



**Al Khaliji France S.A.
United Arab Emirates Branches**

**Independent auditor's report
and financial statements
for the year ended 31 December 2015**

Al Khaliji France S.A. - United Arab Emirates Branches

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INDEPENDENT AUDITOR'S REPORT

The Head Office
Al Khaliji France S.A.
United Arab Emirates Branches
United Arab Emirates

Report on the Financial Statements

We have audited the accompanying financial statements of **Al Khaliji France S.A., United Arab Emirates Branches** (the "Branches"), which comprise the statement of financial position as at 31 December 2015 and the statements of income, comprehensive income, changes in head office equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Cont'd....

INDEPENDENT AUDITOR'S REPORT (continued)*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Al Khaliji France S.A., United Arab Emirates Branches** 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:

- i) we have obtained all the information and explanations we considered necessary for the purpose of our audit;
- ii) the financial statements of the Branches have been prepared and comply, in all material respect, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- iii) the Branches have maintained proper books of account;
- iv) the Branches have not purchased or invested in any shares during the financial year ended 31 December 2015;
- v) note 6 to the financial statements reflects material related party transactions and balances and the terms under which they were conducted; and
- vi) based on the information that has been available to us, nothing has come to our attention which causes us to believe that the Branches has contravened during the financial year ended 31 December 2015, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 which would materially affect its activities or its financial position as at 31 December 2015.

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

Deloitte & Touche (M.E.)



Anis F. Sadek
Registration No. 521
20 March 2016

Statement of financial position
As of 31 December 2015

	Notes	2015 AED'000	2014 AED'000
ASSETS			
Cash and balances with U.A.E. Central Bank	5	419,761	557,664
Due from related parties	6	159,951	231,100
Due from banks and financial institutions	7	142,544	81,485
Financial investments	8	278,095	236,758
Loans and advances to customers	9	2,596,837	2,309,078
Customers' liability under acceptances		114,367	131,658
Other assets	10	21,818	40,745
Property and equipment	11	3,395	1,988
Intangibles	12	2,912	3,982
Total Assets		3,739,680	3,594,458
LIABILITIES AND HEAD OFFICE EQUITY			
Liabilities			
Due to banks and financial institutions	13	96,977	96,893
Customers' deposits	14	2,840,037	2,694,010
Due to related parties	6	9,996	35,253
Liability under acceptances		114,367	131,658
Other liabilities	15	68,334	117,788
Total liabilities		3,129,711	3,075,602
Head Office Equity			
Assigned capital	16(a)	375,000	335,000
Statutory reserve	16(b)	51,832	46,720
Retained earnings		183,137	137,136
Total Head Office Equity		609,969	518,856
Total Liabilities and Head Office Equity		3,739,680	3,594,458


 Gilles Dermaux
 General Manager

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

**Statement of income
for the year ended 31 December 2015**

	Notes	2015 AED'000	2014 AED'000
Interest income		152,213	129,289
Interest expense		(33,654)	(25,581)
Net interest income		118,559	103,708
Fee and commission income		39,959	39,775
Fee and commission expense		(541)	(1,251)
Net fee and commission income		39,418	38,524
Net gain from foreign currency transactions		6,961	5,798
Operating income for the year		164,938	148,030
General and administrative expenses	17	(49,942)	(46,585)
Impairment losses on loans, net of recoveries	18	(40,613)	(31,504)
Net operating expenses		(90,555)	(78,089)
Profit before tax		74,383	69,941
Income tax expense	19	(23,270)	(17,857)
Profit for the year		51,113	52,084

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

**Statement of comprehensive income
for the year ended 31 December 2015**

	2015 AED'000	2014 AED'000
Profit for the year	51,113	52,084
Other comprehensive income	-	-
Other comprehensive income for the year	-	-
Total comprehensive income for the year	51,113	52,084

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

Statement of changes in Head Office equity
for the year ended 31 December 2015

	Assigned capital AED'000	Statutory reserve AED'000	Retained earnings AED'000	Total AED'000
Balance at 31 December 2013	284,850	41,512	134,483	460,845
Profit for the year	-	-	52,084	52,084
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	52,084	52,084
Profits transferred to Head Office	-	-	(44,223)	(44,223)
Increase in assigned capital	50,150	-	-	50,150
Transfer to statutory reserve	-	5,208	(5,208)	-
Balance at 31 December 2014	335,000	46,720	137,136	518,856
Profit for the year	-	-	51,113	51,113
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	51,113	51,113
Increase in assigned capital	40,000	-	-	40,000
Transfer to statutory reserve	-	5,112	(5,112)	-
Balance at 31 December 2015	375,000	51,832	183,137	609,969

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

**Statement of cash flows
for the year ended 31 December 2015**

	2015 AED'000	2014 AED'000
Cash flows from operating activities		
Profit before tax	74,383	69,941
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment losses on loans, net of recoveries	40,613	31,504
Loss on disposal of property and equipment	82	-
Depreciation and amortization	2,590	2,181
Operating profit before changes in operating assets and liabilities	117,668	103,626
Increase in cash reserve with the U.A.E. Central Bank	(3,054)	(27,829)
Increase in loans and advances	(328,372)	(581,210)
Decrease/(increase) in other assets	18,927	(28,002)
Increase in customers' deposits	146,027	831,286
(Decrease)/increase in other liabilities	(55,184)	64,433
Cash (used in)/generated from operations	(103,988)	362,304
Tax paid	(17,540)	(16,110)
Net cash (used in)/from operating activities	(121,528)	346,194
Cash flows from investing activities		
Purchase of property and equipment	(2,424)	(1,106)
Purchase of intangibles	(585)	(2,202)
Purchase of investments	(46,527)	(86,892)
Proceeds from maturity/sale of investments	5,190	133,776
Net cash (used in)/from investing activities	(44,346)	43,576
Cash flows from financing activities		
Increase in assigned capital	40,000	50,150
Profits transferred to Head Office	-	(44,223)
Net cash from financing activities	40,000	5,927
Net (decrease)/increase in cash and cash equivalents	(125,874)	395,697
Cash and cash equivalents, at the beginning of the year	606,910	211,213
Cash and cash equivalents, at the end of the year (Note 20)	481,036	606,910

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

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

1. Status and activities

Al Khaliji France S.A. is a French registered bank with its Head Office in Paris, France. It commenced its operations in the United Arab Emirates in 1973 as a retail bank and currently has four branches, one in each of Dubai, Abu Dhabi, Ras Al Khaimah and Sharjah. The ultimate parent and controlling party is Al Khalij Commercial Bank, Doha, Qatar.

The Bank's regional office in Dubai is responsible for managing the operations of the United Arab Emirates Branches. The regional office's registered address is P.O. Box 4207, Dubai, United Arab Emirates.

These financial statements reflect the activities of the branches of Al Khaliji France S.A. in the United Arab Emirates only (the "Branches") and exclude all transactions, assets and liabilities of the Head Office and Ultimate Parent's branches.

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

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

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

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

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

The Branches have not early applied the following new standards, amendments and interpretations that have been issued but which are not yet effective:

New and revised IFRS	Effective for annual periods beginning on or after
Amendments to IAS 1 <i>Presentation of Financial Statements</i> relating to Disclosure initiative	1 January 2016
Amendments to IFRS 11 <i>Joint Arrangements</i> relating to accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i> relating to clarification of acceptable methods of depreciation and amortization	1 January 2016
Amendments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 41 <i>Agriculture</i> relating to bearer plants	1 January 2016

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

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

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

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IAS 27 <i>Separate Financial Statements</i> relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements	1 January 2016
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> , IFRS 12 <i>Disclosure of Interests in Other Entities</i> and IAS 28 <i>Investment in Associates and Joint Ventures</i> relating to applying the consolidation exception for investment entities	1 January 2016
Annual Improvements to IFRSs 2012 - 2014 Cycle covering amendments to IFRS 5, IFRS 7 and IAS 19.	1 January 2016
Finalised version of IFRS 9 (IFRS 9 Financial Instruments (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model.	1 January 2018
A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.	
A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.	
IFRS 15 <i>Revenue from Contracts with Customers</i> : IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.	1 January 2018
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely
IFRS 16 <i>Leases</i>	1 January 2019
Management anticipates that these new standards, interpretations and amendments will be adopted in the Branches' financial statements for the period beginning 1 January 2016 or as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, may have no material impact on the financial statements of the Branches in the period of initial application.	
The application of the finalised version of IFRS 9 may have significant impact on amounts reported and disclosures made in the Branches' financial statements in respect of Branches' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application until the Branches perform a detailed review.	

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

3. Significant accounting policies

Statement of compliance

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

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

Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets, goods and services.

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

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

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

The financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands dirham, except when otherwise indicated.

The principal accounting policies are set out below:

**Notes to the financial statements
for the year ended 31 December 2015 (continued)****3. Significant accounting policies (continued)****Revenue and expense recognition**

The Branches recognize interest income and interest expense in the statement of income for all interest bearing financial instruments classified as held to maturity, available-for-sale and loans and receivables using the effective interest method.

Interest income on non-performing loans and advances is suspended when realization of such interest or the principal amount becomes doubtful. Recoveries in respect of loans fully provided for are accounted for on a cash receipt basis.

Fees and commission income and expenses are generally recognized in the statement of income on accrual basis as the related services are provided except those that are integral to the effective interest rate calculations. Fees and commission included in the effective interest rate calculation are those that are incremental and directly attributable to the origination of the product and which are integral to the yield of the product.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Branches have retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

Foreign currency transactions

The Branches' financial statements are presented in the U.A.E. Dirham (AED) which is the Branches' functional and presentation currency.

Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions.

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 statement of income.

Foreign currency translation differences on monetary items classified as available-for-sale, such as foreign currency bonds designated as available-for-sale, are recognized as a translation gain or loss in the statement of income when incurred. Translation differences on non-monetary items, classified as available-for-sale, such as equities are included in the fair value reserve in head office equity when incurred.

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

3. Significant accounting policies (continued)

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment loss, if any. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. Depreciation is determined using the straight-line method over the estimated useful life as follows:

	<u>Years</u>
Office equipment	3 - 5
Furniture and fittings	5
Leasehold improvements	5
Vehicles	3

The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its useful economic life.

The useful lives, methods and the residual values underlying the calculation of depreciation of items of property and equipment are reviewed at each reporting date to take account of any change in circumstances.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of income.

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

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income in the expense category consistent with the function of the intangible asset.

Impairment of tangible and intangible assets

At each reporting period, the Branches review the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Branches estimate the recoverable amount of the cash-generating unit to which the asset belongs.

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

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

Financial instruments

Financial assets and financial liabilities are recognised when the Branches become a party to the contractual provisions of the instrument.

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

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on the trade date basis where the purchase or sale of financial assets that require delivery of the assets within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets designated at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified as 'available-for-sale' financial assets, held to maturity investments' and 'loans and advances.' The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial investments are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial investments are initially recognized at fair value plus directly related incremental transaction costs and are subsequently carried at fair value. Unrealized gains or losses arise from changes in the fair values are recognized directly in equity in the available-for-sale reserve, except for impairment losses or foreign exchange gains or losses related to debt securities, which are recognized immediately in the statement of income.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity is included in the statement of income for the year.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in head office equity.

Held to maturity financial assets

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Branches have the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Branches with fixed or determinable payments. Loans and advances are initially recognized when cash is advanced to borrowers at the fair value on the commitment date plus directly attributable incremental transaction costs. They are subsequently carried at amortized cost using the effective interest method less any amounts written off and allowance for impairment.

Allowance for impairment is made against loans and advances when their full recovery as per contracted terms is in doubt taking into consideration IFRS requirements for fair value measurement and Central Bank of the U.A.E. guidelines.

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits with the U.A.E. Central Bank (except mandatory cash reserves) and due from banks and financial institutions. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

Effective interest method

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Impairment of loans and advances measured are assessed by the Branches as follows:

Individually assessed loans

These represent mainly corporate loans which are assessed individually by the Branches' Credit Department in order to determine whether there exists any objective evidence that a loan is impaired.

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

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

Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances on:

Performing commercial and other loans

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

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

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

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

Impairment of retail loans is calculated by applying a formulaic approach whereby a provision of 25% of loan balance is made when it is past due by more than 90 days and a provision of 50% of loan balance is made when it is past due by more than 120 days. All loans that are past due by more than 180 days are provided in full.

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of available-for-sale investments

A significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognized directly in equity is removed from equity and recognized in the statement of income. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as all other financial assets. Reversals of impairment of debt instruments are recognized in the statement of income. Reversals of impairment of equity shares are not recognized in the statement of income, increases in the fair value of equity shares after impairment are recognized directly in equity.

De-recognition of financial assets

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

Financial liabilities are classified as other financial liabilities which include borrowings and customer deposits, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Branches are initially measured at their fair values and, if not designated at fair values, are subsequently measured at the higher of:

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

Any increase in the liability relating to financial guarantees is recorded in the statement of income. The premium received is recognised in the statement of income in fees and commission income on a straight line basis over the life of the guarantee.

De-recognition of financial liabilities

The Branches derecognize financial liabilities when, and only when, the Branches' obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in statement of income.

Fair values

All financial instruments are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and
- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the statement of financial position only when there is a legally enforceable right to set off the recognised amounts or when the Branches intend to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Derivative financial instruments and hedge accounting

The Branches use derivative financial instruments, including forward foreign exchange contracts to hedge certain currency, interest and other market risks.

Derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognized pricing models as appropriate.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in statement of income as they arise.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognized asset or liability, or a forecasted transaction that will affect future reported net income.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Branches will assess the effectiveness of hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

Fair Value Hedge

Gains and losses from re-measuring derivatives, which meet the criteria for fair value hedge accounting, to their fair value are recognized in the statement of income.

Hedge accounting is discontinued when the Branches revoke the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to statement of income from that date.

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

3. Significant accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)

Cash Flow Hedge

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under Head Office equity and the ineffective portion, if any, is recognized in the statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the statement of income in the same period in which the hedged transaction affects the statement of income. Where the hedged forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognized, the associated gains or losses that had previously been recognized in other reserves are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other reserves is retained in Head Office equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the statement of income for the year.

Embedded Derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealized gains or losses reported in the statement of income.

Employees' end of service benefits

Provision for employees' end of service indemnity is made based on current remuneration and cumulative years of service at the end of each reporting period. The provision is made in accordance with the Branches' policy which is not less than the liability arising under the U.A.E. labour laws.

Pension and national insurance contributions for U.A.E. citizens are made by the Branches in accordance with Federal Law No.7 of 1999.

Operating leases

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Where the Branches is the lessee and the leased assets are not recognized on reporting period, rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases.

Taxation

Income tax represents 20% of the taxable income of all Branches excluding Ras Al Khaimah Branch, where income tax does not apply.

**Notes to the financial statements
for the year ended 31 December 2015 (continued)****3. Significant accounting policies (continued)****Provisions**

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

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

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

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Branches have a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Acceptances

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

Documentary credits

Documentary Credits, issued on behalf of the clients of the Branches, are contracts whereby the Branches guarantee to pay on behalf of the client money to the holder for goods supplied to the client. The payment would be made only on submission of documents as prescribed in the credit by the holder through his bank.

The income received for the issue of the credit and subsequent handling of the bills under the credit is recognized as fee income as and when received.

Commitments to extend credit

These are firm commitments made by the Branches to its clients to extend credit as per the terms of the agreement and are considered as an off balance sheet liability.

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

4. Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Branches' accounting policies, which are described in Note 3, management is required to use certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

Classification and measurement of financial assets

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

Impairment of loans

The Branches' accounting policy for allowances in relation to impaired loans and advances is described in Note 3. Impairment is calculated on the basis of discounted estimated future cash flows and the UAE Central Bank guidelines.

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

Individually assessed loans

Impairment losses for individually assessed loans are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate loans and advances which are individually significant accounts or are not subject to, the portfolio-based approach.

The following factors are considered when determining impairment losses on individually assessed accounts:

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

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

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

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

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

Impairment of loans (continued)

Collectively assessed loans

The management of the Branches assess, based on historical experience and the prevailing economical and credit conditions, the magnitude of loans and advances which may be impaired but not identified as of the reporting date.

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

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

Impairment of retail loans is calculated by applying a formulaic approach whereby a provision of 25% of loan balance is made when it is past due by more than 90 days and a provision of 50% of loan balance is made when is past due by more than 120 days and less than 180 days. All loans that are past due by more than 180 days are provided in full.

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

	2015	2014
	AED'000	AED'000
Cash on hand	12,940	12,628
Current account with the U.A.E. Central Bank	272,574	88,843
Statutory cash ratio requirements	134,247	131,193
Certificates of deposit with the U.A.E. Central Bank	-	325,000
	419,761	557,664

The Branches are required to maintain statutory deposits with the U.A.E. Central Bank which are not available for use in the day-to-day operations.

6. Related party transactions

The Branches enter into transactions with entities that fall within the definition of a related party in accordance with International Accounting Standard 24: *Related Party Disclosures*. Related parties comprise Head Office and ultimate parent and controlling party outside the U.A.E. Transactions with such related parties are made on substantially the same terms, as those prevailing at the same time for comparable transactions with external customers and parties.

The Branches maintain certain deposits with the Head Office in Paris (the "Head Office") and the ultimate parent and controlling party and conducts banking transactions with them as part of its normal activities.

The Head Office provides administrative and management support to the Branches (Note 17) for which the Branches were charged a fee for the year ended 31 December 2015 of AED 0.73 million (2014: AED 1.1 million).

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

6. Related party transactions (continued)

	2015 AED'000	2014 AED'000
Due from related parties comprise:		
<i>Current accounts</i>		
Ultimate Parent Company	5,311	65,102
Head Office	55,668	124,482
<i>Term deposits</i>		
Ultimate Parent Company	7,464	-
Head Office	91,508	41,516
	<u>159,951</u>	<u>231,100</u>
Due to related parties comprise:		
<i>Current accounts</i>		
Ultimate Parent Company	6,355	3,911
Head Office	3,486	31,006
<i>Entity under common management/control</i>		
Qatar Capital Limited, State of Qatar	155	336
	<u>9,996</u>	<u>35,253</u>
 Profit for the year includes related party transactions as follows:		
	2015 AED'000	2014 AED'000
Interest income	829	714
Commission income	266	1,015
	<u>96</u>	<u>109</u>
Interest expense	38	116
Commission expense	730	1,072
Head office charges (Note 17)	<u>7,704</u>	<u>7,201</u>
<i>Key management personnel compensation:</i>		
Compensation accrued during the year to key management personnel	<u>7,704</u>	<u>7,201</u>

Interest income from related parties includes an amount of AED 31,000 (2014: AED 34,000) received from key management personnel.

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

7. Due from banks and financial institutions

	2015 AED'000	2014 AED'000
Due from banks and financial institutions outside the U.A.E.	113,425	80,819
Due from banks and financial institutions in the U.A.E.	29,119	666
	<u>142,544</u>	<u>81,485</u>

8. Financial investments

	2015 AED'000	2014 AED'000
Available-for-sale	-	5,190
Held to maturity	278,095	231,568
	<u>278,095</u>	<u>236,758</u>

	2015 AED'000	2014 AED'000
Investments by geographic concentration are as follows:		
- Within U.A.E.	136,561	138,709
- Outside U.A.E.	141,534	98,049
	<u>278,095</u>	<u>236,758</u>

The analysis of financial investments by industry sector is as follows:

	2015 AED'000	2014 AED'000
Government and Public Sector	185,636	143,899
Financial Institutions	92,459	92,859
Total	<u>278,095</u>	<u>236,758</u>

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

9. Loans and advances to customers

a) Loans and advances comprise:

	2015 AED'000	2014 AED'000
Loans and advances	2,706,712	2,373,452
Less: Allowance for impairment	(109,875)	(64,374)
	<u>2,596,837</u>	<u>2,309,078</u>

At 31 December 2015, the fair value of collateral held against loans and advances to customers was AED 2,331 million (2014: AED 1,449 million) an analysis of which is provided in Note 26.

b) The movement of the allowances against the loans and advances to customers is as follows:

	2015 AED'000	2014 AED'000
Balance at the beginning of the year	64,374	45,782
Allowance for the year	45,791	35,295
Write-offs during the year	-	(16,075)
Recoveries during the year	(290)	(628)
Balance at the end of year	<u>109,875</u>	<u>64,374</u>

Allowance for the year includes AED 4.89 million of suspended interest (2014: AED 3.30 million) and recoveries during the year includes AED 1,906 of suspended interest (2014: AED 134,000).

	2015 AED'000	2014 AED'000
Specific impairment	52,558	18,658
Collective impairment	57,317	45,716
	<u>109,875</u>	<u>64,374</u>

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

	2015 AED'000	2014 AED'000
Corporate lending	2,132,411	1,919,852
Small business lending	179,292	149,104
Retail lending	395,009	304,496
	<u>2,706,712</u>	<u>2,373,452</u>

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

9. Loans and advances to customers (continued)

d) Gross loans and advances by geographical area were as follows:

	2015 AED'000	2014 AED'000
Within U.A.E.	2,529,818	2,307,864
Outside U.A.E.	176,894	65,588
	<u>2,706,712</u>	<u>2,373,452</u>

e) Gross loans and advances by industry group were as follows:

	2015 AED'000	2014 AED'000
Wholesale and retail trade	734,967	934,571
Personal loans	391,247	299,618
Manufacturing	429,795	470,309
Transport and communication	74,755	64,695
Construction	652,793	471,043
Services	423,155	133,216
	<u>2,706,712</u>	<u>2,373,452</u>

10. Other assets

	2015 AED'000	2014 AED'000
Interest receivable	12,395	14,040
Prepaid expenses	2,772	3,472
Other	6,651	23,233
	<u>21,818</u>	<u>40,745</u>

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

11. Property and equipment

	Office equipment AED'000	Furniture and fittings AED'000	Vehicles AED'000	Leasehold improvements AED'000	Capital work in progress AED'000	Total AED'000
Cost						
At 31 December 2013	5,064	1,136	138	4,732	93	11,163
Additions during the year	297	21	425	38	325	1,106
Transfers	364	-	-	-	(364)	-
Disposals during the year	(1,306)	-	(138)	-	-	(1,444)
At 31 December 2014	4,419	1,157	425	4,770	54	10,825
Additions during the year	195	7	-	28	2,194	2,424
Disposals during the year	(399)	-	-	-	(82)	(481)
At 31 December 2015	4,215	1,164	425	4,798	2,166	12,768
Accumulated depreciation						
At 31 December 2013	4,172	996	138	4,031	-	9,337
Charge for the year	556	53	118	217	-	944
Disposals during the year	(1,306)	-	(138)	-	-	(1,444)
At 31 December 2014	3,422	1,049	118	4,248	-	8,837
Charge for the year	533	50	142	210	-	935
Disposals during the year	(399)	-	-	-	-	(399)
At 31 December 2015	3,556	1,099	260	4,458	-	9,373
Carrying amount						
At 31 December 2015	659	65	165	340	2,166	3,395
At 31 December 2014	997	108	307	522	54	1,988

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

12. Intangibles

	Software AED'000	Intangibles work in progress AED'000	Total AED'000
Cost			
At 31 December 2013	9,840	249	10,089
Additions during the year	862	1,340	2,202
Transfers	1,493	(1,493)	-
	<hr/>	<hr/>	<hr/>
At 31 December 2014	12,195	96	12,291
Additions during the year	118	467	585
	<hr/>	<hr/>	<hr/>
At 31 December 2015	12,313	563	12,876
	<hr/>	<hr/>	<hr/>
Accumulated depreciation			
At 31 December 2013	7,072	-	7,072
Charge for the year	1,237	-	1,237
	<hr/>	<hr/>	<hr/>
At 31 December 2014	8,309	-	8,309
Charge for the year	1,655	-	1,655
	<hr/>	<hr/>	<hr/>
At 31 December 2015	9,964	-	9,964
	<hr/>	<hr/>	<hr/>
Carrying amount			
At 31 December 2015	2,349	563	2,912
	<hr/>	<hr/>	<hr/>
At 31 December 2014	3,886	96	3,982
	<hr/>	<hr/>	<hr/>

13. Due to banks and financial institutions

	2015 AED'000	2014 AED'000
Due to banks and financial institutions outside the U.A.E.	96,975	96,565
Due to banks and financial institutions in the U.A.E.	2	328
	<hr/>	<hr/>
	96,977	96,893
	<hr/>	<hr/>

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

14. Customers' deposits

	2015	2014
	AED'000	AED'000
Current accounts	786,282	695,178
Saving accounts	14,512	15,116
Time deposits	1,844,127	1,771,717
Margin accounts	195,116	211,999
	2,840,037	2,694,010

Time deposits held under lien as security for loans and advances (funded and unfunded) as at 31 December 2015 amounted to AED 500 million (2014: AED 557 million).

15. Other liabilities

	2015	2014
	AED'000	AED'000
Income tax provision (Note 19)	23,270	17,540
Provision for employees' end of service indemnity	18,930	19,871
Interest payable	13,040	7,770
Banker's draft and other	13,094	72,607
	68,334	117,788

16. Assigned capital and statutory reserve

(a) Assigned capital

During the year, the Branches increased the assigned capital from AED 335 million to AED 375 million after obtaining approval from the Central Bank of the United Arab Emirates.

(b) Statutory reserve

In accordance with Article (82) of Union Law No. 10 of 1980, Federal Commercial Companies Law, the Branches have established a statutory reserve by appropriation of 10% of net profit for each year until the reserve equals 50% of the share capital. This reserve is not available for distribution.

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

17. General and administrative expenses

	2015 AED'000	2014 AED'000
Payroll	36,884	34,706
Depreciation and amortization	2,590	2,181
Head office charges (Note 6)	730	1,072
Other	9,738	8,626
	<u>49,942</u>	<u>46,585</u>

18. Impairment losses on loans, net of recoveries

	2015 AED'000	2014 AED'000
Impairment losses on loans	40,901	31,998
Recoveries during the year	(288)	(494)
	<u>40,613</u>	<u>31,504</u>

The impairment losses on loans, net of recoveries stated above excludes suspended interest of AED 4.89 million (2014: AED 3.30 million).

19. Taxation

The Branches are subject to taxation at the rate of 20% of the taxable income for the year in the Emirates of Abu Dhabi, Dubai and Sharjah. The taxable income is calculated after adding back certain provisions to the net profit before taxation, which management believes are likely to be disallowed as deductions by the tax authorities:

	2015 AED'000	2014 AED'000
Balance, at the beginning of the year	17,540	15,793
Current year charges	23,270	17,857
Paid during the year	(17,540)	(16,110)
	<u>23,270</u>	<u>17,540</u>

Balance, at the end of the year (Note 15)

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

20. Cash and cash equivalents

	2015	2014
	AED'000	AED'000
Cash and balances with U.A.E. Central Bank	285,514	101,471
Cash reserves and certificates of deposit with U.A.E. Central Bank	134,247	456,193
Due from related parties	159,951	231,100
Due from banks and financial institutions outside UAE	113,425	80,819
Due from banks and financial institutions in the U.A.E.	29,119	666
	<hr/> 722,256	<hr/> 870,249
Due to related parties	(9,996)	(35,253)
Due to banks and financial institutions	(96,977)	(96,893)
Cash reserves with U.A.E. Central Bank	(134,247)	(131,193)
	<hr/> 481,036 <hr/>	<hr/> 606,910 <hr/>
Total cash and cash equivalents		

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

21. Concentrations of assets, liabilities, equity and off balance sheet items

	31 December 2015			31 December 2014		
	Assets AED'000	Liabilities and equity AED'000	Off balance sheet items AED'000	Assets AED'000	Liabilities and equity AED'000	Off balance sheet items AED'000
<i>Geographic regions</i>						
U.A.E.	3,147,010	3,523,864	1,743,467	3,118,288	3,367,341	1,611,344
Other Middle East countries	288,531	149,263	15,530	179,230	122,476	17,041
O.E.C.D.	193,786	58,176	37	168,385	76,760	87
Other	110,353	8,377	-	128,555	27,881	-
Total	3,739,680	3,739,680	1,759,034	3,594,458	3,594,458	1,628,472
<i>Industry Sector</i>						
Government and Public Sector	592,456	977,128	-	688,935	668,059	-
Commercial and Business	2,270,283	1,401,550	1,725,577	2,136,240	1,570,409	1,589,942
Personal	395,009	555,089	652	304,496	543,276	1,134
Financial Institutions	440,867	127,611	32,805	405,444	176,070	37,396
Other	41,065	678,302	-	59,343	636,644	-
Total	3,739,680	3,739,680	1,759,034	3,594,458	3,594,458	1,628,472

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

22. Classification of financial assets and financial liabilities

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

	Available- for-sale investments AED'000	Loans and advances (including cash and cash equivalents) AED'000	Other amortised cost AED'000	Carrying amount AED'000
Financial assets				
Cash and balances with the U.A.E. Central Bank	-	419,761	-	419,761
Due from related parties	-	159,951	-	159,951
Due from banks and financial institutions	-	142,544	-	142,544
Financial investments	-	-	278,095	278,095
Loans and advances to customers	-	2,596,837	-	2,596,837
Other assets	-	-	19,046	19,046
Total	-	3,319,093	297,141	3,616,234
Financial liabilities				
Due to banks and financial institutions	-	-	96,977	96,977
Customer deposits	-	-	2,840,037	2,840,037
Due to related parties	-	-	9,996	9,996
Other liabilities	-	-	26,134	26,134
Total	-	-	2,973,144	2,973,144

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

22. Classification of financial assets and financial liabilities (continued)

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

	Available- for-sale investments AED'000	Loans and advances (including cash and cash equivalents) AED'000	Other amortised cost AED'000	Carrying amount AED'000
Financial assets				
Cash and balances with the U.A.E. Central Bank	-	557,664	-	557,664
Due from related parties	-	231,100	-	231,100
Due from banks and financial institutions	-	81,485	-	81,485
Financial investments	5,190	-	231,568	236,758
Loans and advances to customers	-	2,309,078	-	2,309,078
Other assets	-	-	37,273	37,273
Total	5,190	3,179,327	268,841	3,453,358
Financial liabilities				
Due to banks and financial institutions	-	-	96,893	96,893
Customer deposits	-	-	2,694,010	2,694,010
Due to related parties	-	-	35,253	35,253
Other liabilities	-	-	80,377	80,377
Total	-	-	2,906,533	2,906,533

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

23. Liquidity profile

	Less than 3 months AED'000	3 Months to 1 year AED'000	Over 1 year AED'000	Total AED'000
2015				
Assets				
Cash and balances with the U.A.E. Central Bank	285,514	-	134,247	419,761
Due from related parties	151,687	8,264	-	159,951
Due from banks and financial institutions	32,354	110,190	-	142,544
Financial investments	-	41,181	236,914	278,095
Loans and advances to customers	1,199,549	598,944	798,344	2,596,837
Customers' liability under acceptances	105,711	8,656	-	114,367
Other assets	-	21,818	-	21,818
Property and equipment	-	-	3,395	3,395
Intangibles	-	-	2,912	2,912
Total Assets	1,774,815	789,053	1,175,812	3,739,680
Liabilities and Head Office Equity				
Due to banks and financial institutions	5,152	91,825	-	96,977
Customers' deposits	2,266,079	523,958	50,000	2,840,037
Due to related parties	9,996	-	-	9,996
Liability under acceptances	105,711	8,656	-	114,367
Other liabilities	49,404	-	18,930	68,334
Head Office equity	-	-	609,969	609,969
Total Liabilities and Head Office Equity	2,436,342	624,439	678,899	3,739,680

Maturities of assets and liabilities have been determined on the basis of the remaining periods at the end of each reporting period with the loans and advances maturities being determined based on contractual obligations.

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

23. Liquidity profile (continued)

	Less than 3 months AED'000	3 Months to 1 year AED'000	Over 1 year AED'000	Total AED'000
2014				
Assets				
Cash and balances with the U.A.E. Central Bank	426,472	-	131,192	557,664
Due from related parties	231,100	-	-	231,100
Due from banks and financial institutions	8,025	73,460	-	81,485
Financial investments	5,190	-	231,568	236,758
Loans and advances to customers	1,269,618	411,155	628,305	2,309,078
Customers' liability under acceptances	102,657	29,001	-	131,658
Other assets	-	40,745	-	40,745
Property and equipment	-	-	1,988	1,988
Intangibles	-	-	3,982	3,982
Total Assets	2,043,062	554,361	997,035	3,594,458
Liabilities and Head Office Equity				
Due to banks and financial institutions	5,068	-	91,825	96,893
Customers' deposits	2,169,718	424,292	100,000	2,694,010
Due to related parties	35,253	-	-	35,253
Liability under acceptances	102,657	29,001	-	131,658
Other liabilities	97,917	-	19,871	117,788
Head Office equity	-	-	518,856	518,856
Total Liabilities and Head Office Equity	2,410,613	453,293	730,552	3,594,458

Maturities of assets and liabilities have been determined on the basis of the remaining periods at the end of each reporting period with the loans and advances maturities being determined based on contractual obligations.

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

24. Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Branches are a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

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

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Fair value of the financial assets that are measured at fair value on a recurring basis

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

24. Fair value of financial instruments (continued)

Fair value of the financial assets that are measured at fair value on a recurring basis (continued)

	31 December 2015			
	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
Financial assets measured at fair values				
<i>Available-for-sale financial assets</i>				
- Debt securities	-	-	-	-
Total	-	-	-	-
	31 December 2014			
	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
Financial assets measured at fair values				
<i>Available-for-sale financial assets</i>				
- Debt securities	-	5,190	-	5,190
Total	-	5,190	-	5,190

Transfers between Level 1 and Level 2:

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

All gain and losses included in other comprehensive income relate to available-for-sale financial investments held at the end of the reporting period and are reported as changes of 'Fair value reserve'.

Fair value of financial instruments measured at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

	Carrying Amount AED'000	Fair value			Total AED'000
		Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	
2015					
<i>Financial assets</i>					
Held to maturity investments	278,095	278,942	-	-	278,942
2014					
<i>Financial assets</i>					
Held to maturity investments	231,568	233,101	-	-	233,101

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

25. Capital management

Regulatory capital

The Central Bank of the U.A.E. sets and monitors capital requirements for the Branches.

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

The Branches' regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, statutory reserve after deductions for intangible assets, if any.
- Tier 2 capital, which includes collective impairment subject to the limit of 1.25% of CRWA and the element of the fair value reserve (up to a minimum of 45% of the excess of market value over the net book value) relating to unrealised gains on financial investments classified as available for sale.

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed 67% of tier 1 capital; and qualifying term subordinated loan capital may not exceed 50% of tier 1 capital. The Tier One Capital must be a minimum of 8% of RWA.

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

The Branches have complied with all externally imposed capital requirements throughout the year. There have been no material changes in the Branches' management of capital during the year.

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

25. Capital management (continued)

Regulatory capital (continued)

The Branches' regulatory capital position is as follows:

	2015 AED'000	2014 AED'000
<i>Tier 1 capital</i>		
Assigned capital	375,000	335,000
Statutory reserve	51,832	46,720
Retained earnings	183,137	137,136
Less: Intangibles - Software	(2,912)	(3,982)
	<u>607,057</u>	<u>514,874</u>
<i>Tier 2 capital</i>		
Collective provision for impairment	43,411	40,902
	<u>43,411</u>	<u>40,902</u>
Total capital base (a)	<u>650,468</u>	<u>555,776</u>
<i>Risk-weighted assets</i>		
Credit risk:		
On balance sheet	2,466,361	2,126,246
Off balance sheet	1,006,499	903,916
	<u>3,472,860</u>	<u>3,030,162</u>
Market risk	145	1,332
Operational risk	273,362	240,700
	<u>3,746,367</u>	<u>3,272,194</u>
Capital adequacy ratio = [a/b x 100]	<u>17.36%</u>	<u>16.98%</u>

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Branches to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Branches' longer term strategic objectives. The Branches' policies in respect of capital management and allocation are reviewed regularly.

**Notes to the financial statements
for the year ended 31 December 2015 (continued)****26. Risk management**

The Branches have set up a strong risk management infrastructure supported by adoption of certain practices in the field of risk management to manage and monitor the following major risks arising out of its day to day operations:

- Credit risk
- Liquidity risk
- Market risk
- Interest rate risk
- Operational risk

The Head Office of the Branches has overall responsibility for the oversight of the risk management framework. It has established detailed policies and procedures in this regard along with senior management committees to ensure adherence to the approved policies and close monitoring of different risks within the Branches.

The Credit Committee and Management Committee work under the mandate of the Head Office to set up risk limits and manage the overall risk in the Branches.

These committees are responsible for developing credit, market and operational risk policies. Highly experienced and trained managers have delegated authority within the risk management framework to approve credit risk transactions and monitor market and operational risk.

Credit risk management

Policies relating to credit are reviewed and approved by the Branches' Credit Committee. All credit lines are approved centrally for the Branches. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Branches further limit risk through diversification of its assets by industry sectors.

All credit facilities are administered and monitored by the Credit Administration Department. Periodic reviews are conducted by Credit Examination teams from the Audit, Review and Compliance and facilities are risk graded based on criterion established in the Credit Policy Manual.

The Credit Committee is responsible for setting credit policy of the Branches. It also establishes industry caps, approves policy exceptions and conducts periodic portfolio reviews to ascertain portfolio quality.

Different credit underwriting procedures are followed for retail and commercial lending as described below.

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

26. Risk management (continued)

Credit risk management (continued)

Retail lending

Each retail credit application is considered for approval according to a product program, which is devised in accordance with guidelines set out in the product policy approved by the Branches' Credit Committee. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans/credits under product programs. Each product program contains detailed credit criteria (such as customer demographics and income eligibility) and regulatory, compliance and documentation requirements, as well as other operating requirements.

Commercial lending

All credit applications for commercial lending are subject to the Branches' credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Branches do not lend to companies operating in industries that are considered by the Branches inherently risky and where specialized industry knowledge is required. In addition, the Branches set credit limits for all customers based on an evaluation of their creditworthiness.

All credit lines or facilities extended by the Branches are made subject to prior approval pursuant to a set of delegated credit authority limits approved by the Branches' Head Office.

Credit review procedures and loan classification

The Branches' Credit Risk Team (the 'CRT'), subjects the Branches' risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the U.A.E. and Branches' internal policies in order to assist in the early identification of accrual and potential performance problems. The CRT validates the risk ratings of all commercial clients, provides an assessment of portfolio risk by product and segment for retail customers and monitors observance of all approved credit policies, guidelines and operating procedures across the Branches.

If a credit is overdue for 90 days or more, interest is suspended and is not credited to income. Specific allowance for impairment of classified assets is made based on recoverability of outstanding and risk ratings of the assets.

The Branches also comply with IFRS, in accordance with which it assesses the need for any impairment losses on its loan portfolio by calculating the net present value of the expected future cash flows for each loan or its recoverability based either on collateral value or the market value of the asset where such price is available.

**Notes to the financial statements
for the year ended 31 December 2015 (continued)****26. Risk management (continued)****Impaired loans and advances**

Impaired loans and advances are loans and advances for which the Branches determine that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/advances agreement(s). These loans are graded fair, OLEM, substandard, doubtful or loss in the Branches' internal credit risk grading system.

Past due but not impaired loans

Loans and advances where contractual interest or principal payments are past due but the Branches believe that impairment is not appropriate on the basis of the level of security/collateral available and / or the stage of collection of amounts owed to the Branches.

Allowances for impairment

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

Write-off policy

The Branches write off a loan (and any related allowances for impairment losses) when Branches Credit Committee determines that the loans are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

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

26. Risk management (continued)

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of impaired assets by risk grade.

	Due from banks		Loans and advances		Financial investments	
	2015	2014	2015	2014	2015	2014
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Impaired						
Substandard	-	-	64,740	26,732	-	-
Doubtful	-	-	15,639	7,785	-	-
Loss	-	-	15,301	5,098	-	-
Gross amount	-	-	95,680	39,615	-	-
Interest suspended	-	-	(7,718)	(2,829)	-	-
Specific allowance for impairment	-	-	(44,840)	(15,829)	-	-
	-	-	43,122	20,957	-	-
Past due but not impaired						
Retail loans by less than 180 days	-	-	1,118	64	-	-
Past due retail loans less than 30 days	-	-	3,191	6,581	-	-
	-	-	4,309	6,645	-	-
Neither past due nor impaired						
Gross amount	142,544	81,485	2,606,723	2,327,192	278,095	236,758
Collective allowance for impairment	-	-	(57,317)	(45,716)	-	-
	142,544	81,485	2,549,406	2,281,476	278,095	236,758
	142,544	81,485	2,596,837	2,309,078	278,095	236,758
Carrying amount						

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

26. Risk management (continued)

The Branches hold collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to Branches. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2015 or 2014.

At 31 December, the fair value of collateral held was as follows:

	Loans and advances to customers	
	2015 AED'000	2014 AED'000
<i>Against impaired</i>		
Property	8,821	10,075
Debt securities	-	-
Equities	-	-
Cash	-	-
Others	-	-
<i>Against past due but not impaired</i>		
Property	5,577	9,400
Debt securities	-	-
Equities	-	-
Cash	-	-
Others	-	-
<i>Against neither past due nor impaired</i>		
Property	2,035,283	1,086,205
Debt securities	-	-
Equities	-	-
Cash	262,615	330,343
Others	18,390	12,502
Total	2,330,686	1,448,525

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

26. Risk management (continued)

The distributions by geographical concentration of impaired loans and advances and impairment allowance for credit losses are as follows:

	U.A.E. AED'000	Middle East countries AED'000	O.E.C.D AED'000	Other countries AED'000	Total AED'000
2015					
Non-performing loans	95,680	-	-	-	95,680
Impairment allowance for credit losses	44,840	-	-	-	44,840
Interest in suspense	7,718	-	-	-	7,718
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
2014					
Non-performing loans	39,615	-	-	-	39,615
Impairment allowance for credit losses	15,829	-	-	-	15,829
Interest in suspense	2,829	-	-	-	2,829
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

26. Risk management (continued)

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

Interest Rate Sensitivity Gap:

	Within 3 months AED'000	From 3 to 6 months AED'000	From 6 to 12 months AED'000	Over one year AED'000	Non- interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with U.A.E. Central Bank	-	-	-	-	419,761	419,761
Due from related parties	130,646	7,464	800	-	21,041	159,951
Due from banks and financial institutions	28,529	-	110,190	-	3,825	142,544
Financial investments	-	41,182	-	236,913	-	278,095
Loans and advances to customers	2,088,363	300,475	74,539	146,635	(13,175)	2,596,837
Customers' liability under acceptances	-	-	-	-	114,367	114,367
Other assets	-	-	-	-	21,818	21,818
Property and equipment	-	-	-	-	3,395	3,395
Intangibles	-	-	-	-	2,912	2,912
Total assets	2,247,538	349,121	185,529	383,548	573,944	3,739,680
Liabilities and Head Office equity						
Due to banks and financial institutions	91,825	-	-	-	5,152	96,977
Customers' deposits	1,381,968	342,807	181,151	50,000	884,111	2,840,037
Due to related parties	-	-	-	-	9,996	9,996
Liability under acceptances	-	-	-	-	114,367	114,367
Other liabilities	-	-	-	-	68,334	68,334
Head Office Equity	-	-	-	-	609,969	609,969
Total liabilities and head office equity	1,473,793	342,807	181,151	50,000	1,691,929	3,739,680
On Balance Sheet gap	773,745	6,314	4,378	333,548	(1,117,985)	-
Cumulative interest rate sensitivity gap	773,745	780,059	784,437	1,117,985	-	-

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

26. Risk management (continued)

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

Interest Rate Sensitivity Gap:

	Within 3 months AED'000	From 3 to 6 months AED'000	From 6 to 12 months AED'000	Over one year AED'000	Non- interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with U.A.E. Central Bank	325,000	-	-	-	232,664	557,664
Due from related parties	208,094	-	-	-	23,006	231,100
Due from banks and financial institutions	74,720	-	-	-	6,765	81,485
Financial investments	5,190	-	-	231,568	-	236,758
Loans and advances to customers	1,654,420	201,408	97,877	352,331	3,042	2,309,078
Customers' liability under acceptances	-	-	-	-	131,658	131,658
Other assets	-	-	-	-	40,745	40,745
Property and equipment	-	-	-	-	1,988	1,988
Intangibles	-	-	-	-	3,982	3,982
Total assets	2,267,424	201,408	97,877	583,899	443,850	3,594,458
Liabilities and Head Office equity						
Due to banks and financial institutions	91,825	-	-	-	5,068	96,893
Customers' deposits	1,301,130	363,825	60,467	100,000	868,588	2,694,010
Due to related parties	6,826	-	-	-	28,427	35,253
Liability under acceptances	-	-	-	-	131,658	131,658
Other liabilities	-	-	-	-	117,788	117,788
Head Office Equity	-	-	-	-	518,856	518,856
Total liabilities and head office equity	1,399,781	363,825	60,467	100,000	1,670,385	3,594,458
On Balance Sheet gap	867,643	(162,417)	37,410	483,899	(1,226,535)	-
Cumulative interest rate sensitivity gap	867,643	705,226	742,636	1,226,535	-	-

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

26. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Branches will encounter difficulty in meeting obligations from its financial liabilities at a point of time.

Management of liquidity risk

The Branches' approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Branches' reputation.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Branches.

The daily liquidity position is monitored regularly and liquidity stress testing is conducted covering both normal and more severe market conditions. Liquidity policies and procedures are subject to review and approval by Head Office. Reports of the Branches liquidity positions are reviewed daily. A summary report including any exceptions and remedial action taken is also reviewed daily.

The key measure used by the Branches for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Branches' compliance with the liquidity limit established by the Branches' lead regulator. The other indicators closely monitored on regular basis are Advances to Deposit Ratio, Utilization of funds to stable resources and stress testing of liquid funds against unexpected withdrawal of liabilities.

Market risk management

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Branches classify exposures to market risk into either trading or non-trading or banking-book.

The Branches carry a limited amount of market risk as a policy preference and it is continuously monitored. Foreign exchange for the account of the Branches is managed properly.

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

26. Risk management (continued)

Market risk - Non Trading or Banking Book

Market risk on non-trading or banking positions mainly arises from the interest rate and foreign currency exposures.

i) Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Branches are exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities.

The Branches use monitoring tools to periodically measure and monitor interest rate sensitivity. The results are analyzed and monitored by Local Management Committee. Since a portion of the Branches' assets and liabilities have floating rates, deposits and loans generally repriced simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Branches' assets and liabilities are repriced within one year, thereby further limiting interest rate risk. The following paragraphs depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Branches' statement of income or head office equity. The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2015, including the effect of hedging instruments. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in AED million.

The impact of 1% sudden movement in benchmark interest rate on net income over a 12 months period as on 31 December 2015 would have been a decrease in net income by -10.40% (in case of decrease of interest rate) and would have been an increase in net income by +10.40% (in case of increase of interest rate) [2014: -10.12% and +10.12%] respectively.

The effective interest rate on bank placements, financial institutions, investments and certificates of deposits with Central Bank was 1.14% (2014: 0.90%), on loans and advances 5.39% (2014: 5.73%), on customer deposits 1.13% (2014: 1.06%) and on bank borrowings 1.08% (2014: 0.77%).

ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Head Office has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The Branches' assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. The Branches' manage exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Branches' Head Office sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Branches' had the following significant net exposures denominated in foreign currencies:

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

26. Risk management (continued)

Market risk management (continued)

ii) Currency risk (continued)

	Net spot position AED'000	Forward position AED'000	Total 2015 AED'000	Total 2014 AED'000
Euro	27	-	27	528
Sterling Pounds	3	-	3	6
Swedish Kroners	-	-	-	3
Lebanese Pounds	65	-	65	696
Kuwaiti Dinars	7	-	7	56
South African Rand	-	-	-	4
Japanese Yens	-	-	-	2
Canadian Dollars	4	-	4	6
Swiss Francs	14	-	14	3
Australian Dollars	6	-	6	14
Jordanian Dinars	19	-	19	12
Danish Kroners	-	-	-	2
Total	145	-	145	1,332

The exchange rate of AED against US Dollar is pegged since November 1980 and the Branches' exposure to currency risk is limited to that extent.

Operational risk

The Branches' manage and undertake to minimise operational losses as follows:

Identify and assess the operational risk inherent in all material products, activities, processes and systems, and ensure that before new products, activities, processes and systems are introduced or undertaken, the inherent operational risk in them is subject to adequate assessment procedures.

Implement a process to monitor operational risk profiles and material exposures to losses on a regular basis.

Establish and implement policies, processes and procedures to mitigate and/or control material operational risks. Periodically review organizational risk limitation and control strategy and adjust its operational risk profile using appropriate strategies in the context of the Branches' overall risk appetite and profile.

Ensure contingency and business continuity plans are in place to ensure the Branches' ability to operate on an ongoing basis and to limit losses in the event of severe business interruption, disruption or loss.

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

27. Contingent liabilities and commitments

	2015 AED'000	2014 AED'000
a) Contingent liabilities		
Guarantees	1,621,794	1,477,914
Letters of credit	137,240	150,558
	<u>1,759,034</u>	<u>1,628,472</u>

The outstanding unutilised facilities as of 31 December 2015 amounted to AED 1,834 million (2014: AED 2,019 million).

The outstanding unused portion of commitments can be revoked unilaterally at any time by the Branches provided there are reasonable grounds as per contract terms.

b) Contingent liabilities - maturity profile

The maturity profile of the Branches' contingent liabilities was as follows:

	Within 3 months AED'000	From 3 to 6 months AED'000	From 6 to 12 months AED'000	Over 1 year AED'000	Total AED'000
2015					
Guarantees	1,030,230	208,967	169,949	212,648	1,621,794
Letters of credit	108,891	28,349	-	-	137,240
	<u>1,139,121</u>	<u>237,316</u>	<u>169,949</u>	<u>212,648</u>	<u>1,759,034</u>
2014					
Guarantees	926,832	191,335	243,616	116,131	1,477,914
Letters of credit	136,097	14,461	-	-	150,558
	<u>1,062,929</u>	<u>205,796</u>	<u>243,616</u>	<u>116,131</u>	<u>1,628,472</u>

The analysis of commitments and contingencies by industry sector is shown in Note 21.

28. Approval of financial statements

The financial statements were approved by the Board of Directors of the Head Office and authorised for issue on 20 March 2016.