AED 000	AED 000
(a)	Analysis of changes in cash and cash equivalents during the year		
	Balance at beginning of year	24,763,352	6,936,117
	Net cash inflow	7,065,187	17,827,235
	Balance at end of year	31,828,539	24,763,352
(b)	Analysis of cash and cash equivalents		
	Cash and deposits with Central Bank	54,974,670	56,638,973
	Due from banks	39,836,584	19,812,067
	Due to banks	(18,822,719)	(15,385,907)
		75,988,535	61,065,133
	Less : deposits with Central Bank for regulatory purposes	(30,393,247)	(24,643,090)
	Less : certificates of deposits with Central Bank maturing after three months	(6,300,000)	(6,750,000)
	Less : amounts due from banks maturing after three months	(13,207,537)	(8,755,336)
	Add : amounts due to banks maturing after three months	5,740,788	3,846,645
		31,828,539	24,763,352

45 CAPITAL MANAGEMENT AND ALLOCATION

The Central Bank of UAE supervises the Group on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. The capital is computed at a Group level using the Basel II framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the Central Bank of UAE, within national discretion. The Basel II framework is structured around three 'pillars': minimum capital requirements (Pillar I); supervisory review process (Pillar II); and market discipline (Pillar III).

Minimum Capital Requirements

Per current capital requirements, the Central Bank of UAE requires the Group to maintain a prescribed minimum ratio of total capital to total risk-weighted assets of 12% (of which Tier I to be 8%).

The tiered components of Bank's regulatory capital comprise of:

- Tier I capital includes share capital, Tier I capital notes, share premium, legal, statutory and other reserves, retained earnings, non-controlling interest after deductions for goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and

- Tier II capital includes qualifying subordinated debt, undisclosed reserve, and fair value reserve.

The Group is compliant with the Standardised Approach for Credit, Market and Operational Risk (Pillar I) with effect from 31st December 2007.

The capital adequacy ratio as per Basel II framework is given below:

	2015 AED 000	2014 AED 000
Tier I capital		
Issued capital	5,557,775	5,557,775
Share premium reserve	12,270,124	12,270,124
Legal and statutory reserve	2,778,888	2,778,888
Other reserves	2,662,122	2,797,794
Retained earnings	17,566,680	13,031,219
Tier I capital notes	9,477,076	9,477,076
Non-controlling interest	5,662	4,926
Total tier I capital	50,318,327	45,917,802
Less : Goodwill and intangibles	(6,030,825)	(6,156,380)
Less : Treasury shares	(46,175)	(46,175)
Total	44,241,327	39,715,247

45 CAPITAL MANAGEMENT AND ALLOCATION (continued)

	2015 AED 000	2014 AED 000
Tier II capital		
Undisclosed reserves / general provisions	6,070,344	4,348,163
Fair value reserve	214,369	401,081
Hybrid (debit/equity) capital instruments	-	-
Subordinated debt	3,752,068	3,869,898
Total	10,036,781	8,619,142
Of which: Eligible tier II capital	6,681,459	6,670,128
Total regulatory capital	50,922,786	46,385,375

RISK WEIGHTED EXPOSURE

	2015 AED 000	2014 AED 000
Credit risk	217,201,778	191,931,999
Market risk	4,192,234	6,961,239
Operational risk	24,110,440	21,346,673
Total	245,504,452	220,239,911

Capital Ratio:		
Total regulatory capital as a percentage of total risk weighted assets	20.74%	21.06%
Total tier I regulatory capital as a percentage of total risk weighted assets	18.02%	18.03%

46 FUND MANAGEMENT

The Group manages a number of funds which are not consolidated in the financial statements. The funds have no recourse to the general assets of the Group and further the Group has no recourse to the assets of the funds. Third party funds managed by the Group were AED 11,013 million at 31 December 2015 (2014: AED 10,750 million).

47 ASSETS HELD IN FIDUCIARY CAPACITY

The Group holds assets in a fiduciary capacity and provides custodian services for some of its customers. The underlying assets held in a custodial or fiduciary capacity are excluded from the Group consolidated financial statements.

48 RISK MANAGEMENT

The management of risk is at the core of Emirates NBD Group's (the Group) business philosophy. The primary risks we undertake arise from extending credit to retail and wholesale banking customers. We are also exposed to a range of other risk types such as market, liquidity, operational, country, reputational, legal that drive the direction of our risk management strategy, product range and risk diversification strategies. Our business and risk management strategy is tailored and regularly reviewed in consideration of our risk exposures relative to our risk appetite.

Risk management framework:

Effective risk management is fundamental in ensuring our ability to operate profitably and is thus a central part of the financial and operational management of the group. There is clear accountability for and ownership of risk within each business unit. Through our risk management framework we manage group-wide risks, with the objective of maximizing returns while remaining within our risk appetite.

The key features of the Group's risk management framework are:

- Risk is taken in line with risk appetite and business strategy is aligned to risk appetite. Business primarily owns the risk that it underwrites and is equally responsible for designing and implementing necessary controls to mitigate risks emanating from the activities.
- Ensuring that all employees of the group are sufficiently trained and have access to appropriate tools to ensure risk-taking is controlled and in line with risk appetite.
- Risk taking is within approved authorities considering infrastructure and resource across geographies giving consideration to compliance with regulatory requirements.
- Anticipate future risks and ensure awareness of all known risks across the management chain.
- Appropriate controls are designed and implemented with adequate reporting in place to monitor their ongoing effectiveness to safeguard group's interests.
- Achieve competitive advantage through efficient and effective risk management and implementation of appropriate controls supplemented by infrastructure and analytics.

Risk governance

The risk governance structure of the group ensures central oversight and control with clear accountability for and ownership of risk.

The Board of Directors ("the Board") has the ultimate responsibility for setting Group's risk appetite and for the establishment and oversight of the Group's risk management framework. This is managed through a number of committees; namely Board Risk Committee, Board Credit & Investment Committee and Board Audit Committee. The management level committees also actively manage risk particularly the Group Risk Committee, Management Credit and Investment Committees and Group Asset Liability Management Committee (Group ALCO).

Board Risk Committee (BRC) comprises of members of the Board and is responsible for risk oversight responsibilities of the Board with regards to risk governance and risk appetite and the risk management framework that support it. The BRC receives reports on risk management including our portfolio trends, policies and standards, stress testing, liquidity and capital adequacy and is authorized to investigate or seek any information relating to any activity within its terms of reference.

Board Credit and Investment Committee (BCIC) is responsible for approval of high value credit and investment decisions above the Management Credit and Investment Committee's authority.

The primary role of the Board Audit Committee (BAC) is to have oversight and review of financial, audit and internal control issues as well as oversee the independence and performance of group's external and internal auditors.

48 RISK MANAGEMENT (continued)

Risk governance (continued)

The Group Risk Committee (GRC) is responsible for the management of all risks other than those delegated to Management Credit and Investment Committee and Group ALCO and ensures the effective management of risk throughout the group in support of the group's business strategy and group's risk appetite. The committee approves risk policies and analytical models to ensure effective management of credit, market, operational, business continuity and reputational, compliance, legal and other risks confronting the group.

The Group ALCO is responsible for balance sheet management and quality of the funding plan as well as the management of capital and the establishment of, and compliance with, policies relating to balance sheet management, including management of our liquidity, capital adequacy and structural foreign exchange and interest rate risk. The committee also approves the contingency funding plan as well as the funds transfer pricing among other things.

The committees meet regularly and are responsible for monitoring compliance with the risk management policies and procedures, and reviewing the adequacy of the risk management framework. The committee governance structure ensures that risk-taking authority and risk management policies are cascaded down from the Board through to the appropriate management level committees.

The group manages risk using multiple lines of defense comprising of employees, risk control units and internal audit. All employees are required to ensure the effective management of risks within the scope of their direct organizational responsibilities. The risk control units are responsible for ensuring that the risks within the scope of their responsibilities remain within appetite. Lastly, Group Internal Audit provides independent assurance and reports its findings to all relevant management and governance bodies, accountable line managers, relevant oversight function and committee or committees of the Board including the Board Audit Committee.

The risk function

The Group's overall risk management policies are managed by the Group Risk management function ("Group Risk"), headed by the General Manager, Risk ("CRO"). The function is independent of the origination, trading and sales functions to ensure balance in risk/return decisions is not compromised and to ensure transparency of decisions in accordance with group standards and policies.

Group Risk assists senior management in controlling and actively managing the Group's overall risk profile. The role of the function is:

- To maintain the Risk Management Framework, ensuring it remains appropriate to the Group's activities, is effectively communicated and implemented across the Group;
- To uphold the integrity of the Group's risk/return decisions ensuring their transparency;
- To exercise direct ownership for various risk types including but not limited to credit, market, country, operational, reputational risks;
- To ensure that risk policies, procedures and methodologies are consistent with the Group's risk appetite;
- To ensure that the Group's overall business strategy is consistent with its risk appetite; and
- To ensure that appropriate risk management architecture and systems are developed and implemented.

In addition, the risk function serves as a centre of excellence that provides specialist capabilities of relevance to the wider organization on all risk management matters.

48 RISK MANAGEMENT (continued)

Risk appetite

The group has established a risk appetite framework which defines the amount and type of risk acceptable to the group while pursuing its strategic/business objectives, reflecting our capacity to sustain losses and continue to meet our obligations arising from a range of conditions.

The Group's risk appetite statement is approved by the Board and forms the basis for establishing the risk parameters within which business must operate including policies, concentration limits and business mix.

The Group will not compromise adherence to its risk appetite in order to pursue revenue growth or higher returns.

Risk management process:

Through the risk management framework, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations, are escalated to the management for appropriate and timely action.

Credit Risk

Credit risk is defined as risk of financial loss arising from the failure of the customer or counterparty, to meet its contractual obligations to the Group. It can arise from both funded and non-funded transactions that are contingent in nature.

Credit risk management and structure:

Credit risk management approach is based on the foundation of independence and integrity of the credit risk assessment, management and reporting processes combined with clear policies, limits and approval structures for business segments.

The Group's credit policy managed by Group Risk focuses on the core credit principles and provides guidance on target businesses, specific policy guidelines, lending parameters, problem loan identification, management of high risk customers and provisioning.

Standard procedures specific to businesses are set up to manage various risks across different business segments, products and portfolio characteristics.

48 RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit risk management and structure (continued):

Credit Approving Authorities

The Board and the BCIC have delegated authority to the Management Credit Committee (“MCC”), the Retail Credit Committee (“RCC”) and members of senior management to facilitate and effectively manage the business. However, BCIC have retained the ultimate authority to approve credits beyond MCC authority.

Specialist units within Group Risk manage credit risk on the wholesale banking and consumer portfolios.

Classification of Loans and Advances

Borrower risk grading - Internal rating models are used across various business segments to assess credit quality of the borrowers and assign risk grades on the Master rating scale (“MRS”) on an ongoing basis. All borrowers are mapped to risk grades based on their probability of default. Highest credit quality customers have the lowest probability to default. These internal risk grades are mapped to Central Bank of the UAE categorisation on a scale of 1 to 5 mentioned below;

The following are general guidelines for Loans and advances classification into non-impaired and impaired:

Normal Loans (MRS Grades 1a to 4d)

- Where information available to the bank assures repayment as agreed are classified as “Normal loans”;

Watch-list Loans (MRS Grades 4e to 5a)

- Borrower’s financial condition and credit worthiness show some weaknesses requiring more than normal attention but not allocation of provisions are classified as “Watch-list loans”;

Impaired Loans (MRS Grades 5b to 5d)

5b	• Those accounts where adverse factors may hinder repayment or weaken security or lead to some loss are classified as "Substandard accounts". In general these are credit exposures where agreed payments of principal and/or interest are more than 90 consecutive days in arrears;
5c	• Those accounts where full recovery of interest and principal seems doubtful on the basis of information available, leading generally to a loss of part of these loans are classified as "Doubtful accounts"; and
5d	• Those accounts where the bank has exhausted all courses of action available but failed to recover anything or where there is a possibility that nothing shall be recovered are classified as "Loss accounts".

48 RISK MANAGEMENT (continued)

Credit Risk (continued)

Loans and receivables

	2015 AED 000	2014 AED 000
Corporate Portfolio – Performing	199,455,160	186,426,076
Retail Portfolio – Performing	30,819,605	26,663,667
Impaired Loans	15,091,904	15,800,839
Gross Loans	245,366,669	228,890,582

Islamic Financing Receivables

	2015 AED 000	2014 AED 000
Corporate Portfolio – Performing	19,934,339	15,931,897
Retail Portfolio – Performing	25,302,215	19,330,726
Impaired Loans	5,750,107	5,310,387
Gross Loans	50,986,661	40,573,010

48 RISK MANAGEMENT (continued)

Credit Risk (continued)

Wholesale Banking credit risk management:

End to end process of managing wholesale banking credit risk is as follows:

- Corporate credit risk appetite is set as per the risk strategy approved at the BRC;
- Credit facilities are granted based on the detailed credit risk assessment of the counterparty. The assessment considers amongst other things the purpose of the facility, sources of re-payment, prevailing and potential macro-economic factors, industry trends, customers' credit worthiness and standing within the industry;
- The credit facility administration process is undertaken by an independent function to ensure proper execution of all credit approvals, maintenance of documentation and proactive controls over maturities, expiry of limits and collaterals;
- Management of Impaired Non Performing Loans (NPL) & Watch list (WL) accounts - The bank has a well-defined process for identification of NPL & WL accounts and dealing with them effectively. There are policies which governs credit grading of NPL & WL accounts, interest suspension and provisioning, in line with IFRS and UAE Central Bank guidelines. The management and collection of NPL's is handled by an independent Financial Restructuring and Remedial team.

Management of consumer credit risk:

The Group has a structured management framework for Consumer Banking risk management. The framework enables the Bank in identification and evaluation of the significance of all credit risks that the Bank faces, which may have an adverse material impact on its financial position.

In the bank's Retail Portfolio, losses stem from outright default due to inability or unwillingness of a customer to meet commitments in relation to lending transactions.

The Bank has comprehensive credit risk management architecture for Consumer Banking Risk. The BRC of the Bank endorses the credit risk strategy for consumer banking. All Credit Policies are approved at the BCIC of the Bank. The Retail Bank's risk appetite is derived from the credit risk strategy of the bank and is balanced by the profitability level for the risks taken.

48 RISK MANAGEMENT (continued)

Credit Risk (continued)

Management of consumer credit risk (continued)

The Board oversees the Credit Risk Management functions of the Bank. The BRC and the BCIC guide the development of policies, procedures and systems for managing credit risk. The BCIC ensures that these are adequate and appropriate to changing business conditions and are within the risk appetite of the Bank.

Group Retail Credit drives credit risk management for the consumer banking business centrally in the Bank. It is primarily responsible for implementing the risk strategy approved by the Board, developing procedures and systems for managing risk, carrying out an independent assessment of credit risk, ensuring individual exposures are approved in line with the credit policies and monitoring portfolio composition and quality. While the various functions relating to policy, portfolio management and analytics are centralized with Group Retail Credit, the underwriting function is managed by Retail Credit Centre (RCC).

Credit exposures are managed through target market identification, appropriate credit approval processes and collections and recovery procedures. The Retail Credit Model is geared towards high volume, small transaction size businesses where credit appraisals of fresh exposures are guided by statistical models, and are managed on the basis of aggregate product portfolios.

Credit processes in consumer banking are driven by approved product programs for each of the products that the Bank is offering. In Product Programs, the Bank approves maximum levels of credit exposure to a set of customers with similar characteristics, profiles and / or product needs, under clearly defined standard terms and conditions. This is an operationally efficient approach to managing credit where credit risks and expected returns lend themselves to a template approach or predictable portfolio behavior in terms of yield, delinquency and charge offs. Given the high volume environment, automated tracking and reporting mechanisms are important here to identify trends in portfolio behavior and to initiate timely adjustments. The Bank has a robust MIS system that allows it to track its Retail Credit Portfolios effectively and take timely action, where required, to maintain asset quality. All retail portfolios are monitored regularly at a highly segmented level. Top management monitors overall portfolio quality and high-risk exposures periodically, including the weighted risk grade of the portfolio

The Bank’s Credit Policies & Procedures Manual and Credit Programs, where applicable, form the core to controlling credit risk in various products. These articulate the credit risk strategy of the Bank and thereby the approach for credit origination, approval and maintenance.

Score cards have been implemented for aiding consumer banking credit decisions. The Bank uses a suite of application and behavior score cards including liability behavior score cards to assist in its underwriting decisions.

The Bank has a robust provisioning policy which is in line with the guidelines laid down by the Central Bank of UAE which allows the Bank to prudently recognize impairment on its retail portfolios. The Bank has a centralized collections and recoveries team that follows up on overdue customers for payments. The team is ably assisted by score cards that allow prioritization by likelihood of collection/ default.

48 RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit risk monitoring:

The Group's exposures are continuously monitored through a system of triggers and early warning signals. These are supplemented by monitoring of account conduct, assessment of collateral and market intelligence and early alerts.

Early Alerts

Early Alert accounts are identified based on oversight, vigilance and risk triggers. Account strategy and action plans on these accounts are regularly monitored and discussed in the Early Alert Committee meetings.

Risks of the Group's loan portfolio are continuously assessed and monitored on the basis of exceptions, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure that senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

Group credit risk mitigation strategy:

The Group operates within prudential exposure ceilings set by the Board in line with UAE Central Bank guidelines. There are well laid out processes for exception management and escalation.

The Group has adopted measures to diversify the exposures to various sectors. Diversification is achieved by limiting concentration through setting customer, industry and geographical limits.

The risk transfer in the form of syndicated loans, risk participation agreements with other banks, credit default swaps and sale of loans are globally accepted practices followed by the Group, where appropriate, to limit its exposure.

48 RISK MANAGEMENT (continued)

ANALYSIS BY ECONOMIC ACTIVITY FOR ASSETS:

The Group monitors concentrations of credit risk by economic activity sector. The analysis by economic activity is as follows:

	2015 AED 000			2014 AED 000		
	Loans and Receivables	Islamic Financing	Others	Loans and Receivables	Islamic Financing	Others
Agriculture and allied activities	159,128	17,389	-	71,022	6,172	-
Mining and quarrying	507,313	84,362	10,819	420,256	3,948	10,965
Manufacturing	7,567,864	1,811,992	-	6,671,671	802,976	-
Construction	6,788,367	1,849,218	423,531	7,180,794	1,165,174	772,383
Trade	13,862,865	2,965,491	-	11,545,729	2,380,289	-
Transport and communication	4,836,334	1,467,876	399,477	6,705,286	958,138	280,084
Services	3,749,611	3,871,419	2,667,981	2,659,020	2,158,627	899,297
Sovereign	120,449,898	310,836	2,023,054	106,415,609	260,814	2,192,462
Personal	33,842,736	26,560,000	-	30,052,875	21,421,987	-
Real estate	31,032,786	7,559,182	-	30,355,034	6,486,483	-
Banks	-	-	47,930,866	-	-	26,932,985
Financial institutions and investment companies	21,687,551	2,249,597	3,639,071	25,389,465	3,138,352	3,814,532
Others	882,216	2,239,299	1,962,256	1,423,821	1,790,050	2,002,362
Total Assets	245,366,669	50,986,661	59,057,055	228,890,582	40,573,010	36,905,070
Less: Deferred Income	-	(2,533,031)	-	-	(2,466,395)	-
Less: Allowances for impairment	(18,670,128)	(4,569,313)	-	(16,870,983)	(4,152,473)	-
	226,696,541	43,884,317	59,057,055	212,019,599	33,954,142	36,905,070

Others includes due from banks, investment securities, trading securities and investments in associates and joint ventures.

48 RISK MANAGEMENT (continued)

Classification of trading securities and investment securities as per their external ratings:

As of 31 December 2015

Ratings	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
AAA	-	-	110,046	-	110,046
AA- to AA+	-	10,819	4,170,712	472,061	4,653,592
A- to A+	-	5,745	1,715,322	538,670	2,259,737
Lower than A-	-	59,113	6,609,640	328,373	6,997,126
Unrated	148,237	172,609	2,924,338	339,765	3,584,949
	148,237	248,286	15,530,058	1,678,869	17,605,450

Of which issued by:

Ratings	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
Governments	-	86,541	8,487,257	10,706	8,584,504
Public sector enterprises	-	-	1,554,716	115,398	1,670,114
Private sector and others	148,237	161,745	5,488,085	1,552,765	7,350,832
	148,237	248,286	15,530,058	1,678,869	17,605,450

48 RISK MANAGEMENT (continued)

As of 31 December 2014

Ratings	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
AAA	-	-	728,628	10,995	739,623
AA- to AA+	-	147,767	3,459,781	153,764	3,761,312
A- to A+	-	5,791	1,622,085	260,513	1,888,389
Lower than A-	-	164,952	4,707,023	94,420	4,966,395
Unrated	266,607	120,218	3,256,824	312,563	3,956,212
	266,607	438,728	13,774,341	832,255	15,311,931

Of which issued by:

Ratings	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
Governments	-	154,284	7,233,956	151,480	7,539,720
Public sector enterprises	-	-	1,532,575	50,364	1,582,939
Private sector and others	266,607	284,444	5,007,810	630,411	6,189,272
	266,607	438,728	13,774,341	832,255	15,311,931

48 RISK MANAGEMENT (continued)

Risk gross maximum exposure:

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

	2015 AED 000	2014 AED 000
Deposits with Central Bank	51,279,745	53,332,978
Due from banks	39,836,584	19,812,067
Trading securities	1,678,869	832,255
Investment securities	15,926,581	14,479,676
Loans and receivables	226,696,541	212,019,599
Islamic financing receivables	43,884,317	33,954,142
Investments in associates and joint ventures	1,615,021	1,781,072
Positive fair value of derivatives	2,669,079	1,310,455
Customer acceptances	3,712,749	3,859,864
Total (A)	387,299,486	341,382,108
Contingent liabilities	55,326,337	50,451,076
Irrevocable loan commitments	23,550,505	17,892,124
Total (B)	78,876,842	68,343,200
Total credit risk exposure (A + B)	466,176,328	409,725,308

48 RISK MANAGEMENT (continued)

CREDIT QUALITY ANALYSIS

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial assets.

31 December 2015

			Of which past due but not impaired on the reporting date				Of which individually impaired			
Type of receivable	Carrying amount AED 000	Of which neither impaired nor past due on reporting date AED 000	<30 days AED 000	30-60 days AED 000	60-91 days AED 000	> 91days AED 000	Gross amount AED 000	Interest suspended AED 000	Allowance for impairment AED 000	Carrying amount AED 000
Due from banks	39,836,584	39,836,584	-	-	-	-	36,132	(11,931)	(24,201)	-
Loans and receivables:	226,696,541	219,219,846	3,839,279	908,889	333,182	443,172	19,102,700	(4,010,796)	(13,139,731)	1,952,173
Corporate banking	197,061,053	191,173,640	2,768,986	675,584	188,588	443,172	17,988,355	(3,593,544)	(12,583,728)	1,811,083
Consumer banking	29,602,250	28,038,874	1,070,293	233,305	144,594	-	1,000,036	(417,252)	(467,600)	115,184
Treasury - other debt securities	33,238	7,332	-	-	-	-	114,309	-	(88,403)	25,906
Islamic financing receivables	43,884,317	38,931,835	1,769,670	741,592	303,756	416,723	6,491,308	(741,201)	(4,029,366)	1,720,741
Trading and investment securities:	17,605,450	16,893,907	-	-	-	-	1,845,716	-	(1,134,173)	711,543
Quoted - Government debt	8,584,504	8,584,504	-	-	-	-	-	-	-	-
Quoted - Other debt securities	6,364,410	6,203,666	-	-	-	-	228,091	-	(67,347)	160,744
Unquoted - Debt securities	519,509	519,401	-	-	-	-	102,742	-	(102,634)	108
Other securities	2,137,027	1,586,336	-	-	-	-	1,514,883	-	(964,192)	550,691

48 RISK MANAGEMENT (continued)

CREDIT QUALITY ANALYSIS (continued):

31 December 2014

			Of which past due but not impaired on the reporting date				Of which individually impaired			
Type of receivable	Carrying amount AED 000	Of which neither impaired nor past due on reporting date AED 000	<30 days AED 000	30-60 days AED 000	60-91 days AED 000	> 91days AED 000	Gross amount AED 000	Interest suspended AED 000	Allowance for impairment AED 000	Carrying amount AED 000
Due from banks	19,812,067	19,812,067	-	-	-	-	40,702	(9,925)	(30,777)	-
Loans and receivables:	212,019,599	203,300,584	3,439,715	898,559	396,054	1,370,502	19,498,503	(3,697,664)	(13,186,654)	2,614,185
Corporate banking	185,434,182	178,170,017	2,468,195	727,648	262,992	1,370,502	18,481,307	(3,211,440)	(12,835,039)	2,434,828
Consumer banking	26,540,089	25,123,282	971,520	170,911	133,062	-	881,164	(486,224)	(253,626)	141,314
Treasury - other debt securities	45,328	7,285	-	-	-	-	136,032	-	(97,989)	38,043
Islamic financing receivables	33,954,142	29,877,785	1,587,691	489,512	184,542	146,864	6,003,715	(693,328)	(3,642,639)	1,667,748
Trading and investment securities:	15,311,931	14,367,784	-	-	-	-	2,162,440	-	(1,218,293)	944,147
Quoted - Government debt	5,922,963	5,922,963	-	-	-	-	-	-	-	-
Quoted - Other debt securities	5,516,612	5,336,390	-	-	-	-	288,084	-	(107,862)	180,222
Unquoted - Debt securities	1,157,153	1,157,153	-	-	-	-	102,633	-	(102,633)	-
Other securities	2,715,203	1,951,278	-	-	-	-	1,771,723	-	(1,007,798)	763,925

48 RISK MANAGEMENT (continued)

Loans with renegotiated terms

Loans with renegotiated terms are loans, the repayment plan of which have been revised as part of ongoing customer relationship to align with the changed cash flows of the borrower with no other concessions by way of reduction in the amount or interest, but in some instances with improved security. These loans are treated as standard loans and continue to be reported as normal loans

Past due but not impaired

For corporate loans, the entire outstanding exposure of a facility which has been past due is disclosed. Based on an assessment, the Group determines that impairment is not required considering the borrower's ability to pay, past track record, overall exposure levels, materiality of the past due, types of collaterals, quality of borrower's receivables and/or the stage of collection of the amounts owed to the Group. Amounts that were past due and settled in a short period after the balance sheet date are excluded.

Definition of impaired financial assets

An exposure is impaired if:

a) In case of corporate exposures, the Group considers the counterparty unlikely to pay the full amount outstanding under the original terms of the contract due to one of the following conditions:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- decline in the realisable value of the security;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- a significant downgrading in credit rating by an external credit rating agency.

b) In case of consumer exposure, if the exposure is past due for more than 90 days.

Impairment assessment

The credit portfolio is reviewed on regular basis for impairment. The accrual or non-accrual status of the asset is re-assessed and appropriately risk graded as per credit policy. Impaired assets are classified as such and reported at least on quarterly intervals to the Board sub committees.

Assessment of specific impairment

Corporate loans: The Group determines the impairment for each loan or advance on an individual basis by exercising mature judgment in line with Central Bank of the UAE and IFRS requirements. The Group classifies those accounts where recovery is considered doubtful and ensures provisions are made accordingly. The impairment losses are evaluated on regular basis. Specific impairment is assessed when an exposure shows a significant perceived decline in the credit quality or when an obligation is past due or over-limit for more than 90 days. Impaired accounts are classified as Substandard, Doubtful or Loss.

48 RISK MANAGEMENT (continued)

Impairment assessment (continued)

Assessment of collective impairment

Provisions for collective impairment are made based on IFRS and Central Bank of the UAE guidelines. These are impairments that cannot be identified with an individual loan and are estimated on a portfolio basis.

Write offs

Corporate facilities where partial loss of principal is expected and full recovery of interest and fees is not expected are written off after obtaining appropriate approvals.

Non performing consumer loans (other than Mortgages and OD) are classified as off balance sheet write offs at 181 days past due. All receivables remain active on the loan management system for recovery and any legal strategy the bank may deem fit to use. Consumer advances are written off (loan closures) only after all legal and remedial efforts to recover from the customers are exhausted.

Collateral Management

Collaterals and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed. Major categories of collaterals include cash/ fixed deposits, inventories, shares, guarantees (corporate, bank and personal guarantees), immovable properties, receivables, gold and vehicles.

Where credit facilities are secured by collateral, the Group seeks to ensure the enforceability of the collateral.

Collaterals are revalued regularly as per the Group’s credit policy. In addition, adhoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Group to assess the fair market value of the collateral and ensure that risks are appropriately covered. Security structures and legal covenants are also subject to regular review.

48 RISK MANAGEMENT (continued)

Market risk

Market risk is the risk that the value of financial instruments in the Group's books – with the inclusion of some other financial assets and liabilities - will produce a loss because of changes in future market conditions.

The Group utilizes a variety of risk metrics to quantify and monitor market risk. The Group monitors and manages the following categories of market risk:

1. Interest Rate Risk: losses in value due to changes in the level, slope and curvature of yield curves, the volatility of interest rates and changes in credit spreads;
2. Equity Price Risk: losses in value due to exposures to changes in prices and volatilities of individual equities, baskets of equities and equity indices;
3. FX Risk: losses in value due to exposures to changes in spot prices, forward prices and volatilities of currency rates;
4. Commodity Price Risk: losses in value due to exposures to changes in spot prices, forward prices and volatilities of commodities such as petrochemicals, base and precious metals, and food stocks.

Group Market Risk (GMR), a risk function which is independent from the market risk taking units and which reports directly to the Group's CRO, has overall responsibility for measuring, monitoring and managing market risk in the Group, in co-operation with other independent and support functions across the Group's global businesses.

At the macro level, the Group manages its market risk by diversifying exposures and counterparties, limiting the size of risk exposures and setting up economic hedges in appropriate securities or derivatives. This managerial process include:

- a centralized, group-wide market risk taking unit, Global Markets & Treasury (GM&T)
- the accurate and timely reporting of risk exposures and multiple risk metrics by GMR
- a frequently updated limit setting framework
- continuous communication among GM&T, GMR and other senior management

Managers in GM&T are ultimately accountable for managing market risk within the approved limits. These managers have extensive knowledge of markets and products, their risk exposures and of the financial instruments available to hedge their exposures. Managers in both GM&T and GMR exchange information about markets, market conditions, risk exposures and expected risk scenarios on a frequent basis.

The Group's risk exposures to market risk are segregated into Trading and Banking Books. The Trading Book include those financial instruments held with trading intent arising from market-making, position-taking and other so designated financial instruments accounted for at fair value daily. The Banking Book include financial instruments not held with trading intent that arise from the management of Interest Rate risk and FX risk from the Group's consumer and commercial banking assets and liabilities, and other financial investments designated as either Available For Sale or Held To Maturity.

48 RISK MANAGEMENT (continued)

Market risk (continued)

Market Risk Oversight and Management Process

As part of the Group's enterprise-wide risk management framework, an extensive governance processes is applied to the market risk taking activities. This governance framework includes, inter alia:

- Oversight by senior management and Board committees such as the Group ALCO, the BRC and the BCIC;
- Independent valuation of financial instruments in the Trading Book and measurement of market risk;
- A comprehensive set of policies, procedures and limits;
- Monitoring a wide range of risk metrics appropriate for the respective trading activities - such as risk sensitivities, Gross and Net open positions, Value-at-Risk (VaR) and stop-loss limits;
- Approval by the Board of a set of risk limits with appropriate monitoring, reporting and limits excesses' escalation procedures.

The Group uses appropriate and independently validated market standard models for the revaluation and risk measurement of its linear and non-linear financial products and receives regular market information from independent market data providers in order to measure and monitor market risk.

Details of allocation of assets and liabilities subject to market risk between trading and non-trading portfolios are as follows:

	December 2015		
		Market risk measure	
		Trading portfolio	Non-trading portfolio
	AED 000	AED 000	AED 000
Assets subject to market risk			
Cash and deposits with Central Bank	54,974,670	-	54,974,670
Due from banks	39,836,584	-	39,836,584
Loans and receivables	226,696,541	-	226,696,541
Islamic financing receivables	43,884,317	-	43,884,317
Trading securities	1,678,869	1,678,869	-
Investment securities	15,926,581	148,237	15,778,344
Investments in associates and joint ventures	1,615,021	-	1,615,021
Positive fair value of derivatives	2,669,079	2,617,751	51,328
Liabilities subject to market risk			
Due to banks	18,822,719	-	18,822,719
Customer deposits	224,385,213	-	224,385,213
Islamic customer deposits	62,846,692	-	62,846,692
Repurchase agreements with banks	248,334	-	248,334
Debt issued and other borrowed funds	31,287,342	-	31,287,342
Sukuk payable	3,672,500	-	3,672,500
Negative fair value of derivatives	2,610,205	2,171,958	438,247

48 RISK MANAGEMENT (continued)

Market risk (continued)

Market Risk Oversight and Management Process (continued)

	December 2014		
		Market risk measure	
		Trading portfolio	Non-trading portfolio
	AED 000	AED 000	AED 000
Assets subject to market risk			
Cash and deposits with Central Bank	56,638,973	-	56,638,973
Due from banks	19,812,067	-	19,812,067
Loans and receivables	212,019,599	-	212,019,599
Islamic financing receivables	33,954,142	-	33,954,142
Trading securities	832,255	832,255	-
Investment securities	14,479,676	266,607	14,213,069
Investments in associates and joint ventures	1,781,072	-	1,781,072
Positive fair value of derivatives	1,310,455	1,254,496	55,959
Liabilities subject to market risk			
Due to banks	15,385,907	-	15,385,907
Customer deposits	203,971,458	-	203,971,458
Islamic customer deposits	54,287,171	-	54,287,171
Repurchase agreements with banks	35,369	-	35,369
Debt issued and other borrowed funds	26,697,691	-	26,697,691
Sukuk payable	3,673,000	-	3,673,000
Negative fair value of derivatives	1,645,777	1,481,927	163,850

48 RISK MANAGEMENT (continued)

Market risk (continued)

Trading Book oversight by GMR

GMR monitors the limits' utilization in the Trading Book of the Group on a daily basis through a multi-layered Limit Monitoring System which uses independently sourced data and reports from the GM&T IT systems. Depending on the trading exposure and as appropriate, GMR uses appropriate metrics including:

1. Non statistical metrics: Interest Rate sensitivity, (DV01/PV01), FX sensitivity (FX01), Net open/ Net Gross outstanding positions, Maximum notional and tenor measures, Derivatives' Greek sensitivities (Delta, Gamma, Vega), and Stop Loss limits;

2. Statistical metrics: Value-at-Risk (VaR), by Asset class as well as total for the whole Trading Book.

The Group is not significantly exposed to structural FX Risk - which is a component of market risk - since the majority of the assets and liabilities of the Group are denominated predominately in either AED or in USD-pegged currencies from other GCC countries.

Value-at-Risk

To better capture the multi-dimensional aspects of market risk, the Group's primary market risk metric is a statistical one, Value-at-Risk, which is used for short-term risk holding periods. VaR metrics are calculated daily for the specific asset classes listed below, plus a total VaR figure for the whole Trading Book:

- Interest rate VaR
- Foreign Exchange VaR
- Equity VaR
- Commodity VaR
- Total VaR

48 RISK MANAGEMENT (continued)

Market risk (continued)

Value-at-Risk (continued)

At Emirates NBD the VaR metric is calculated by simultaneously shocking the relevant market risk factors of all financial instruments in inventory in the Trading Book at the close of a business day using a Full Revaluation, Historical Simulation methodology. This statistical methodology produces VaR metrics set with a 99% confidence level of statistical significance over a specified horizon (1 business day) using over 2 years of historical data for the relevant market risk factors.

Due to its statistical nature, VaR is most effective as a market risk metric when estimating losses in markets in which there are no sudden fundamental changes or shifts in market conditions. The Group is also aware of some of the inherent limitations of the VaR metric, such as:

1. VaR cannot estimate potential losses over longer holding periods where moves in market risk factors might become extreme;
2. VaR does not take into account the liquidity or illiquidity of different financial instruments & markets;
3. Past changes in market risk factors might not be accurately forecast future changes;
4. Due to the inter-day nature of VaR, intra-day levels of market risk may vary from those reported at the end of a business day.

GMR therefore complements the VaR metrics with other non-statistical metrics of market risk (as mentioned before), and it is engaged in a process of implementing a comprehensive market risk stress testing framework to determine the impact on the Trading Book of the Group of various historical, hypothetical and ad-hoc stress scenarios for market risk factors.

VaR Back testing

GMR backtests the predictive power of the calculated VaR metrics to estimate potential losses in the Trading Book of the Group by comparing VaR figures vs actual P&L figures. GMR reports the results of VaR back testing to ALCO periodically. There were no reported VaR back testing failures in 2015.

The Group's year-end VaR numbers reported below have been calculated using the following parameters:

- Statistical level of confidence: 99%
- Holding period: 1 business day
- Methodology: Full Revaluation, Historical Simulation using over 2 years of historical market data

	2015 AED 000				**2014 AED 000**			
	Average	Maximum	Minimum	Actual*	Average	Maximum	Minimum	Actual*
By Asset class								
Trading								
Interest rate risk	3,950	6,252	2,320	4,648	5,232	9,502	435	3,841
Foreign exchange risk	7,747	13,349	3,812	4,038	6,025	13,085	29	12,216
Commodity risk	-	-	-	-	7	59	-	-
Credit trading risk	1,791	6,822	299	1,807	2,678	5,557	120	1,005
Equity risk	-	-	-	-	-	-	-	-
Total	9,082	14,144	5,188	7,142	8,838	15,231	1,650	13,088

* Note that the sum of asset class VaR metrics does not add up to the reported Total VaR metric due to diversification and cross correlation effects.

48 RISK MANAGEMENT (continued)

Market risk (continued)

Value-at-Risk (continued)

Currency-wise open positions of the Group are as follows:

	2015 Long / (Short) AED 000	2014 Long / (Short) AED 000
U.S. Dollar (USD)	3,812,643	(3,160,876)
Oman Riyal (OMR)	(377,294)	(1,105,518)
U.A.E Dirhams (UAE)	144,381	5,465,279
Saudi Riyal (SAR)	(1,297,637)	1,562,017
Qatar Riyal (QAR)	(15,700)	1,269,513
Others	235,696	252,478
	2,502,089	4,282,893

Operational risk

Operational risk at The Group is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. It thus excludes strategic and reputation risks but includes legal and regulatory risks.

The Group's objective is to prevent major OpRisk losses and to protect the bank against any material damage. The Group established a Group-wide framework applying a pro-active approach to managing operational risk. Operational Risks can arise from all business and support activities across the Group. The Group has chosen a holistic approach to systematically identify and manage operational risks across different products, processes, and client segments.

The Board of Directors has the oversight responsibility for operational risk in the Group. The responsibility is exercised through the BRC. The BRC approves the operational risk management framework and governance structure, and the associated policies. The operational risk exposure is monitored by the Group Risk Committee. It also acts as the escalation and decision-making committee for key operational risk topics.

The Group applies a three lines of defense model for operational risk management. The business and support units form the first line of defense. They have the primary responsibility and accountability for identifying operational risk in their areas and to promptly and preemptively mitigate any issues. Management of operational risk is embedded in the day-to day activities and processes. Business OpRisk sub-committees monitor the development of operational risk, analyze the potential impact, and decide on mitigating measures. The committees review operational risk losses and issues and evaluate an appropriate risk reduction strategy.

48 RISK MANAGEMENT (continued)

Operational risk (continued)

The Group Operational Risk function, as the second line of defense, provides consistent and standardized methods and tools to the business and support functions for managing operational risk. The central unit monitors the risk management process and compliance to the operational risk policies and procedures. It conducts independent analysis of the operational risk exposure and the bank’s mitigating strategies.

The Group has established a systematic operational risk management process comprising of risk assessment, risk treatment, risk monitoring, and risk communication and reporting. The process is challenged and reviewed regularly to ensure its effectiveness and appropriateness for the growth and business strategy of the Group.

Operational risks are assessed across all areas of the Group, all processes, products and services, and systems. The operational risk exposure is classified into four types between ‘low’ and ‘critical’. Operational risks that exceed a defined threshold are presented to the appropriate management level and receive required attention. A structured process for risk acceptance allows the Group to balance operational risk, business reward, and cost of mitigation.

The Group obtains comprehensive and tailored insurance cover to protect the Group against unexpected and substantial unforeseeable losses. Insurance cover is obtained from high rated insurance companies in the international reinsurance market. The requirements for insurance are reviewed periodically and the insurance cover is aligned to changes of the Group’s risk exposure.

As part of operational risk management the Group has established a comprehensive information security framework. Information security is governed by a security policy and related procedures based on international standards such as ISO27001 and Payment Card Industry – Data Security Standards (PCI-DSS). The information security processes ensure confidentiality, integrity and availability of the Group’s information, information systems and its resources through the selection and application of appropriate safeguards.

Business Continuity Management

Business Continuity Management (BCM) is defined as a “holistic management process that identifies potential threats to an organization and the impacts to business operations that those threats, if realized, might cause, and which provides a framework for building organizational resilience with the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities.”

The business continuity process across the Group is based on the international standard ISO22301:2012 (E). The BRC is responsible for providing oversight and strategy for Business Continuity Management. Business and support units are responsible to ensure appropriate Business Continuity Plans are in place and tested for their respective areas. The effectiveness of the Business Continuity Plans is monitored independently by Group Operational Risk.

48 RISK MANAGEMENT (continued)

Liquidity risk

Liquidity Risk refers to the inability of the Group to fund an increase in assets and meet obligations as they become due (Structural Funding Risk), or the inability to convert assets into cash at reasonable prices (Market Liquidity Risk). The risk arises from mismatches in the amount and timings of cash flows.

Objectives and Governance structure

The objective of the Group's liquidity and funding management framework is to ensure that all foreseeable funding commitments (under both normal and stressed conditions) can be met when due, and that access to the wholesale markets is coordinated and cost effective. To this end, the Group maintains a diversified funding base comprising core consumer and corporate customer deposits and institutional balances. This is augmented with wholesale funding and portfolios of highly liquid assets diversified by currency and maturity which are held to enable the Group to respond quickly and smoothly to unforeseen liquidity requirements.

Liquidity risk is managed centrally by the Group ALCO where liquidity risk is a standing agenda item. Group ALCO comprises of the Group CEO, Group CFO, Group CRO, and the heads of all major lines of business (Treasury, Wholesale Banking and Consumer and Wealth Management), and is the central authority for identifying and managing such risk. The ALM Function in Group Finance is responsible for liquidity measurement, monitoring and reports risk exposures independently to the Group ALCO.

In case of operating subsidiaries and overseas branches that are subject to additional liquidity limits imposed by its local regulator, the subsidiary or the overseas branch head retains the responsibility for managing its overall liquidity within the regulatory limit, under Group Treasury oversight and direction of the Group ALCO.

Policies and Procedures

The Group ALCO, through the Group Treasury operates a centralized governance and control process that covers the Group's liquidity risk management activities. The subsidiaries conduct their capital and wholesale market funding under Group Treasury oversight and direction of the Group ALCO.

48 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Policies and Procedures (continued)

Specifically, liquidity and funding management process includes:

- projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- mis-match analysis between assets and liabilities for different periods with a focus on shorter time frames. These gap reports are based on contractual cash flow, retention and decay assumptions for non-maturing assets and liabilities and potential liquidity demand through undrawn commitments;
- monitoring balance sheet liquidity and advances to deposits ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with back-up facilities;
- managing the concentration and profile of debt maturities;
- maintaining debt financing plans;
- monitoring customer depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of distress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crisis, while minimising adverse long-term implications for the business.

Liquidity risk mitigation

The Group ALCO, in conjunction with Group Treasury is primarily responsible for implementing the liquidity management strategies on structural positions, and maintaining adequate liquidity buffers for possible distress situations. The Group maintains adequate liquidity buffers consisting of high credit quality (minimum AA-) investment securities, Central Bank CDs and Central Bank Securities, which can be monetized at short notice and minimal cost. Other business units contribute to overall structural liquidity management through product mix strategies and deposit targets.

The Group ALCO, in line with the best practices, recognizes that users and providers of liquidity as a resource should be compensated in an equitable and transparent manner. This is achieved through the Funds Transfer Pricing ("FTP") system which is aligned to charge/compensate for liquidity of the underlying assets or liabilities. These processes are embedded into product pricing decisions and performance measurement systems. The ALM Function in Group Finance in conjunction with the Group ALCO manages and calibrates the FTP system for the Group, in the light of business strategies or market movements.

The Group uses cash-flow stress testing as part of its control processes to assess liquidity risk.

48 RISK MANAGEMENT (continued)

MATURITY ANALYSIS OF ASSETS AND LIABILITIES:

The table below summarizes the maturity profile of the Group's assets and liabilities:

31 December 2015	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Undated and Over 5 years AED 000	Total AED 000
ASSETS						
Cash and deposits with Central Bank	48,674,670	6,300,000	-	-	-	54,974,670
Due from banks	26,629,047	10,031,258	2,217,535	2,703	956,041	39,836,584
Trading securities	367	627,799	506,931	270,097	273,675	1,678,869
Investment securities	1,331,449	3,907,323	2,782,207	3,927,589	3,978,013	15,926,581
Loans and receivables	125,622,144	20,081,988	23,827,695	11,277,587	45,887,127	226,696,541
Islamic financing receivables	9,023,557	4,596,021	8,296,703	10,501,397	11,466,639	43,884,317
Investments in associates and joint ventures	-	-	-	-	1,615,021	1,615,021
Positive fair value of derivatives	148,350	327,941	1,475,455	351,666	365,667	2,669,079
Investment properties	-	-	-	-	805,937	805,937
Customer acceptances	3,148,208	564,541	-	-	-	3,712,749
Property and equipment	-	-	-	-	2,396,314	2,396,314
Goodwill and Intangibles	-	-	-	-	6,030,825	6,030,825
Other assets	2,532,613	2,566,580	947,380	-	286,115	6,332,688
TOTAL ASSETS	217,110,405	49,003,451	40,053,906	26,331,039	74,061,374	406,560,175

48 RISK MANAGEMENT (continued)

MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued):

31 December 2015	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Undated and Over 5 years AED 000	Total AED 000
LIABILITIES						
Due to banks	13,081,931	3,693,962	2,046,826	-	-	18,822,719
Customer deposits	187,780,407	30,487,266	3,208,751	2,856,579	52,210	224,385,213
Islamic customer deposits	19,799,575	26,488,411	16,558,706	-	-	62,846,692
Repurchase agreements with banks	-	-	1,882	87,583	158,869	248,334
Debt issued and other borrowed funds	1,557,200	7,565,990	6,459,758	6,769,287	8,935,107	31,287,342
Sukuk payable	-	-	3,672,500	-	-	3,672,500
Negative fair value of derivatives	183,559	284,891	1,175,299	588,657	377,799	2,610,205
Customer acceptances	3,148,208	564,541	-	-	-	3,712,749
Other liabilities	2,477,164	5,748,730	-	-	-	8,225,894
Total equity	-	-	-	-	50,748,527	50,748,527
TOTAL LIABILITIES AND EQUITY	228,028,044	74,833,791	33,123,722	10,302,106	60,272,512	406,560,175
OFF BALANCE SHEET						
Letters of Credit and Guarantees	24,847,745	10,170,005	16,070,534	2,738,420	1,001,117	54,827,821
31 December 2014						
ASSETS	178,571,121	38,938,215	40,673,703	30,516,063	74,321,889	363,020,991
LIABILITIES AND EQUITY	213,332,949	54,370,769	29,060,003	11,377,896	54,879,374	363,020,991
OFF BALANCE SHEET ITEMS	21,246,634	14,450,057	10,507,141	2,002,207	1,217,409	49,423,448

48 RISK MANAGEMENT (continued)

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES:

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2015 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice was given immediately. However, the Group expects that many customers will not request repayment on the earliest date, the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

As at 31 December 2015

	Carrying amount AED 000	Gross nominal outflows AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Financial liabilities							
Due to banks	18,822,719	(18,891,370)	(13,090,432)	(3,749,112)	(2,051,826)	-	-
Customer deposits	224,385,213	(225,085,797)	(188,294,207)	(30,501,027)	(3,324,114)	(2,913,418)	(53,031)
Islamic customer deposits	62,846,692	(63,196,876)	(19,899,072)	(26,687,089)	(16,610,715)	-	-
Repurchase agreements with banks	248,334	(248,334)	-	-	(1,883)	(87,583)	(158,868)
Debt issued and other borrowed funds	31,287,342	(34,183,639)	(1,700,218)	(8,227,224)	(7,278,842)	(7,631,910)	(9,345,445)
Sukuk payable	3,672,500	(3,925,265)	(40,669)	(122,008)	(3,762,588)	-	-
	341,262,800	(345,531,281)	(223,024,598)	(69,286,460)	(33,029,968)	(10,632,911)	(9,557,344)
Letters of credit and guarantees	54,827,821	(54,827,821)	(24,847,745)	(10,170,005)	(16,070,534)	(2,738,420)	(1,001,117)
Irrevocable loan commitments	23,550,505	(23,550,505)	(13,951,672)	(4,320,752)	(5,205,479)	(72,602)	-

48 RISK MANAGEMENT (continued)

As at 31 December 2014

	Carrying amount AED 000	Gross nominal outflows AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Financial liabilities							
Due to banks	15,385,907	(15,406,323)	(12,986,949)	(2,047,629)	(371,745)	-	-
Customer deposits	203,971,458	(205,763,635)	(173,468,317)	(25,393,118)	(2,273,044)	(4,515,030)	(114,126)
Islamic customer deposits	54,287,171	(54,408,000)	(38,454,465)	(15,036,711)	(916,824)	-	-
Repurchase agreements with banks	35,369	(35,369)	(35,369)	-	-	-	-
Debt issued and other borrowed funds	26,697,691	(29,734,711)	(1,343,741)	(2,994,417)	(10,143,951)	(6,810,862)	(8,441,740)
Sukuk payable	3,673,000	(4,087,942)	(40,669)	(122,008)	(3,925,265)	-	-
	304,050,596	(309,435,980)	(226,329,510)	(45,593,883)	(17,630,829)	(11,325,892)	(8,555,866)
Letters of credit and guarantees	49,423,448	(49,423,448)	(21,246,634)	(14,450,057)	(10,507,141)	(2,002,207)	(1,217,409)
Irrevocable loan commitments	17,892,124	(17,892,124)	(11,729,850)	(2,593,709)	(3,568,565)	-	-

48 RISK MANAGEMENT (continued)

Interest rate risk in the banking book

Interest Rate Risk in the Banking Book ('IRRBB') is defined as the exposure of the non-trading products of the Group to interest rates. Non-trading portfolios include all banking book positions that arise from the interest rate on the Group's consumer and commercial banking assets and liabilities, and financial investments designated as available for sale and held to maturity. IRRBB arises principally from mismatches between the future yields on assets and their funding costs, as a result of interest rate changes. Analysis of this risk is complicated by having to make assumptions on embedded optionality within certain product areas such as the incidence of prepayments in consumer loans, and from behavioral assumptions regarding the economic duration of liabilities which are contractually repayable on demand such as current accounts.

In order to manage this risk optimally, IRRBB in non-trading portfolios is transferred to Group Treasury under the supervision of the Group ALCO, through Funds Transfer Pricing (FTP) Systems. Group ALCO is required to regularly monitor all such interest rate risk positions to ensure they comply with interest rate risk limits.

The ALM Function in Group Finance is responsible for IRRBB measurement, monitoring and reports risk exposures independently to the Group ALCO. The Group ALCO reviews that the assumptions (used to transform positions into interest rate exposures) are reasonable and commensurate with the nature and complexity of the Group's holdings.

For measuring overall interest sensitivity in the banking book, the Group conducts stress tests by simulating parallel shifts to the yield curve(s) ranging from 50 basis points to 200 basis points, and assessing the corresponding impact on its Net Interest Income.

	As at 31 December 2015		As at 31 December 2014	
	Amount AED 000	Variance AED 000	Amount AED 000	Variance AED 000
Rates Up 200 bp	10,367,020	1,347,152	7,631,305	824,034
Base Case	9,019,868		6,807,271	-
Rates Down 200 bp	8,085,672	(934,196)	6,445,638	(361,633)

The interest rate sensitivities set out in the table above are based on a set scenario i.e. the projections above assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential effect on net interest income of some rates changing while others remain unchanged. The projections also make the assumption that all positions run to maturity. This effect does not incorporate actions that would be taken by Group Treasury or in the business units to mitigate the impact of this interest rate risk. In practice, Group Treasury seeks proactively to change the interest rate risk profile to minimize losses and optimize net revenues.

To measure and manage interest rate risk and its possible impact on Economic Value of the entity, the Group has established internal limits based on the PV01. The interest rate gaps and sensitivity tests (NII and PV01) are measured and monitored on a monthly basis by the ALM Function in Group Finance, and reported to the Group ALCO.

48 RISK MANAGEMENT (continued)

Interest Rate Repricing Analysis:

31 December 2015	Less than 1 month AED 000	Over 1 month to 3 months AED 000	Over 3 months to 6 months AED 000	Over 6 months to 1 year AED 000	Over 1 year AED 000	Non-interest bearing AED 000	Total AED 000
ASSETS							
Cash and deposits with Central Bank	5,530,769	9,055,728	6,300,000	-	-	34,088,173	54,974,670
Due from banks	20,008,366	9,960,151	3,494,784	758,545	773,918	4,840,820	39,836,584
Trading securities	172,217	250,842	263,813	255,395	618,115	118,487	1,678,869
Investment securities	297,970	1,927,995	2,920,697	2,720,930	6,036,605	2,022,384	15,926,581
Loans and receivables	130,112,687	37,809,045	8,545,231	3,040,442	47,189,136	-	226,696,541
Islamic financing receivables	4,805,914	4,230,843	2,628,572	1,962,249	30,256,739	-	43,884,317
Investments in associates and joint ventures	-	-	-	-	-	1,615,021	1,615,021
Positive fair value of derivatives	-	-	-	-	-	2,669,079	2,669,079
Investment properties	-	-	-	-	-	805,937	805,937
Customer acceptances	-	-	-	-	-	3,712,749	3,712,749
Property and equipment	-	-	-	-	-	2,396,314	2,396,314
Goodwill and Intangibles	-	-	-	-	-	6,030,825	6,030,825
Other assets	-	-	-	-	-	6,332,688	6,332,688
TOTAL ASSETS	160,927,923	63,234,604	24,153,097	8,737,561	84,874,513	64,632,477	406,560,175

48 RISK MANAGEMENT (continued)

Interest Rate Repricing Analysis (continued):

31 December 2015	Less than 1 month AED 000	Over 1 month to 3 months AED 000	Over 3 months to 6 months AED 000	Over 6 months to 1 year AED 000	Over 1 year AED 000	Non-interest bearing AED 000	Total AED 000
LIABILITIES AND EQUITY							
Due to banks	9,329,023	3,041,959	2,496,069	1,197,893	1,652,625	1,105,150	18,822,719
Customer deposits	78,670,654	26,643,165	16,876,215	13,450,796	6,008,760	82,735,623	224,385,213
Islamic customer deposits	4,854,132	21,669,741	16,076,622	3,533,462	254,523	16,458,212	62,846,692
Repurchase agreements with banks	-	-	-	-	248,334	-	248,334
Debt issued and other borrowed funds	537,186	9,630,986	1,963,898	728,279	18,426,993	-	31,287,342
Sukuk payable	-	-	-	-	3,672,500	-	3,672,500
Negative fair value of derivatives	-	-	-	-	-	2,610,205	2,610,205
Customer acceptances	-	-	-	-	-	3,712,749	3,712,749
Other liabilities	-	-	-	-	-	8,225,894	8,225,894
Total equity	-	-	-	-	-	50,748,527	50,748,527
TOTAL LIABILITIES AND EQUITY	93,390,995	60,985,851	37,412,804	18,910,430	30,263,735	165,596,360	406,560,175
ON BALANCE SHEET GAP	67,536,928	2,248,753	(13,259,707)	(10,172,869)	54,610,778	(100,963,883)	-
OFF BALANCE SHEET GAP	(4,258,490)	94,600	300,000	-	3,863,890	-	-
INTEREST RATE SENSITIVITY GAP – 2015	63,278,438	2,343,353	(12,959,707)	(10,172,869)	58,474,668	(100,963,883)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP – 2015	63,278,438	65,621,791	52,662,084	42,489,215	100,963,883	-	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP – 2014	42,325,180	35,466,836	29,147,967	27,021,427	90,285,005	-	-

48 RISK MANAGEMENT (continued)

Reputational Risk

Reputational risk is the risk of potential loss of earnings and future revenue, loss in market value or lack of liquidity supply due to deterioration of reputation. It also includes the threat to the brand value of a financial institution.

Reputational risk can arise as a consequence of failures with a strong negative perception of clients, shareholders, creditors or the public. The Group has controls to ensure a positive perception of the Group and that overall risk management ensures appropriate management of reputational risk.

Regulatory/Compliance Risk

Regulatory/Compliance risk is the risk of reputational and/or financial losses due to the failure to comply with applicable laws, regulations or sanctions.

The Group has an independent compliance function, with the necessary mandate and authority to enforce and monitor compliance on a Group wide basis. This includes compliance with the applicable laws and regulations across the various jurisdictions where the Group operates and the monitoring and reporting on Regulatory, Anti Money Laundering (AML) and sanction related matters. The Group has Compliance policies in place at a Group-level as well as in the international jurisdictions where it is present to meet specific regulatory requirements, including Anti Money Laundering (AML), “Know-Your-Customer” (KYC) and sanctions. The Group has automated monitoring and screening systems to help comply with the AML and Sanctions regulatory requirements, Training is provided to staff to enhance the knowledge and awareness on Compliance matters.

Business Risk

Business risk is the potential risk of negative impact on Group’s profits and capital, as a result of unforeseen changes in business and regulatory environment and exposure to economic cycles.

The Group measure such risk through stress testing and ensures that the Group is adequately capitalized, so that the business model and planned activities are resourced and capitalized consistent with the commercial, economic and risk environment in which the Group operates.

Capital management policies and stress testing

The Group has a robust capital adequacy assessment, monitoring and reporting process and is pro-actively advancing its internal capital adequacy assessment framework along the lines of Basel II and in anticipation of Basel III.

The forward-looking internal capital adequacy assessment process (ICAAP) is based on the Group’s financial budget projections. Stress scenarios are considered to assess the strength of Group’s capital adequacy over a three year period.

The ICAAP is based on Economic Capital and defines adequacy as balance of capital supply, in the form of available financial resources, and capital demand, in the form of cushion against unexpected losses.

48 RISK MANAGEMENT (continued)

Capital management policies and stress testing (continued)

The Group measures capital adequacy as “the capability to withstand unexpected losses at a confidence level of 99.9% through its capital base including projected net-income post dividend and provisions” with the latter measure being the key measure for the adequacy assessment.

The results of the internal capital adequacy assessment process, quarterly actual assessment as well as the annual multi-year forward-looking forecast are monitored against the Group’s Risk Strategy.

The Group employs an Integrated Stress Testing Framework to quarterly assess the potential implications of adverse financial conditions and the development of key ratios under stressful conditions. The outcomes of the Integrated Stress Testing Framework influence the setting of the Bank’s risk appetite as part of the Bank’s periodical Risk Strategy review.

The Integrated Stress Testing Framework encompasses:

- the forward-looking assessment of economic scenarios, including potential feedback loops and second round effects;
- the measurement of sensitivities against key risk drivers and parameters; and
- the analysis of reverse stress tests modeling events that could cause a significant impact on the Bank, and provide a comprehensive analysis on the potential impact in terms of balance sheet structure, financial performance, capitalisation levels and funding profile.

The Bank’s stress testing process involves key stake-holders of Group Finance, business units and Group’s economist in order to develop economically relevant scenarios and include the views of key stakeholders. The results of the quarterly stress testing exercises are discussed at senior management and Board level.

In addition, the Group uses the results of the Integrated Stress Testing Framework to assess the outcome and stability of the employed Economic capital models.

Internal Audit’s role in overall risk management

Internal Audit’s reporting lines are independent of management and it reports directly to the Board Audit Committee. It is responsible for providing an independent review of the control environment across the group including all aspects of risk management. The primary objective of Internal Audit is to provide reliable, valued and timely assurance to the Board and Executive Management over the effectiveness of controls to mitigate current and emerging high risks thereby enhancing the control culture within the Group. The Board Audit Committee reviews and approves Internal Audit’s plans and resources, and evaluates the effectiveness of Internal Audit. An assessment by external advisers is also carried out periodically.

48 RISK MANAGEMENT (continued)

Risk management framework and processes at Emirates Islamic (EI)

EI risk management policies and processes are aligned with the Group's risk management framework. Due consideration is given to process as regards Sharia compliance.

There is a risk management function within EI which reports to Group Risk and the EI CEO jointly.

Risk management framework and processes at Emirates NBD Egypt operations

Emirates NBD Egypt was acquired by The Group in Q2, 2013 and since then the Egyptian business operation has progressed significantly towards adopting The Group Risk Management Framework to effectively manage its Risks. The significant risk categories that the Bank is mainly exposed to in Egypt are credit, market, liquidity, operational and reputational risk.

49 LEGAL PROCEEDINGS

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has proper controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the information available, no material adverse impact on the financial position of the Group is expected to arise from legal claims as at 31 December 2015 other than to the extent already provided, hence no additional provision for any claim needs to be made in these financial statements.

50 SOCIAL CONTRIBUTIONS

The social contributions (including donations and charity) made during the year amount to AED 27.4 million (2014: AED 9.0 million).