Noor Bank PJSC

Directors' report and consolidated financial statements for the year ended 31 December 2015

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Directors' report for the year ended 31 December 2015

The Board of Directors are pleased to submit their report on the activities of Noor Bank PJSC ("the Bank") together with the audited consolidated financial statements for the year ended 31 December 2015.

Principal activities

The principal activities of the Bank are carrying out banking, financing and investing activities through various Islamic financing instruments such as Murabahah, Wakalah, Tawarruq, Istisna, Islamic sukuk and Ijarah. The activities of the Bank are conducted in accordance with the Islamic Shari'a principles and in compliance with the provisions of the Memorandum and Articles of Association of the Bank.

Results

The consolidated statement of financial position of the Bank as at 31 December 2015, together with its consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended are set out in the accompanying consolidated financial statements.

Dividends

The Board of Directors have proposed cash dividends of 10% for the year ended 31 December 2015.

Composition of the Board of Directors

The Board of Directors of the Bank comprised of the following individuals during the year ended 31 December 2015:

H.H. Sheikh Ahmed bin Mohammad bin Rashid Al Maktoum (Chairman)
H.E. Lt. Gen. Musabbeh Rashid Musabbeh Al Fattan (Vice Chairman)
H.E. Abdullah Bin Mohammed Ghobash
Mr. Sultan Ahmad Sultan bin Sulayem
Mr. Mohamed Ali Rashed Alabbar
Mr. Saif Jaffar Suhail Markhan Alketbi *
Mr. Essa Abdulfattah Kazim Al Mulla
Mr. Soud Ahmad Abdulrahman Ba'alawy
Mr. Abdulla Ahmed Mohamed Al Habbai **
Mr. Hussain Ahmad Dhaen Al Qemzi

* Appointed effective 28 July 2015
** Resigned effective 4 May 2015

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors on 24 February 2016.

……………………… ………………………
Director Director

Independent auditor's report to the shareholder of Noor Bank PJSC

Report on the consolidated financial statements

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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Douglas O'Mahony, Paul Suddaby and Jacques Fakhoury are registered as practising auditors with the UAE Ministry of Economy

Independent auditor's report to the shareholder of Noor Bank PJSC (continued)

Opinion

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

Report on other legal and regulatory requirements

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

(a) we have obtained all the information we considered necessary for the purposes of our audit;
(b) 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;
(c) the Group has maintained proper books of account;
(d) the financial information included in the Directors' report is consistent with the books of account of the Group; and
(e) as disclosed in note 7 to the consolidated financial statements, the Group has not purchased or invested in any shares during the financial year ended 31 December 2015;
(f) note 26 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;
(g) Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2015 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2015; and
(h) as disclosed in note 23 to the consolidated financial statements, the Group has not made any social contributions during the year ended 31 December 2015.

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

PricewaterhouseCoopers
28 February 2016

Paul Suddaby

Paul Suddaby
Registered Auditor Number 309
Dubai, United Arab Emirates

Noor Bank PJSC

Consolidated statement of financial position
As at 31 December 2015

	Note	2015 AED'000	2014 AED'000
ASSETS			
Cash and balances with the UAE Central Bank	4	7,446,119	3,391,684
Due from banks	5	4,600,192	2,992,166
Investments in Islamic financing instruments	6	23,206,891	18,036,859
Investments in Islamic sukuk	7	2,441,873	2,881,263
Investment properties	8	1,231,715	1,266,567
Other assets	9	320,458	227,839
Property and equipment	10	217,218	216,577
Total assets		39,464,466	29,012,955
LIABILITIES AND EQUITY			
LIABILITIES			
Customer deposits	11	32,148,741	23,850,955
Wakalah term deposits	12	544,192	544,192
Due to banks	13	376,860	542,223
Sukuk financing instruments	14	1,836,450	-
Other liabilities	15	1,045,623	802,360
Total liabilities		35,951,866	25,739,730
EQUITY			
Share capital	16	3,357,895	3,307,895
Subscribed share capital	16	-	50,000
Statutory reserve	17	213,000	156,917
Revaluation surplus on land and buildings	10	124,650	127,932
Cumulative changes in fair value of available-for-sale Islamic sukuk		(5,650)	(19,984)
Accumulated losses		(177,295)	(349,535)
Total equity		3,512,600	3,273,225
Total equity and liabilities		39,464,466	29,012,955

These consolidated financial statements were approved by the Board of Directors on 24 February 2016 and signed on its behalf by:

……………………………
Director

……………………………
Director

Noor Bank PJSC

Consolidated income statement
for the year ended 31 December 2015

	Note	2015 AED'000	2014 AED'000
Operating income			
Income from Islamic financing and sukuk	18	1,130,016	895,165
Depositors' share of profit	19	(242,358)	(238,413)
Net income from Islamic financing		887,658	656,752
Fee and other income, net of charges	20	513,235	296,573
(Loss)/gain on investments in Islamic sukuk	21	(3,704)	30,990
Change in fair value of investment properties	8	-	28,356
Total operating income		1,397,189	1,012,671
Operating expenses			
Staff costs	22	(479,129)	(340,007)
General and administrative expenses	23	(132,751)	(127,270)
Depreciation	10	(26,409)	(21,532)
Total operating expenses		(638,289)	(488,809)
Operating profit before impairment on investments in Islamic financing instruments		758,900	523,862
Impairment charge on Islamic financing instruments	6	(198,069)	(122,593)
Operating profit after impairment on investments in Islamic financing instruments		560,831	401,269
Reversal of impairment loss on land and buildings	10	-	276,816
Profit for the year		560,831	678,085

The accompanying notes on pages 9 to 63 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2015

	Note	2015 AED'000	2014 AED'000
Profit for the year		560,831	678,085
Other comprehensive income			
Items that will not be reclassified to income statement			
- Gain on revaluation of land and buildings	10	-	120,345
Items that may be subsequently reclassified to income statement			
Fair value reserve on available-for-sale Islamic sukuk			
- Net changes in fair value	7	8,519	2,316
- Net realised loss/(gain) transferred to income statement	21	5,815	(20,775)
Total other comprehensive income		14,334	101,886
Total comprehensive income for the year		575,165	779,971

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

	Share capital AED'000	Subscribed share capital AED'000	Statutory reserve AED'000	Revaluation surplus on land & buildings AED'000	Cumulative changes in fair value of available-for- sale investment in Islamic sukuk AED'000	Accumulated losses AED'000	Total AED'000
At 1 January 2014	3,307,895	-	89,108	7,587	(1,525)	(959,811)	2,443,254
Profit for the year	-	-	-	-	-	678,085	678,085
Revaluation of land and buildings (Note 10)	-	-	-	120,345	-	-	120,345
Net changes in fair value	-	-	-	-	2,316	-	2,316
Net realised gain transferred to income statement on disposal of available-for-sale investments in Islamic sukuk	-	-	-	-	(20,775)	-	(20,775)
Other comprehensive income for the year	-	-	-	120,345	(18,459)	-	101,886
Total comprehensive income for the year	-	-	-	120,345	(18,459)	678,085	779,971
Other equity movements							
Shares subscribed received (Note 16)	-	50,000	-	-	-	-	50,000
Transfer to statutory reserve (Note 17)	-	-	67,809	-	-	(67,809)	-
At 31 December 2014	3,307,895	50,000	156,917	127,932	(19,984)	(349,535)	3,273,225
Total comprehensive income for the year							
Profit for the year	-	-	-	-		560,831	560,831
Net changes in fair value	-	-	-	-	8,519	-	8,519
Net realised loss transferred to income statement on disposal of available-for-sale investments in Islamic sukuk	-	-	-	-	5,815	-	5,815
Other comprehensive income for the year	-	-	-	-	14,334	-	14,334
Total comprehensive income for the year	-	-	-	-	**14,334**	**560,831**	**575,165**
Other equity movements							
Share capital issued (Note 16)	50,000	(50,000)	-	-	-	-	-
Transfer to statutory reserve (Note 17)	-	-	56,083	-	-	(56,083)	-
Transfer from surplus on revaluation of building to accumulated losses	-	-	-	(3,282)	-	3,282	-
Dividends paid for 2014 (Note 16)	-	-	-	-	-	(335,790)	(335,790)
At 31 December 2015	**3,357,895**	-	**213,000**	**124,650**	**(5,650)**	**(177,295)**	**3,512,600**

The accompanying notes on pages 9 to 63 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2015

	Note	2015 AED'000	2014 AED'000
Operating activities			
Profit for the year		560,831	678,085
Adjustments for:			
Impairment loss on Islamic financing instruments	6	198,069	122,593
Change in fair value of investment properties	8	-	(28,356)
Gain on disposal of investment properties	20	(7,710)	-
Reversal of impairment loss on property	10	-	(276,816)
Property and equipment disposed/written off	10	5,691	-
Amortisation of premium on Held to maturity sukuk		1,673	2,887
Gain on investments in Islamic sukuk		3,704	(30,990)
Depreciation of property and equipment	10	26,409	21,532
Operating cash flows before changes in working capital		788,667	488,935
Changes in working capital:			
Statutory reserve with the UAE Central Bank	4	(902,050)	(778,318)
Due from banks	4	(1,758,870)	137,633
Investments in Islamic financing instruments	6,8	(5,380,599)	(3,868,982)
Net proceeds from disposal of investments in Islamic sukuk – Held for trading		216,136	(68,981)
Other assets	9	(92,619)	(46,104)
Customer deposits	11	8,297,786	5,187,374
Due to banks	4	24	(395,945)
Other liabilities	15	243,263	381,843
Net cash generated from operating activities		1,411,738	1,037,455
Investing activities			
Purchase of Islamic sukuk - Available for sale investments		(11,128,251)	(9,234,437)
Proceeds from Islamic sukuk - Available for sale investments		11,391,382	8,653,820
Purchase of Islamic sukuk – Held to maturity		(30,920)	(555,814)
Maturity proceeds from Islamic sukuk - Held to maturity		-	145,082
Proceeds from disposal of investment properties	8,20	55,060	-
Investments in certificate of deposits	4	(1,200,000)	(500,000)
Additional investment in other equity investments	9	-	(2,000)
Additions to property and equipment	10	(32,741)	(41,715)
Net cash generated from investing activities		(945,470)	(1,535,064)
Financing activities			
Sukuk Financing Instruments	14	1,836,450	-
Dividend Payment	16	(335,790)	-
Subscription received towards subscribed share capital	16	-	50,000
Tier II Wakalah deposit repaid		-	(770,921)
Tier II Wakalah deposit received		-	544,192
Net cash used in financing activities		1,500,660	(176,729)
Net increase/(decrease) in cash and cash equivalents		1,966,928	(674,338)
Cash and cash equivalents, beginning of the year		2,182,665	2,857,003
Cash and cash equivalents, end of the year	4	4,149,593	2,182,665

The accompanying notes on pages 9 to 63 form an integral part of these consolidated financial statements.

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

1 Incorporation and principal activities

Noor Bank PJSC ("the Bank") was incorporated on 26 March 2007 as a Public Joint Stock Company under UAE Federal Law No. 8 of 1984 (as amended) and is regulated by the Central Bank of the United Arab Emirates ("UAE"). The Bank has its registered office at Emaar Square, Building No. 1, Sheikh Zayed Road, P.O. Box 8822, Dubai, UAE. The Bank was registered with the Securities and Commodities Authority ("SCA") on 26 April 2007 and commenced its operations thereafter.

UAE Federal Law No. 2 of 2015 (Companies Law) which is applicable to the Group has come into effect from 1 July 2015. The Group is currently assessing and evaluating the relevant provisions of the Companies Law. It has twelve months from the effective date of the Companies Law to fully comply with the Companies Law under the transitional provisions set out therein.

The principal activities of the Bank are carrying out banking, financing and investing activities through various Islamic instruments such as Murabahah, Wakalah, Tawarruq, Ijarah, Istisna' and Islamic sukuk. The activities of the Bank are conducted in accordance with the Shari'a rules and principles as applied and interpreted by the Bank's Fatwa and Shari'a Supervisory Board and in compliance with the provisions of the Memorandum and Articles of Association of the Bank.

The Bank has a fully owned special purpose entity, Noor Sukuk Company Limited ("SPE"), which was established in April 2015 for the issuance of the sukuk (Note 14).

The consolidated financial statements for the year ended 31 December 2015 comprise the Bank and its SPE (together referred to as "the Group").

Noor Investment Group LLC ("NIG"), the parent company, holds 91% of the shareholding in the Bank.

2 Basis of preparation

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board (IASB).

2.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis, except for the fair value measurement of following items in the consolidated statement of financial position:

- Financial assets and liabilities held for trading.
- Investments in Islamic sukuk classified as available-for-sale and fair value through income statement.
- Investment properties.
- Land and buildings classified under property and equipment.

2 Basis of preparation (continued)

2.3 Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirham ("AED"), which is the Group's functional currency. Except as indicated, the consolidated financial statements have been rounded to the nearest thousand.

2.4 Use of estimates and judgements

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

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

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described as follows:

(a) Impairment of investments in Islamic financing instruments

The Bank reviews its financing portfolio to assess impairment on a regular basis. In determining whether an impairment loss should be recognised, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence also may include observable data indicating that there has been an adverse change in the collections from customers in a group. Management uses estimates based on historical loss experience for financing with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Classification of investments in Islamic sukuk as Held-to-Maturity ("HTM")

In accordance with IAS 39 guidance, the Bank classifies its investments in Islamic sukuk with fixed or determinable payments and fixed maturities as HTM which requires significant judgment in evaluating Bank's intention and ability to hold such investments until maturity. Except for certain specific circumstances, any sale or reclassification of a more than insignificant amount of HTM investments would result in the reclassification of all HTM investments as available-for-sale, and would prevent the Group from classifying investment in Islamic sukuk as HTM for the current and the following two financial years.

2 Basis of preparation (continued)

2.4 Use of estimates and judgements (continued)

(c) Fair valuation of investment properties and buildings under property and equipment

The fair valuation of investment properties and buildings under property and equipment is based on estimated value as determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). In undertaking the valuation the valuation experts have made a number of assumptions and relied upon various sources of information. Management reviews the assumptions based on their reasonable knowledge and other information available about the property.

(d) Estimated useful life and residual value of property and equipment

The Bank's management determines the estimated useful lives and related depreciation charges for its property and equipment at least on an annual basis. The Group carries out a review of the useful lives of property and equipment at the reporting date and makes necessary changes to the useful life of the property and equipment, if required. Residual value in case of all property and equipment are assumed to be "AED 1".

2.5 New standards and amended to published standards effective for the Group's accounting period beginning on 1 January 2015

New standards and significant amendments to standards	Effective date
Annual improvements 2012 These annual improvements amend standards from the 2010 - 2012 reporting cycle. It includes changes to: ■ IFRS 8, 'Operating segments' which is amended to require disclosure of the judgements made by management in applying the aggregation criteria to operating segments. It is also amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported. ■ IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. ■ IAS 24, 'Related party disclosures' is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the 'management entity'). Disclosure of the amounts charged to the reporting entity is required.	1 July 2014
Annual improvements 2013 ■ IFRS 13 'Fair value measurement' on clarification of the portfolio exemption in IFRS 13 - The amendment clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9.	1 July 2014

2 Basis of preparation (continued)

2.5 New standards and amended to published standards effective for the Group's accounting period beginning on 1 January 2015 (continued)

New standards and significant amendments to standards	Effective date
IAS 19, Defined benefit plans : Employee contributions The amendment clarifies the accounting by entities with plans that require contributions linked only to service in each period. Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over employees' working lives. Management should consider how it will apply that model.	1 July 2014

There is no material impact of these amendments to published standards on the consolidated financial statements of the Group.

2.6 New standards and amendments to published standards issued but not yet effective for the financial year beginning 1 January 2015 and not early adopted by the Group

New standards and significant amendments to standards	Effective date
Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortisation. This amendment clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The presumption may only be rebutted in certain limited circumstances.	1 January 2016
IAS 1 Amendments to IAS 1, 'Presentation of financial statements' Disclosure initiative The amendments clarify that it may be necessary to disaggregate some of the line items specified in IAS 1 paragraphs 54 (statement of financial position) and 82 (profit or loss). That disaggregation is required where it is relevant to an understanding of the entity's financial position or performance.	1 January 2016
Amendments to IFRS 10 and IAS 28, 'Investments in associates and joint ventures' regarding the sale or contribution of assets between an investor and its associate or joint venture These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.	1 January 2016

2 Basis of preparation (continued)

2.6 New standards and amendments to published standards issued but not yet effective for the financial year beginning 1 January 2015 and not early adopted by the Group (continued)

New standards and significant amendments to standards	Effective date
Annual improvements 2014 These annual improvements amend standards from the 2012 - 2014 reporting cycle. It includes changes to: ■ IFRS 7, 'Financial instruments: Disclosures' – The amendment related to servicing contracts requires that if an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. ■ IAS 19, 'Employee benefits' – The amendment clarifies, when determining the discount rate for post-employment benefit obligations, that it is the currency that the liabilities are denominated in that is important, not the country where they arise.	1 July 2016
IFRS 15, 'Revenue from contracts with customers' This standard replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus 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

2 Basis of preparation (continued)

2.6 New standards and amendments to published standards issued but not yet effective for the financial year beginning 1 January 2015 and not early adopted by the Group (continued)

New standards and significant amendments to standards	Effective date
IFRS 9, 'Financial instruments' The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. 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. 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 uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.	1 January 2018. Earlier application is permitted. If an entity elects to early apply it must apply all of the requirements at the same time.

The Group is in the process of assessing the impact of the above new standards and amendments to published standards or IFRIC interpretations issued but not yet effective for the Group's financial year beginning on 1 January 2015.

There are no other applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2015 that would be expected to have a material impact on the consolidated financial statements of the Group.

3 Significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements:

3.1 Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on that control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests comprise the portion of a subsidiary's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Group. They are shown separately in the consolidated statements of financial position, comprehensive income and changes in equity. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary.

The acquisition method of accounting is used to account for business combinations entered into by the Group. The consideration transferred for the acquisition of a subsidiary or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent consideration arrangement and any pre-existing equity interest in the subsidiary measured at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (b) fair value of the identifiable net assets acquired is recorded as goodwill.

3 Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

(a) Subsidiaries (continued)

Business combinations involving entities under common control are excluded from the scope of IFRS 3, Business Combinations and, accordingly, the directors of the Company are responsible for determining a suitable accounting policy for such business combinations. The directors have elected to use the uniting of interests method to account for business combinations involving entities under common control and to account for such business combinations prospectively, under the predecessor basis of accounting. Under the uniting of interests method, there is no requirement to fair value the assets and liabilities of the acquired entities and hence no goodwill arises on consolidation. The difference between the cost of the acquisition and the Group's share of the issued and paid up share capital of the acquired entity is recognized as a merger reserve in equity.

When a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in profit or loss.

(b) Transactions with the non-controlling interest holders

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

3.2 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement, as part of ' net foreign exchange income' under "fee and other income, net of charges".

3.3 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash on hand, balances held with the UAE Central Bank, deposits and balance due from banks or due to banks and placements with original maturity of less than three months, excluding statutory deposits required to be maintained with the UAE Central Bank.

3 Significant accounting policies (continued)

3.4 Due from banks

Amounts due from banks are initially recognised at fair value and subsequently measured at amortised cost less any amounts written off and provision for impairment, if any. Impairment of amounts due from banks is assessed as outlined in the accounting policy of impairment of financial assets (Note 3.9).

3.5 Investments in Islamic financing instruments

Investments in Islamic financing instruments are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments that are not quoted in an active market.

Investments in Islamic financing instruments are initially measured at fair value including transaction costs associated with the investments in Islamic financing instruments, if any, as soon as the customer is bound by the financing agreement to drawdown the financing amount.

Investments in Islamic financing instruments are subsequently measured at amortised cost using the effective profit rate method.

The effective profit rate method is a method of calculating the amortised cost of those financial instruments measured at amortised cost and of allocating income over the relevant period. The effective profit rate is the rate that is used to calculate the present value of the estimated future cash receipts (including all fees received that form an integral part of the effective profit rate) through the expected life of the financing and investing instruments to arrive at the net carrying amount on initial recognition.

Following the initial recognition, subsequent transfers between the various classes of investments in Islamic financing instruments is not ordinarily permissible.

3.6 Investments in Islamic sukuk

3.6.1 Classification

The Group classifies its investments in Islamic sukuk in the following categories: Held-to-Maturity (“HTM”) investments in Islamic sukuk, Available-For-Sale (“AFS”) investment in Islamic sukuk and financial assets at fair value through income statement (“FVTPL”). Management determines the classification of its investments at initial recognition.

Held-to-maturity

Investments in Islamic sukuk at HTM are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Group’s management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount from the HTM category, the entire category would be reclassified as AFS.

Available-for-sale

Investments in Islamic sukuk at AFS are those non-derivative financial assets that are designated as AFS or are not classified as (a) investments in Islamic financing instruments, (b) HTM investments or (c) financial assets at fair value through income statement.

3 Significant accounting policies (continued)

3.6 Investments in Islamic sukuk (continued)

3.6.1 Classification (continued)

Financial assets and financial liabilities at fair value through the income statement

Investments in Islamic sukuk at FVTPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

3.6.2 Recognition and measurement

Regular-way purchases and sales are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments in Islamic sukuk are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through income statement. Financial assets carried at fair value through income statement are initially recognized at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognized when the rights to receive cash flows from the investments in Islamic sukuk have expired or have been transferred and the Group has transferred substantially all risk and rewards of ownership. AFS and FVTPL financial assets are subsequently measured at fair value. HTM financial assets are subsequently carried at amortized cost using the effective profit rate method. Impairment on investments in Islamic sukuk classified as HTM is assessed as outlined in the accounting policy of impairment of financial assets (Note 3.9).

Gains and losses arising from changes in the fair value of AFS financial assets are recognised in other comprehensive income, until the investments in Islamic sukuk is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity through other comprehensive income is recognized in the consolidated income statement.

Foreign currency gains and losses arising on AFS monetary financial assets are directly recognised in the consolidated income statement.

Gains or losses arising from changes in the fair value of the FVTPL category are presented in the consolidated income statement within gain on investments in Islamic sukuk in the period in which they arise. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. The fair values of quoted investments in active markets are based on current bid prices, as the Group considers the bid to be most representative of fair value. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. In rare cases when the fair value of unlisted securities cannot be determined reliably, the securities are carried at cost less impairment.

Profit earned whilst holding investments in Islamic sukuk is reported as part of income from Islamic financing and sukuk in the consolidated income statement.

3 Significant accounting policies (continued)

3.6 Investments in Islamic sukuk (continued)

3.6.2 Recognition and measurement (continued)

The Group assesses at each reporting date whether there is objective evidence that an investments in Islamic sukuk are impaired. In the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset are impaired. If any such evidence exists for AFS financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in consolidated income statement – is removed from equity and recognised in the consolidated income statement.

Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement if there are subsequent increases in fair value. If, in a subsequent period, the fair value of a sukuk instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment is reversed through the consolidated income statement.

3.7 Property and equipment

Property and equipment are stated at cost less accumulated depreciation except for buildings, which are carried at fair value based on periodic valuations by an external independent valuer, less subsequent depreciation.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized 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 consolidated income statement during the financial period in which they are incurred.

Increase in the carrying amount arising on revaluation of buildings is recognised in the consolidated statement of other comprehensive income. Increase that offsets previous decreases of the same asset are recognised in the consolidated income statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement. Decrease that offsets previous increases of the same asset are charged against revaluation reserves directly in the consolidated statement of other comprehensive income; all other decreases are charged to the consolidated income statement.

Each year, the difference between the depreciation charge based on the revalued carrying amount of the asset and depreciation charge based on the asset's original cost or previous revalued amount is transferred from the revaluation reserve to retained earnings/accumulated losses.

3 Significant accounting policies (continued)

3.7 Property and equipment (continued)

Depreciation on fixed assets is calculated on the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	25
Leasehold improvements	10
Furniture, fittings and equipment	5
Vehicles	5
Computer equipment and software	3-5

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each consolidated statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings/accumulated losses.

Capital work in progress is stated at cost incurred from the date of commencement of the project to the date on which it is commissioned. When commissioned, capital work in progress is transferred to the appropriate category of property and equipment and depreciated in accordance with the Group's accounting policies.

3.8 Investment property

Investment property comprises property held for rental yields and for capital appreciation. It is not held for purposes of the Group's own use as part of property and equipment. Investment property is initially recognized at cost, including transaction expenses. Subsequent to initial recognition, investment property is carried at fair value.

Fair value of the investment property is determined on the basis of valuation undertaken by an independent valuer who holds a recognized and relevant qualification and has recent experience in the location and category of the investment property being valued. Gains and losses arising from changes in the fair value are recognized in the consolidated income statement in the period in which they arise.

If an item of property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in other comprehensive income in equity as a revaluation of property under IAS 16. If a fair value gain reverses a previous revaluation loss, the gain is recognised in the consolidated income statement.

3 Significant accounting policies (continued)

3.9 Impairment of financial assets

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. If an Islamic financing instrument has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

Estimates of changes in future cash flows for groups of assets reflect and are directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a financial asset is uncollectable, it is written off against the related provision for impairment. If no related provision exists, it is written off to the consolidated income statement. Subsequent recoveries are credited to the consolidated income statement.

3 Significant accounting policies (continued)

3.9 Impairment of financial assets (continued)

If the amount of impairment subsequently decreases due to an event occurring after the write down, the release of the provision is credited to the consolidated income statement.

When the terms and conditions of financial assets that have been classified as past due are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether the financial asset remains past due.

3.10 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed for possible reversal of impairment at each reporting date.

3.11 Fiduciary activities

Assets and the income arising on the Group's fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these consolidated financial statements. Income earned by the Group from its fiduciary services is recognised in accordance with the accounting policy on fees and other income (Note 3.16).

3.12 Customer deposits and amounts due to banks

Customer deposits and amounts due to banks are initially recognized at fair value less transaction costs. Subsequently, they are measured at amortized cost using the effective profit rate method. Amortized cost is calculated by taking into account any discount or premium on settlement.

3.13 Employee benefits

(a) Defined contribution plan

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

Pension contributions are made in respect of UAE and GCC national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security.

3 Significant accounting policies (continued)

3.13 Employee benefits (continued)

(b) Defined benefit plan

The provision for defined benefit obligation for the end of service benefits due to non-UAE nationals in accordance with the UAE Labour Law is calculated annually using the projected unit credit method in accordance with IAS 19. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using profit rates on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The provision arising is disclosed as ‘provision for employee’s end of service benefits’ in the consolidated statement of financial position under ‘other liabilities’.

3.14 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

3.15 Revenue recognition on Islamic financing instruments

Income from Islamic financing and sukuk and depositors’ share of profit are recognized in the consolidated income statement for all profit-bearing Islamic financing instruments below using the effective profit rate method.

The effective profit rate method is a method of calculating the amortised cost of a financing asset or liability and of allocating the income from Islamic financing and sukuk and depositors’ share of profit. The effective profit rate is the rate that exactly discounts the estimated future cash payments over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financing asset or liability.

3.15.1 Murabahah

Definition

An agreement whereby the Group sells to a customer a physical asset, commodity, goods, or shares, 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. The settlement specified in the agreement is normally either on deferred lump sum basis or an instalment basis.

3 Significant accounting policies (continued)

3.15 Revenue recognition on Islamic financing instruments (continued)

3.15.1 Murabahah (continued)

Revenue recognition

Income on Murabahah financing is recognized on a time apportioned basis over the period of the Murabahah contract, using the effective profit rate method.

3.15.2 Ijarah

Definition

An agreement whereby the Group (lessor) leases to a customer (lessee) a service or the usufruct of an owned or rented physical asset which either exists currently or is to be constructed in future (forward lease), for a specific period of time and against certain rental instalments. The Ijarah could end by transferring the ownership of the asset to the lessee through an independent mode at the end of the agreement.

Revenue recognition

Income from Ijarah investments are recognized on a time apportioned basis over the lease term, using the effective profit rate method.

3.15.3 Mudarabah

Definition

An agreement between the Group and its customer where one party provides the funds and is called Rab al-Mal and the other provides efforts and expertise and is called the Mudarib. The Mudarib is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudarabah profit. The Mudarib is responsible for all losses arising from misconduct, negligence or violation of the conditions of the agreement. In all other instances, the losses are borne by the Rab-al-Mal.

Revenue recognition

Income or losses on Mudarabah investments, where the Group is the Rab-al-Mal are recognized on an accruals basis if they can be reliably estimated. Otherwise, income is recognized on distribution by the Mudarib and the losses are recognised upon their declaration by the Mudarib.

3 Significant accounting policies (continued)

3.15 Revenue recognition on investments in Islamic financing instruments (continued)

3.15.4 Wakalah

Definition

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 fee (a lump sum of money or a percentage above the anticipated profits). Similarly, the Group also obtains money to be invested under wakala agreement which is recognised as a liability in its consolidated financial statements.

Revenue recognition

The estimated income or expenses from a Wakalah is recognized on an accrual basis over the period of the investment as a liability, adjusted by the actual income or expense when received.

3.15.5 Tawarruq

Definition

An agreement between two parties, whereby the Group will, directly or indirectly, buys an asset and immediately sell it to a customer on a deferred payment basis. The Group on behalf of the customer then sells the same asset to a third party (or the customer himself sells directly) for immediate delivery and payment. The customer is given the sales proceeds and has a deferred payment obligation to the Group at a marked-up price.

Revenue recognition

Income or losses on Tawarruq financing are recognized on an accruals basis over the deferred payment period.

3.15.6 Istisna'

Definition

An agreement whereby the Group (Al-Saane') provides funds to a customer (Al-Mustasne) for the development of an asset according to pre-agreed specifications at a specific price and date.

Revenue recognition

Istisna' revenue and the associated profit margin (difference between the cash price of the asset sold to the customer and the Group's total Istisna' cost) is accounted for on an accruals basis.

3 Significant accounting policies (continued)

3.16 Fees and other income

Fees and other income from banking services are recognized on an accrual basis as the service is performed, when it is probable that associated economic benefits will be obtained and a reliable estimate of amount can be made.

Foreign exchange income on foreign exchange transactions undertaken on behalf of customers is recognised as and when the underlying customer related exchange transactions are completed.

3.17 Zakat

Zakat is computed in accordance with the Bank's Fatwa and Shari'a Supervisory Board decisions and it is the Bank's shareholders' responsibility to pay the Zakat on their respective share and therefore it is not recorded in the consolidated financial statements of the Group.

3.18 Allocation of profit

Allocation of profits between depositors and shareholders is calculated according to the Group's standard procedures and is approved by the Group's Fatwa and Shari'a Supervisory Board.

3.19 Financial guarantees

Financial guarantees are initially recognized in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. The premium received is recognized in the consolidated income statement over the life of the guarantee.

3.20 Government grants

Non-monetary grants in the form of land received from the government are recognized at fair value and credited to the consolidated income statement when there is reasonable assurance that the grant will not be revoked.

3 Significant accounting policies (continued)

3.21 Repossessed properties

When the Group acquires and becomes the legal owner of a collateralized property against full and final settlement of an Islamic financing contract, the respective contract is terminated, the related outstanding balance is de-recognised and property is recognised at the carrying amount of the Islamic financing. If the fair value of the repossessed property is lower than the carrying amount of the outstanding Islamic financing balance, the balance is first impaired to the extent of the shortfall. The subsequent measurement will depend on the intended use and classification of the repossessed property as follows:

- The property is classified as "Investment property" (Note 3.8) in case of indeterminate use, or holding it for capital appreciation and/or rental yield;
- The property is classified as "Property and equipment" (Note 3.7) if the Group intends to retain the property for self-use.
- The property is classified as "Non-current asset held for sale" and measured at the lower of its carrying amount and fair value less costs to sell, if sale of the property is highly probable, management is committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan is initiated.

3.22 Islamic derivative financial instruments

An Islamic derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The Group enters into a variety of Islamic derivative financial instruments to manage the exposure to profit and foreign exchange rate risks, including unilateral promise to buy/sell currencies and Islamic profit rate swap.

Islamic derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising fair value gains and losses depends on whether Islamic derivative financial instruments are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of Islamic derivatives held for trading are recognised in the consolidated income statement.

The Group designates certain Islamic derivative financial instruments as either:

a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge)

Hedge accounting is applied to Islamic derivatives designated as hedging instruments in a fair value or cash flow hedges provided certain criteria are met.

3 Significant accounting policies (continued)

3.22 Islamic derivative financial instruments (continued)

i) Fair value hedges

When the Islamic 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 Islamic derivative are recognised in the consolidated income statement together with changes in the fair value of the hedged item that are attributable to hedged risk. If the Islamic derivative expires, has been terminated, exercised, or no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued.

ii) Cash flow hedges

When the Islamic 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 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 consolidated income statement.

The accumulated gains and losses recognised in other comprehensive income are reclassified to the consolidated income statement in the periods in which the hedged item will affect profit or loss. When the Islamic hedging derivative expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity until the forecast transaction is recognised. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement.

3.23 Islamic swaps

Islamic swaps are based on a Waa'd (promise) structure between two parties to buy a specified Shari'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. Islamic swaps comprise profit rate swaps and currency swaps. In case of profit rate swaps, counterparties generally exchange fixed and floating rate profit payments by executing the purchase / sale of a commodity under "Murabahah Sale Agreement" in a single currency. In case of Islamic currency swaps, profit payments as well as the cost of the underlying commodity are exchanged in different currencies, by executing the purchase or sale of commodities under "Murabahah Sale Agreements".

The accumulated gains and losses recognised in other comprehensive income are reclassified to the consolidated income statement in the periods in which the hedged item will affect profit or loss. When the Islamic hedging derivative expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement.

3 Significant accounting policies (continued)

3.24 Promise to buy or sell currencies

Promises to buy or sell currencies are promises to either buy or sell a specified currency at a specified price and date in the future. The actual transactions are executed on the value dates, by exchanging the purchase or sell offers and acceptances between the counterparties.

4 Cash and balances with the UAE Central Bank

	2015 AED'000	2014 AED'000
Cash in hand	140,379	124,467
Balances with the UAE Central Bank:		
- Current account	1,922,360	635,887
- Certificate of deposits	2,900,000	1,050,000
- Statutory deposits	2,483,380	1,581,330
	7,446,119	3,391,684

The statutory deposits with the UAE Central Bank are not available to finance the day to day operations of the Group, except in a crisis situation. Cash in hand, current account balances and statutory deposits with the UAE Central Bank are non-profit bearing. Certificates of deposit with the UAE Central Bank carry a profit rate of 0.17% - 0.80% (2014: 0.08% - 0.39%) per annum.

Cash and cash equivalents include the following for the purposes of the consolidated statement of cash flows:

	2015 AED'000	2014 AED'000
Cash and balances with the UAE Central Bank	7,446,119	3,391,684
Due from banks	4,600,192	2,992,166
Due to banks	(376,860)	(542,223)
	11,669,451	5,841,627
Less: Statutory deposits with the UAE Central Bank	(2,483,380)	(1,581,330)
Less: Balances having original maturity of more than 3 months:		
- Certificate of deposits	(1,700,000)	(500,000)
- Net due from banks	(3,336,478)	(1,577,632)
Cash and cash equivalents	4,149,593	2,182,665

5 Due from banks

	2015 AED'000	2014 AED'000
Current accounts with banks	431,055	315,264
Deposits with banks	2,488,926	1,290,896
Export bills	1,680,211	1,386,006
	4,600,192	2,992,166

6 Investments in Islamic financing instruments

	2015 AED'000	2014 AED'000
Wakalah	-	400,000
Ijarah	4,880,339	3,618,148
Mudarabah	64,271	-
Murabahah	19,564,426	15,527,996
Gross investments in Islamic financing instruments	24,509,036	19,546,144
Less: allowance for impairment	(1,302,145)	(1,509,285)
Net investments in Islamic financing instruments	23,206,891	18,036,859

Movement in allowance for impairment:

	2015 AED'000	2014 AED'000
At 1 January	1,509,285	1,424,576
Charge for the year	198,069	122,593
	1,707,354	1,547,169
Written off during the year	(405,209)	(37,884)
At 31 December	1,302,145	1,509,285

The investments in Islamic financing instruments are further analysed as follows:

Performing	22,597,266	17,735,186
Past due but not impaired	758,566	380,969
Impaired	1,153,204	1,429,989
Gross investments in Islamic financing instruments	24,509,036	19,546,144
Less: allowance for impairment	(1,302,145)	(1,509,285)
Net investments in Islamic financing instruments	23,206,891	18,036,859

Below is the analysis of impaired balances:

Impaired but not past due	89,445	95,129
Past due and impaired	1,063,759	1,334,860
	1,153,204	1,429,989

6 Investments in Islamic financing instruments (continued)

Below is the ageing analysis of past due but not impaired balances:

0 – 29 days	358,825	225,089
30 – 59 days	205,433	78,867
60 – 89 days	134,419	50,066
90 days and above	59,890	26,947
	758,567	380,969

Economic sector risk concentration (refer to note 26 for related party credit risk concentration) of investments in Islamic financing instruments is as follows:

	2015 AED'000	2014 AED'000
Construction and real estate	2,969,589	2,116,203
Financial institutions	3,981,384	3,644,466
Manufacturing	822,619	636,675
Consumer financings and credit cards	7,570,126	5,197,013
Trade	4,262,052	4,026,202
Transport, storage and communication	1,994,186	1,762,369
Other services	2,909,080	2,163,216
Gross investment in Islamic financing instruments	24,509,036	19,546,144
Less: allowance for impairment	(1,302,145)	(1,509,285)
Net investment in Islamic financing instruments	23,206,891	18,036,859

7 Investments in Islamic sukuk

	2015 AED'000	2014 AED'000
Available-for-sale	1,598,895	1,853,507
Held to maturity	764,196	734,949
Held for trading	78,782	292,807
	2,441,873	2,881,263

At 31 December 2015, the fair value of the held to maturity Islamic sukuk portfolio was AED 769 million (2014: AED 737 million).

During the year ended 31 December 2015, the Group recognised a net fair value gain on available-for-sale investments in Islamic sukuk of AED 14.3 million (2014: loss of AED 18.5 million) in other comprehensive income under “cumulative changes in fair value of available-for-sale investment in Islamic sukuk”.

The Group holds certain Islamic sukuk in a fiduciary capacity on behalf of customers without recourse to itself and, accordingly, these sukuk are not included in the Group's Islamic sukuk portfolio as at 31 December 2015 (Note 25).

The Group has not purchased or invested in any shares during the year ended 31 December 2015 (31 December 2014: AED 2 million).

8 Investment properties

	2015 AED'000	2014 AED'000
At 1 January	1,266,567	213,800
Additions during the year	12,498	54,745
Transfer from property and equipment (Note 10 (ii))	-	969,666
Disposal during the year	(47,350)	-
Change in fair value during the year	-	28,356
At 31 December	1,231,715	1,266,567

The carrying value of investment properties represents their fair value as determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). The basis of determination of fair value are the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

9 Other assets

	2015 AED'000	2014 AED'000
Accrued income on investments in Islamic financing and sukuk	194,054	160,962
Due from related parties (Note 26)	35,434	14,304
Equity investments in related companies (Note (i) below)	28,530	28,530
Promise to buy or sell currency (Note 15 (i))	19,883	2,032
Prepayments and advances	17,098	12,619
Fee and other income receivable	12,011	5,322
Others	13,448	4,070
	320,458	227,839

(i) Equity investments in related companies at 31 December 2015 and 2014, held as available-for-sale financial assets, represent the Bank's share of its investment in the following entities:

	Shareholding structure	
	Noor Bank PJSC	Noor Investment Group LLC
Noor Takaful Family P.J.S.C.	10%	90%
Noor Takaful General P.J.S.C.	10%	90%
Premium Marketing LLC	10%	90%
Noor BPO LLC	30%	70%

10 Property and equipment

	Land AED'000	Buildings AED'000	Leasehold improvements AED'000	Vehicles AED'000	Computer and office equipment AED'000	Capital work in progress AED'000	Total AED'000
Cost / fair value							
At 1 January 2015	-	172,820	36,250	1,745	194,984	13,181	418,980
Additions during the year	-	-	-	-	15,241	17,500	32,741
Transfers	-	-	-	-	4,493	(4,493)	-
Write-offs	-	-	(17,321)	-	(1,509)	-	(18,830)
At 31 December 2015	-	172,820	18,929	1,745	213,209	26,188	432,891
Accumulated depreciation							
At 1 January 2015	-	22,881	21,856	1,139	156,527	-	202,403
Charge for the year	-	8,334	3,481	240	14,354	-	26,409
Write-offs	-	-	(12,674)	-	(465)	-	(13,139)
At 31 December 2015	-	31,215	12,663	1,379	170,416	-	215,673
Net book value							
At 31 December 2015	-	141,605	6,266	366	42,793	26,188	217,218

The fair value of the Group's land and buildings was determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). During the year ended 31 December 2015, no revaluation gain/loss was recognised on buildings as the amount was not significant.

10 Property and equipment (continued)

	Land AED'000	Buildings AED'000	Leasehold improvements AED'000	Vehicles AED'000	Computer and office equipment AED'000	Capital work in progress AED'000	Total AED'000
Cost / fair value							
At 1 January 2014	621,192	118,435	36,250	1,745	160,205	11,943	949,770
Revaluation surplus	348,474	48,687	-	-	-	-	397,161
Additions during the year	-	5,698			26,384	9,633	41,715
Transfer to investment properties (note ii below)	(969,666)	-	-	-	-	-	(969,666)
Transfers	-	-			8,395	(8,395)	-
At 31 December 2014	-	172,820	36,250	1,745	194,984	13,181	418,980
Accumulated depreciation							
At 1 January 2014	-	18,153	18,231	839	143,648	-	180,871
Charge for the year	-	4,728	3,625	300	12,879	-	21,532
At 31 December 2014	-	22,881	21,856	1,139	156,527	-	202,403
Net book value							
At 31 December 2014	-	149,939	14,394	606	38,457	13,181	216,577

During the year ended 31 December 2014, an amount of AED 120.3 million has been recognised in the revaluation reserve under "other comprehensive income" and an amount of AED 276.8 million has been recognised in the consolidated income statement, which represents reversal of impairment loss on land and buildings previously recognised in the consolidated income statement.

10 Property and equipment (continued)

(i) Buildings are located at Emaar Square, Dubai, and are used as the Bank's Head Office premises;

(ii) Land comprises certain vacant plots granted by the Government of Dubai to the Group at various locations in Dubai. During the year ended 31 December 2014, the Group transferred all plots of land to investment properties since it no longer intended to use these plots of land for its own use (Refer note 8).

11 Customer deposits

	2015 AED'000	2014 AED'000
Wakalah – term	15,489,999	11,515,775
Mudarabah – savings	8,501,405	6,947,933
Qard-E-Hasan – demand	7,520,843	4,962,400
Mudarabah- term	321,163	212,345
Margin accounts	315,331	212,502
	32,148,741	23,850,955

12 Wakalah term deposits

As at 31 December 2015, Wakalah term deposits comprise Tier II deposits obtained from local financial institutions (including related parties – see Note 26) in the UAE. These deposits have maturity tenors of 10 years from the date of the respective agreements and carry an expected profit rate for each year until maturity but can be repaid by the Bank either in full or part on any profit payment date any time after 5 years from the date of the agreement. The undrawn portion of these deposits amounted to AED Nil million as at 31 December 2015 (31 December 2014: AED 165 million). The Central Bank of UAE has approved to consider the Wakalah term deposits as Tier II capital for regulatory capital calculations effective from the date of the agreement.

13 Due to banks

	2015 AED'000	2014 AED'000
Investment deposits	148,449	240,585
Current accounts	228,411	301,638
	376,860	542,223

14 Sukuk financing instruments

In April 2015, the Bank through its Shari'a compliant financing arrangement, established a Trust Certificate Issuance Programme for USD 3 billion ("the Programme"). As a part of the Programme, the first series of the trust certificates amounting to USD 500 million (AED 1,836.5 million) were issued and listed on NASDAQ Dubai on 29th April 2015.

14 Sukuk financing instruments (continued)

The terms of the Programme include transfer of certain identified assets including self-use assets, Ijarah finance assets, other tangible & intangible assets and any replaced assets ("the Co-owned Assets") to Noor Sukuk Company Limited, Cayman Islands ("the Issuer or SPE"), a special purpose entity formed for the issuance of the sukuk. In substance, these co-owned assets shall continue to remain under the control of the Bank and shall continue to be serviced by the Bank.

These sukuk will mature in five years and are expected to pay profit to the sukuk holders semi-annually based on 5 year mid-swap rate + 1.3% at the time of issuance. The semi-annual distribution amount shall be paid from the returns received in respect of Co-owned assets. Such proceeds are expected to be sufficient to cover the distribution amount payable to the sukuk holders on the semi-annual distribution date. The Bank has undertaken to buy these assets at the exercise price from the Issuer on the maturity of the sukuk.

15 Other liabilities

	2015 AED'000	2014 AED'000
Sundry disbursements payable	454,733	281,983
Accrued expenses	127,373	126,401
Managers cheques	199,059	107,858
Accrued depositors' share of profit	63,047	72,393
Employees' end of service benefits (Note 24)	32,030	23,076
Sundry collection accounts	21,691	33,896
Deferred income from Islamic financing	17,051	38,875
Due to related parties (Note 26)	10,261	-
Switch fee payable	6,554	5,083
Promise to buy or sell currency (Note (i) below)	8,010	11,897
Late payment fee (Note (ii) below)	4,457	7,439
Other payables	101,357	93,459
	1,045,623	802,360

(i) Represents mark-to-market fair valuation of Promise to buy or sell currency contracts held by the Group for its currency risk management purposes. The contractual notional value on such contracts amounted to AED 1.1 billion at 31 December 2015 (2014: AED 3.1 billion). The contractual notional value on profit rate swaps as at 31 December 2015 amounted to AED 2.2 billion (2014: AED nil).

(ii) Late payment fee pertains to the collection for delay in payments by customers. The Fatwa and Shari'a Supervisory Board decides on an amount allowable to be taken by the Bank to cover the actual cost due to the delay in payment by the customers. The remaining amount and any such additional income received, which the Fatwa and Shari'a Supervisory Board determines to be non-sharia compliant, is donated to charity under its supervision. At 31 December 2015, the late payment fee represents amount after deducting the Bank's share to cover the expenses.

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

16 Share capital

	2015 AED'000	2014 AED'000
Authorised, issued and fully paid up share capital:		
3,357.9 million shares (2014: 3,307.9 million shares) of AED 1 each	3,357,895	3,307,895
Subscribed share capital (refer note (i) below)	-	50,000
	3,357,895	3,357,895

(i) The subscribed share capital at 31 December 2014 had been subscribed to by Noor Group LLC at par value. The subscribed share capital was fully paid-up and approved by the Board of Directors of the Group and the UAE Central Bank. During the year ended 31 December 2015, the subscribed share capital has been converted into the statutory share capital of the Group upon completion of the necessary administrative and legal formalities.

(ii) The Board of Directors of the Bank have proposed dividends of 10% for the year ended 31 December 2015 (2014: 335.8 million). During the year ended 31 December 2015, the proposed dividend for the year ended 31 December 2014 was distributed to the shareholders upon their approval in the Annual General Meeting.

17 Statutory reserve

The UAE Federal Law No. 8 of 1984 (as amended), and the UAE Federal Law No. (2) of 2015 and the Articles of the Bank, require that 10% of the net profit for the year should be transferred to a statutory reserve until such time as the balance in the reserve equals 50% of the issued share capital. Accordingly, an amount of AED 56.1 million (2014: AED 67.8 million) has been transferred to the statutory reserve for the year ended 31 December 2015. This reserve is not available for distribution.

18 Income from Islamic financing and sukuk

	2015 AED'000	2014 AED'000
Wakalah	16,466	23,005
Ijarah	195,535	153,497
Murabahah	824,838	626,165
	1,036,839	802,667
Profit income on Islamic sukuk	93,177	92,498
Total income from Islamic financing and sukuk	1,130,016	895,165

19 Depositors' share of profit

	2015 AED'000	2014 AED'000
Wakalah - term	220,274	220,044
Mudarabah - savings	18,407	15,498
Mudarabah - term	3,677	2,871
	242,358	238,413

20 Fee and other income, net of charges

	2015 AED'000	2014 AED'000
Transactional & deposit related fees	158,870	64,392
Facility arrangement and processing fees	132,406	115,379
Net foreign exchange income	118,886	53,634
Trade services related fees	77,302	52,429
Fees from credit cards	13,962	9,208
Gain on disposal of investment properties	7,710	-
Other income	4,099	1,531
	513,235	296,573

21 Gain on investments in Islamic sukuk

	2015 AED'000	2014 AED'000
Held for trading	2,111	10,215
Available-for-sale – realised (loss)/gains	(5,815)	20,775
	(3,704)	30,990

22 Staff costs

	2015 AED'000	2014 AED'000
Salaries and allowances	394,990	286,661
Provision for employees' end of service benefits (Note 24)	9,503	7,090
Outsourced staff cost	49,185	25,874
Others	25,451	20,382
	479,129	340,007

23 General and administrative expenses

	2015 AED'000	2014 AED'000
Facilities management	43,662	49,003
IT related expenses	34,512	24,439
Marketing and advertisement	24,100	17,054
Legal and professional	14,424	12,382
Printing and stationery	9,603	7,603
Communication costs	5,715	4,411
Travelling expenses	4,166	2,754
Other expenses, net of reversal of accruals	(3,431)	9,624
	132,751	127,270

During the year ended 31 December 2015, the Group has paid AED 2.5 million (31 December 2014: AED 1.9 million) to charity in respect of late payment fee collected from the customers (Note 15(ii)). There were no social contributions made during the year ended 31 December 2015 (31 December 2014: AED nil).

24 Provision for employees' end of service benefits

	2015 AED'000	2014 AED'000
At 1 January	23,076	17,612
Provided during the year	9,503	7,090
Paid during the year	(549)	(1,626)
At 31 December	32,030	23,076

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at the reporting date, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using a discount rate of 3.18% (2014: 3.15%). Management has assumed average annual increment/promotion costs of 3.0% (2014: 3.0%). The present value of the obligation as at 31 December 2015 is not materially different from the provision computed in accordance with the UAE Labour Law.

25 Fiduciary assets

At 31 December 2015, the Group held Islamic sukuk with a market value of AED 1.4 billion (2014: AED 0.76 billion) in a fiduciary capacity on behalf of customers' without recourse to itself. Accordingly, these Islamic sukuk are not included as part of the Group's own Islamic sukuk portfolio (Note 7).

26 Related party balances and transactions

The Group, in the normal course of business, enters into transactions with individuals and other business enterprises that fall within the definition of a related party as defined in IAS 24, Related party Disclosures at commercial terms and profit rates. Balances and transactions with related parties are as follows:

	2015 AED'000	2014 AED'000
Related party balances:		
Investment in Islamic financing instruments:		
- Shareholders and other related parties (including certain Government related entities)	699,564	730,629
- Key management personnel	16,834	12,703
	716,398	743,332
Customer deposits:		
- Shareholders and other related parties	212,995	256,595
- Key management personnel	72,628	62,802
	285,623	319,397
Wakalah term deposits (refer note 12)	34,000	34,000
Due from related parties and other assets	63,964	42,834
Due to related parties and other liabilities (refer note 15)	10,261	2,000
Accrued income from Islamic financing instruments	1,933	484
Accrued depositors' share of profit	4,539	8,531
Commitments and contingent liabilities (refer note 27)	4,875	5,273

	2015 AED'000	2014 AED'000
Related party transactions:		
Income from Islamic financing and sukuk	24,307	26,237
Depositor's share of profit	2,958	6,282
Staff costs recharged	126,863	87,686
Remuneration to key management personnel	37,496	21,600
Fee and other income	40,517	9,539

In accordance with the requirements of notice no. 226 / 2015 dated 26 August 2015 and issued by the UAE Central Bank, the Group has complied with article (91) of Union Law No. (10) of 1980.

27 Commitments and contingent liabilities

(a) Contingent liabilities

	2015 AED'000	2014 AED'000
Letters of credit	707,568	739,612
Guarantees	3,155,872	2,797,214
Undrawn credit commitments – Revocable	5,346,699	4,537,927
Undrawn credit commitments – Irrevocable	1,408,014	598,529
	10,618,153	8,673,282

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as financings. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

Undrawn credit commitments represent unused portions of authorisations to extend credit in the form of financing, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss for an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers' maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of finance authorisations being drawn by the customer and, second, from these drawings subsequently not being paid as due. The Group monitors the term to maturity of the credit commitments because longer term commitments generally have a greater degree of credit risk than the shorter term commitments. The total outstanding contractual amount of the commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

(b) Capital commitments

At 31 December 2015, the Group has capital commitments of AED 6.1 million (2014: AED 10 million mainly relating to purchase of office units) mainly relating to purchase of furniture, fixtures, computer equipment and development/upgrading of software.

28 Segmental reporting

Reportable segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's chief operating decision makers in order to allocate resources to the segment and assess its performance. The Group's reportable segments are organized into three major segments as follows:

- Personal and business banking – Principally serves individuals, high net worth customers and small sized businesses.
- Corporate banking – Principally handling financing/ trade facilities and deposit related services for medium and large sized corporate and institutional customers.
- Treasury and others – Treasury comprises of activities to manage the Bank's overall liquidity and market risk and provides treasury services to customers. Others comprise of functions other than above core lines of business.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment operating income represents the profit earned by each segment without allocation of expenses and impairment charge on Islamic financing instruments.

Year ended 31 December 2015	**Personal and business banking**	**Corporate banking**	**Treasury and others**	**Total**
	AED'000	AED'000	AED'000	AED'000
Net income from Islamic financing	376,506	406,565	104,587	887,658
Fee and other income	224,428	265,908	19,195	509,531
Total income	600,934	672,473	123,782	1,397,189
Total expenses				(638,289)
Operating profit before impairment on investments in Islamic financing instruments				758,900
Impairment charge on Islamic financing instruments				(198,069)
Profit for the year				560,831
As at 31 December 2015				
Segment assets	7,948,213	19,527,983	11,988,270	39,464,466
Segment liabilities	10,349,504	21,818,818	3,783,544	35,951,866

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

28 Segmental reporting (continued)

Year ended 31 December 2014	Personal and business banking AED'000	Corporate banking AED'000	Treasury and others AED'000	Total AED'000
Net income from Islamic financing	228,732	335,907	92,113	656,752
Fee and other income	92,660	205,211	58,048	355,919
Total income	321,392	541,118	150,161	1,012,671
Total expenses				(488,809)
Operating profit before impairment on investments in Islamic financing instruments				523,862
Impairment charge on Islamic financing instruments				(122,593)
Operating profit after impairment on investments in Islamic financing instruments				401,269
Reversal of impairment loss on land and buildings				276,816
Profit for the year				678,085
As at 31 December 2014				
Segment assets	5,311,676	14,970,831	8,730,448	29,012,955
Segment liabilities	6,025,076	17,830,066	1,884,588	25,739,730

29 Risk management

The Group takes financial risk under the following categories in its day to day operations:

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

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

29 Risk management (continued)

Risk management philosophy and framework

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, emerging best practices and products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board of Directors of the Group has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the following committees, which are responsible for overseeing, developing and monitoring the Group`s risk management policies in their specified areas:

Executive Committee

The Executive Committee is responsible for ensuring that the Group has an adequate and appropriate system of risk management and internal controls with the support of the Audit Committee and Risk Committee.

Risk Committee

The Risk Committee is responsible for providing an oversight on the health of the Group's credit portfolio as well as for compliance with overall risk management policies and procedures established within the Group. The Risk Committee comprises of at least three members (including at least one non-executive director and one 'risk expert' as determined by the Board of Directors) and the Chief Risk Officer is a permanent invitee.

Audit Committee

The Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, compliance with laws and regulations, compliance with code of conduct and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

29 Risk management (continued)

Risk management philosophy and framework (continued)

Credit Committee

The Credit Committee is responsible for taking credit decisions, recommending credit policies, and the future direction of the credit activities in the Group. The Board of Directors has delegated its authority to Credit Committee to approve, sub-delegate, direct, monitor and review the Group's financing activities, and to ensure that the credit policies are adhered to, and credit operations are conducted in the most effective manner.

Operational Risk Committee

The Operational Risk Committee is responsible for overseeing, managing and ensuring that all aspects of Operational Risk policies and standards are effectively implemented, and the framework to monitor and report Operational Risk issues is functioning effectively to protect the interests of the Group and promotes high level Operational Risk management culture in the Group.

Management Committee

The Management Committee is responsible for overseeing and managing day-to-day business to attain sustained performance excellence, by conscientiously taking into account the prevalent and future risk environment, consistent with the Group's vision, mission and strategy in accordance with good corporate governance principles, and in line with the significant stakeholders' expectations.

Asset Liability Committee ("ALCO")

The responsibility of ALCO is to actively monitor and manage committed and outstanding assets and liabilities, and to recommend appropriate funding, investment, and hedging strategies. In addition, the ALCO is also responsible for ensuring continuous liquidity required for growth while complying with the regulatory requirements.

29.1 Credit risk

Credit risk is the risk emanating when a counter party of the Group does not fulfil its contractual obligation or the quality of an issuer deteriorates. It arises principally from financing, trade finance and treasury activities. The credit process is consistent for all forms of credit risk to a single obligor. Overall exposure is evaluated on an ongoing basis to ensure a broad diversification of credit risk. Potential concentrations by country, product, industry, and risk grade are regularly reviewed to avoid excessive exposure and ensure a broad diversification.

29 Risk management (continued)

29.1 Credit risk (continued)

The Group's total credit portfolio and therefore the maximum exposure to credit risk before collateral held or other credit enhancements is as follows:

	2015 AED'000	2014 AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from banks	4,600,192	2,992,166
Investments in Islamic financing instruments	23,206,891	18,036,859
Investment in Islamic sukuk	2,441,873	2,881,263
Other assets (excluding prepayments & advances)	303,360	215,220
	30,552,316	24,125,508
Credit risk exposures relating to off-balance sheet items are as follows:		
Contingencies and commitments	5,271,454	4,135,355

The above table excludes revocable commitments and represents a worst case scenario of credit risk exposure of the Group at the reporting date without taking into account any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position at the reporting date.

At 31 December 2015, 76% (2014: 75%) of the total maximum exposure arises from investments in Islamic financing instruments for which credit quality and risk concentration are disclosed in Note 6. Balances due from banks are held with reputable organisations within and outside UAE, where the risk of default is considered low.

The table below presents an analysis of the investment in Islamic sukuk based on ratings obtained from external rating agencies:

	2015 AED'000	2014 AED'000
AAA to AA-	509,984	283,923
A+ to BBB-	1,028,184	1,918,266
BB+ & below	226,807	153,793
Unrated	676,898	525,281
	2,441,873	2,881,263

The unrated investment in Islamic sukuk is mostly with the Government of Dubai and local reputed companies.

Following are the risk management policies adopted by the Group to ensure credit quality and minimise the risk of concentration.

29 Risk management (continued)

29.1 Credit risk (continued)

(a) Credit rating and measurement

The risk rating system is the basis for determining the credit risk of the Group's asset portfolio (except the consumer assets) and thus asset pricing, portfolio management, determining finance loss provisions and reserves and the basis for credit approval authority delegation. A standard numeric credit risk-grading system is being used by the Group which is based on the Group's internal estimate of probability of default, with customers or portfolios assessed against a range of quantitative and qualitative factors, including taking into account the counterparty's financial position, past experience and other factors.

Performing clients are rated on a scale of NRR1 to NRR7, each grade being associated with a Probability of Default ("PD"). Non-performing clients are rated NP-1, NP-2 and NP-3, corresponding to the Substandard, Doubtful and Loss classifications as per *Clarifications and Guidelines Manual for Circular No. 28/2012* issued by the UAE Central bank. The Group's internal credit grades have also been mapped to external agency ratings for better comparison (Refer Note 6).

(b) Credit approval

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Group's Credit Committee ("CC") within the authorities delegated by the Board of Directors.

(c) Credit monitoring

The Group regularly monitors credit exposures and external trends which may impact risk management outcomes. Internal risk management reports are presented to the Chief Risk Officer / Chief Credit Officer and Board Risk Committee, containing information on key variables; portfolio delinquency and financing impairment performance.

All Corporate exposures accounts are monitored carefully for performance and reviewed formally on an annual basis or earlier. Group has robust policies for client visits and monitoring of accounts to make sure that any concerns on the quality of the accounts are addressed well in time. An exposure is categorised as watch list or non-performing as per UAE Central Bank guidelines.

All non-performing accounts are monitored closely by the Remedial Management Unit of the Group directly reporting to the Chief Credit Officer. Such accounts are re-evaluated and remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account etc.

With respect to the Group's consumer portfolio, asset quality is monitored closely with 30/60/90/ days past due accounts and delinquency trends are monitored continuously for each Consumer Product of the Group. Individual customer behaviour is also tracked which forms an input for future financing decisions. Accounts which are past due are subject to collection process, managed independently by the risk function. Write-off and provisioning of the Consumer portfolio is done strictly as per the UAE Central Bank guidelines.

29 Risk management (continued)

29.1 Credit risk (continued)

(d) Credit mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools. Additional support in the form of collateral and guarantee is obtained where required. The reliance that can be placed on these credit mitigation resources is carefully assessed in light of issues such as legal enforceability, market value and counterparty risk of the guarantor. Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit etc. Risk mitigation policies control the approval of collateral types.

Collateral is valued in accordance with the Group's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Collateral held against impaired financings is maintained at fair value.

Collateral and other credit enhancements possessed or called upon

During the year, the Group obtained assets by taking possession of collateral as follows:

	31 December 2015			**31 December 2014**		
	Retail AED'000	Corporate and SME AED'000	Total AED'000	Retail AED'000	Corporate and SME AED'000	Total AED'000
Property	18,588	-	18,588	47,611	-	47,611
Vehicles	297	-	297	719	-	719
	18,885	-	18,885	48,330	-	48,330

Repossessed collateral is disposed of as per the Group's approved policy.

(e) Offsetting financial instruments

The Group has not entered in significant master netting arrangement with counterparties which enable them to settle transactions on net basis. In absence of such agreements the financial asset and liabilities are settled on gross basis.

29 Risk management (continued)

29.2 Liquidity risk

Liquidity risk is the risk to the Group's earnings or capital arising from its inability to meet its obligations as they fall due, without incurring significant costs or losses. A Group's ability to withstand either temporary or longer-term disruptions in its ability to fund some or all of its activities in a timely manner and at a reasonable cost depends on the adequacy of its liquidity contingency plans. The Group's Asset Liability Committee ("ALCO") actively monitors and manages all committed and outstanding assets and liabilities, to recommend appropriate funding, investment and hedging strategies. In addition to that, ALCO ensures adequate liquidity exists to sustain the growth while complying with regulatory requirements.

29 Risk management (continued)

29.2 Liquidity risk (continued)

(a) The following table presents the cash flow analysis of remaining contractual maturities of Group's financial liabilities on an undiscounted basis, relating to both principal and profit payments:

	Carrying amount AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Total AED'000
At 31 December 2015						
Customer deposits	32,148,741	21,837,248	8,121,662	2,314,943	-	32,273,853
Wakalah term deposits	544,192	-	30,423	121,692	665,882	817,997
Due to banks	376,860	340,427	37,021	-	-	377,448
Sukuk financing instruments	1,836,450	-	51,118	2,015,439	-	2,066,557
Other liabilities	1,028,572	996,542	-	-	32,030	1,028,572
	35,934,815	23,174,217	8,240,224	4,452,074	697,912	36,564,427
At 31 December 2014						
Customer deposits	23,850,955	13,958,179	8,018,677	2,020,858	-	23,997,714
Wakalah term deposits	544,192	-	30,423	121,692	696,306	848,421
Due to banks	542,223	485,332	57,100	-	-	542,432
Other liabilities	763,485	740,409	-	-	23,076	763,485
	25,700,855	15,183,920	8,106,200	2,142,550	719,382	26,152,052

As at 31 December 2015, a few of the Bank's customers accounted for a large proportion of the total customer deposits. At 31 December 2015, customer deposits due for maturity within 3 months include Escrow account balances and lien marked Qard-E-Hasan (demand) deposit balances which are expected to be retained for longer than 3 months. Remaining customer deposits, although contractually short term in nature, tend to be renewed on maturity and expected to remain with the Bank for a longer term.

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

29 Risk management (continued)

29.2 Liquidity risk (continued)

(b) Maturity profile of financial assets and financial liabilities

	Up to 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
At 31 December 2015	AED'000	AED'000	AED'000	AED'000	AED'000
Assets					
Cash and balances with the UAE Central Bank	6,346,119	1,100,000	-	-	7,446,119
Due from banks	2,357,962	2,242,230	-	-	4,600,192
Investments in Islamic financing instruments	6,625,110	3,470,798	7,514,997	5,595,986	23,206,891
Investments in Islamic sukuk	327,763	260,406	1,008,946	844,758	2,441,873
Other assets	274,830	-	-	28,530	303,360
Total	15,931,784	7,073,434	8,523,943	6,469,274	37,998,435
Liabilities					
Customer deposits	21,798,395	8,038,199	2,312,147	-	32,148,741
Wakalah term deposits	-	-	-	544,192	544,192
Due to banks	340,105	36,755	-	-	376,860
Sukuk financing instruments	-	-	1,836,450	-	1,836,450
Other liabilities	996,542	-	-	32,030	1,028,572
Total	23,135,042	8,074,954	4,148,597	576,222	35,934,815
Net liquidity gap	(7,203,258)	(1,001,520)	4,375,346	5,893,052	2,063,620
Cumulative gap	(7,203,258)	(8,204,778)	(3,829,432)	2,063,620	

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

29 Risk management (continued)

29.2 Liquidity risk (continued)

(b) Maturity profile of financial assets and financial liabilities (continued)

	Up to 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
At 31 December 2014	AED'000	AED'000	AED'000	AED'000	AED'000
Assets					
Cash and balances with the UAE Central Bank	2,891,684	500,000	-	-	3,391,684
Due from banks	2,196,139	743,377	52,650	-	2,992,166
Investments in Islamic financing instruments	4,082,553	3,208,127	6,466,152	4,280,027	18,036,859
Investments in Islamic sukuk	308,738	614,865	1,311,130	646,530	2,881,263
Other assets	186,690	-	-	28,530	215,220
Total	9,665,804	5,066,369	7,829,932	4,955,087	27,517,192
Liabilities					
Customer deposits	13,922,577	7,922,809	2,005,569	-	23,850,955
Wakalah term deposits	-	-	-	544,192	544,192
Due to banks	485,290	56,933	-	-	542,223
Other liabilities	740,409	-	-	23,076	763,485
Total	15,148,276	7,979,742	2,005,569	567,268	25,700,855
Net liquidity gap	(5,482,472)	(2,913,373)	5,824,363	4,387,819	1,816,337
Cumulative gap	(5,482,472)	(8,395,845)	(2,571,482)	1,816,337	-

29 Risk management (continued)

29.3 Market risk (continued)

Market risk is the potential impact of adverse price movements such as benchmark rates, foreign exchange prices and commodity prices on the earnings/economic value of an asset held by the Group. The exposure to market risk occurs throughout the contract which may negatively affect the earnings and capital of the Group. The market risk unit is responsible for monitoring and reporting this risk in the Group.

(a) Profit rate risk

The following table summarises the financial assets and liabilities of the Group, which are subject to profit rate risk, at carrying amounts categorised by the earlier of contractual re-pricing or maturity dates. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amount of assets and liabilities that mature or re-price in a given period:

At 31 December 2015	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Non-profit bearing	Total	Profit rate
Assets	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	%
Cash and balances with the UAE Central Bank	1,800,000	1,100,000	-	-	4,546,119	7,446,119	0.13
Due from banks	2,567,492	1,601,641	-	-	431,059	4,600,192	1.86
Investments in Islamic financing instruments	12,082,914	6,642,631	4,456,591	24,755	-	23,206,891	5.32
Investments in Islamic sukuk	327,763	260,406	1,028,010	825,694	-	2,441,873	3.90
	16,778,169	9,604,678	5,484,601	850,449	4,977,178	37,695,075	
Liabilities							
Customer deposits	17,603,498	6,577,177	200,930	-	7,767,136	32,148,741	0.87
Wakalah term deposits	-	-	-	544,192	-	544,192	5.51
Due to banks	111,717	36,731	-	-	228,412	376,860	0.22
Sukuk financing instruments	-	-	1,836,450	-	-	1,836,450	2.79
	17,715,215	6,613,908	2,037,380	544,192	7,995,548	34,906,243	
Net position on balance sheet	(937,046)	2,990,770	3,447,221	306,257	(3,018,370)	2,788,832	

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

29 Risk management (continued)

29.3 Market risk (continued)

(a) Profit rate risk (continued)

The impact of 1% change in profit rate's would impact AED 30 million (2014: AED 27 million) on the Group's consolidated income statement for the year ended 31 December 2015. The analysis is based on the assumptions that all other variables will remain constant and income simulation for 1 year forecast.

Similarly, an impact of 1% change in profit rate's would impact AED 25 million (2014: AED 36 million) on the Group's equity for the year ended 31 December 2015. The analysis is based on the assumptions that all other variables will remain constant for full maturity horizon.

At 31 December 2014	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Non-profit bearing	Total	Profit rate
Assets	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	%
Cash and balances with the UAE Central Bank	550,000	500,000	-	-	2,341,684	3,391,684	0.19
Due from banks	1,634,307	633,185	52,650	-	672,024	2,992,166	1.87
Investments in Islamic financing instruments	9,915,833	5,707,315	2,194,932	218,779	-	18,036,859	4.64
Investments in Islamic sukuk	418,916	621,432	1,213,114	627,801	-	2,881,263	3.94
	12,519,056	7,461,932	3,460,696	846,580	3,013,708	27,301,972	
Liabilities							
Customer deposits	11,412,590	7,275,399	245,467	-	4,917,499	23,850,955	1.10
Wakalah term deposits	-	-	-	544,192	-	544,192	5.51
Due to banks	183,652	56,933	-	-	301,638	542,223	0.27
	11,596,242	7,332,332	245,467	544,192	5,219,137	24,937,370	
Net position on balance sheet	922,814	129,600	3,215,229	302,388	(2,205,429)	2,364,602	

29 Risk management (continued)

29.3 Market risk (continued)

(b) Foreign currency risk

Foreign currency risk represents the risk of change in the fair value of Islamic financing instruments due to changes in foreign exchange rates. The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows through setting limits on the level of exposure by currency. At the end of the year, the Bank had the following significant net foreign currency exposures:

	Balances in Foreign Currency					Balances in local	
	US$	QAR	EUR	Others	Sub-total	currency	Total
At 31 December 2015	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets							
Cash and balances with the UAE Central Bank	736,997	-	-	-	736,997	6,709,122	7,446,119
Due from banks	3,319,445	6,245	63,277	79,339	3,468,306	1,131,886	4,600,192
Investments in Islamic financing instruments	3,759,452	-	22,814	282,511	4,064,777	19,142,114	23,206,891
Investments in Islamic sukuk	2,399,698	-	-	-	2,399,698	42,175	2,441,873
Other assets	66,429	-	3,368	5078	74,875	228,485	303,360
	10,282,021	6,245	89,459	366,928	10,744,653	27,253,782	37,998,435
Liabilities							
Customer deposits	3,893,792	-	1,661,048	348,149	5,902,989	26,245,752	32,148,741
Wakalah term deposits	110,192	-	-	-	110,192	434,000	544,192
Due to banks	188,733	-	-	5,209	193,942	182,918	376,860
Sukuk financing instruments	1,836,450	-	-	-	1,836,450	-	1,836,450
Other liabilities	40,725	-	33,670	1,831	76,226	952,346	1,028,572
	6,069,892	-	1,694,718	355,189	8,119,799	27,815,016	35,934,815
Net on-balance sheet foreign currency exposure	4,212,129	6,245	(1,605,259)	11,739	2,624,854		
Net FX position on account of FX contracts	(3,306,184)	427,238	1,624,415	52,486	(1,202,044)		
Net FX open position	905,945	433,483	19,156	64,225	1,422,810		

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

29 Risk management (continued)

29.3 Market risk (continued)

(b) Foreign currency risk (continued)

The impact of an 1% increase/decrease in the foreign exchange rates of the Bank's net on-balance sheet items is AED 2.17 million on the Group's consolidated income statement for the year ended 31 December 2015 (2014: AED 1.9 million). The analysis is based on the assumptions that all other factors will remain constant.

	Balances in Foreign Currency					Balances in local	
	US$	QAR	EUR	Others	Sub-total	currency	Total
At 31 December 2014	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets							
Cash and balances with the UAE Central Bank	275,236	-	-	-	275,236	3,116,448	3,391,684
Due from banks	1,322,094	467,183	59,208	75,666	1,924,151	1,068,015	2,992,166
Investments in Islamic financing instruments	2,482,763	-	13,622	305,434	2,801,819	15,235,040	18,036,859
Investments in Islamic sukuk	2,867,877	-	-	-	2,867,877	13,386	2,881,263
Other assets	50,655	255	687	6,072	57,669	157,551	215,220
	6,998,625	467,438	73,517	387,172	7,926,752	19,590,440	27,517,192
Liabilities							
Customer deposits	1,984,812	-	790,084	141,216	2,916,112	20,934,843	23,850,955
Wakalah term deposits	110,192	-	-	-	110,192	434,000	544,192
Due to banks	245,409	-	-	-	245,409	296,814	542,223
Other liabilities	37,450	-	210	-	37,660	725,825	763,485
	2,377,863	-	790,294	141,216	3,309,373	22,391,482	25,700,855
Net on-balance sheet foreign currency exposure	4,620,762	467,438	(716,777)	245,956	4,617,379		
Net FX position on account of FX contracts	(3,733,126)	-	780,441	(172,990)	(3,125,675)		
Net FX open position	887,636	467,438	63,664	72,966	1,491,704		

29 Risk management (continued)

29.3 Market risk (continued)

(c) Price risk

The Bank is exposed to price risk arising from publicly traded investments in Islamic sukuk.

A present value one basis point (PVBP) increase/decrease in the prices will have an impact of AED 1.0 million on the Group's investment portfolio for the year ended 31 December 2015 (2014: AED 0.95 million). The analysis is based on the assumptions that all other variables will remain constant.

29.4 Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in an active market for identical financial instruments.
- Level 2 – Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

29 Risk management (continued)

29.4 Fair value hierarchy (continued)

The financial instruments and non-financial assets measured at fair value as per the hierarchy are disclosed in the table below:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
As at 31 December 2015			
Financial assets at fair value			
Investments in Islamic sukuk			
- Classified as AFS	1,598,895	-	-
- Classified as Held for Trading	78,782	-	-
Promise to buy or sell currency	-	19,883	-
	1,677,677	19,883	-
Financial liabilities			
Promise to buy or sell currency	-	8,010	-
As at 31 December 2014			
Financial assets at fair value			
Investments in Islamic sukuk			
- Classified as AFS	1,853,507	-	-
- Classified as Held for Trading	292,807	-	-
Promise to buy or sell currency	-	2,032	-
	2,146,314	2,032	-
Financial liabilities			
Promise to buy or sell currency	-	11,987	-

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
As at 31 December 2015			
Non-financial assets at fair value			
Investment properties	-	1,231,715	-
Buildings	-	141,605	-
	-	1,373,320	-
As at 31 December 2014			
Non-financial assets at fair value			
Investment properties	-	1,266,567	-
Land and buildings	-	149,939	-
	-	1,416,506	-

29 Risk management (continued)

29.4 Fair value hierarchy (continued)

The different levels for fair values of non-financial assets have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). For investment properties and land and buildings, the fair values have been derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot. (Level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

At 31 December 2015, the carrying value of the Group's other assets and liabilities measured at amortised cost, approximate their fair values. There have been no transfers of financial assets and non-financial assets between level 1 and Level 2 during the years ended 31 December 2015 or 2014.

29.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed processes, technology and infrastructure within the Group, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory compliance requirements and generally accepted standards of corporate behaviour.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation, assets and personnel with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;

29 Risk management (continued)

29.5 Operational risk (continued)

- training and professional development of employees for operational risk awareness;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with Group's operational risk standards is supported by a programme of periodic reviews undertaken by Internal Audit and a dedicated Operational Risk Team. The results of their reviews are discussed with the management of the business unit to which they relate and senior management of the Group.

29.6 Capital management and capital adequacy as per Basel II requirement

The Group manages its capital considering both regulatory and economic capital. The Group calculates its risk asset ratio in accordance with requirements and guidelines established by the UAE Central Bank prescribing the ratio of total capital to total risk-weighted assets which is currently set at a minimum of 12% (2014: 12%). This is in line with the assessment and reporting of capital adequacy ratio in accordance with the Basel II Accord as follows:

	2015 AED'000	2014 AED'000
Tier I Capital		
Share capital	3,357,895	3,307,895
Legal reserves	213,000	156,917
Accumulated losses	(177,295)	(349,535)
Less: Other equity investments	(13,500)	(12,500)
	3,380,100	3,102,777
Tier II Capital		
Subordinated term investment (Note 12)	544,192	544,192
General provision	322,309	245,334
Asset revaluation reserve	(5,650)	(19,984)
Less: Other equity investments	(13,500)	(12,500)
	847,351	757,042
Deductions from Tier I & Tier II Capital		
Investment in other equity investments (Note 9)	-	-
Total regulatory capital	4,227,451	3,859,819
Risk weighted assets		
Credit risk	25,784,753	19,672,421
Market risk	137,656	277,666
Operational risk	1,901,516	1,373,236
Risk weighted assets	27,823,925	21,323,323
Capital adequacy ratio on regulatory capital	15.19%	18.10%
Risk asset ratio on Tier I capital	12.15%	14.55%

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

29 Risk management (continued)

29.6 Capital management and capital adequacy as per Basel II requirement (continued)

Asset classes in 2015			Credit risk mitigation (CRM)			
	On balance sheet gross outstanding AED'000	Off balance sheet exposure AED'000	Exposure before CRM (net off specific provision and profit in suspense) AED'000	CRM AED'000	Net exposure after CRM, CCF and Other adjustments AED'000	Risk weighted assets AED'000
Claims on sovereigns	8,637,862	-	8,637,862	(183,655)	8,637,862	489,494
Claims on non-central government public sector entities	178,242	-	178,242	-	178,242	20,956
Claims on banks	5,477,337	255,681	5,733,018	(258,694)	5,687,689	2,894,383
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	15,264,020	9,723,365	24,137,402	(2,550,488)	17,685,711	15,140,572
Claims included in the regulatory retail portfolio	3,879,641	429,083	4,308,724	(141,098)	3,879,641	2,876,375
Claims secured by residential property	3,782,195	357,040	4,139,235	-	3,905,584	1,709,932
Claims secured by commercial real estate	606,914	-	606,914	-	606,914	606,914
Past due financing	1,154,233	15,716	1,169,949	-	312,108	324,969
Other assets	2,060,471	-	1,940,319	-	1,940,319	1,721,158
	41,040,915	10,780,885	50,851,665	(3,133,935)	42,834,070	25,784,753

The total collateral held by the Group as CRM includes AED 2.7 billion as cash collateral (2014: AED 3.1 billion as cash collateral).

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

29 **Risk management** (continued)

29.6 **Capital management and capital adequacy as per Basel II requirement** (continued)

Asset classes in 2014			Credit risk mitigation (CRM)			
	On balance sheet gross outstanding AED'000	Off balance sheet exposure AED'000	Exposure before CRM (net off specific provision and profit in suspense) AED'000	CRM AED'000	Net exposure after CRM, CCF and Other adjustments AED'000	Risk weighted assets AED'000
Claims on sovereigns	4,218,086	-	4,218,086	-	4,218,086	389,375
Claims on non-central government public sector entities	77,734	-	77,734	-	77,734	855
Claims on banks	4,124,664	214,981	4,339,645	(123,429)	4,297,781	1,615,716
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	13,188,019	3,919,563	17,107,582	(2,990,755)	15,164,511	12,323,934
Claims included in the regulatory retail portfolio	2,653,969	-	2,653,969	(223,544)	2,653,969	1,869,835
Claims secured by residential property	2,529,909	110,211	2,640,120	-	2,573,751	1,154,437
Claims secured by commercial real estate	319,449	-	319,449	-	319,449	319,449
Past due financing	1,479,476	19,853	340,295	-	330,368	362,917
Other assets	2,201,278	-	2,053,177	-	2,053,177	1,635,903
	30,792,584	4,264,608	33,750,057	(3,337,728)	31,688,826	19,672,421

29 Risk management (continued)

29.6 Capital management and capital adequacy as per Basel II requirement (continued)

The capital requirement for market risk under the standardised approach is as follows:

	2015		2014	
	Risk weighted assets AED'000	Capital charge AED'000	Risk weighted assets AED'000	Capital charge AED'000
Profit rate risk	73,955	8,875	207,877	24,945
Foreign exchange risk	63,700	7,644	69,789	8,375
	137,655	16,519	277,666	33,320

Capital charge for year ended 31 December 2015 has been calculated at 12% (2014: 12%).

30 Subsequent events

Subsequent to 31 December 2015, a beneficial shareholder of the Bank has provided an unconditional commitment to subscribe for up to AED 450 million of new shares to be issued by the Bank at par value. Accordingly, the share capital of the Bank will increase by the amount of the new shares that are issued, subject to all applicable shareholder and regulatory approvals.