

# **Abu Dhabi Islamic Bank PJSC**

## **REPORT OF THE BOARD OF DIRECTORS AND CONSOLIDATED FINANCIAL STATEMENTS**

31 DECEMBER 2015

CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2015

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# **Abu Dhabi Islamic Bank PJSC**

**REPORT OF THE BOARD OF DIRECTORS**

**31 DECEMBER 2015**

# Abu Dhabi Islamic Bank PJSC

## BOARD OF DIRECTORS' REPORT

Year ended 31 December 2015

The Board of Directors have pleasure in submitting their report together with the consolidated financial statements of Abu Dhabi Islamic Bank PJSC ("the Bank") and its subsidiaries (collectively known as the "the Group") for the year ended 31 December 2015.

### **Incorporation and registered office**

The Bank was incorporated in the Emirate of Abu Dhabi, United Arab Emirates (UAE), as a public joint stock company with limited liability, in accordance with the provisions and applicable requirements of the laws of the UAE and the Amiri Decree No. 9 of 1997.

### **Principal activity**

The activities of the Group are conducted in accordance with Islamic Shari'a, which prohibits usury, and within the provisions of the Articles and Memorandum of Association of the respective entities within the Group.

### **Basis of preparation of consolidated financial statements**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), general principles of the Shari'a as determined by the Group's Fatwa and Shari'a Supervisory Board and applicable requirements of the laws of the UAE.

### **Financial commentary**

The Group net profit reached a record AED 1,934.0 million (2014: AED 1,750.7 million) for 2015 up 10.5%. The financial highlights of the full year results are as follows:

- Group net revenue (total operating income net of distribution to depositors and sukuk holders) for 2015 was AED 5,134.4 million (2014: AED 4,583.0 million) increased by 12.0%.
- Group operating profit ("margin") for 2015 increased by 9.9% to reach at AED 2,760.3 million (2014: AED 2,512.0 million).
- Total provisions for impairments for 2015 were AED 820.0 million (2014: AED 757.8 million).
- Group net profit for 2015 reached a record AED 1,934.0 million (2014: AED 1,750.7 million) up 10.5%.
- Group earnings per share increased to AED 0.529 compared to AED 0.465 in 2014.
- Total assets as of 31 December 2015 were AED 118.4 billion (2014: AED 111.9 billion).
- Net customer financing (murabaha, ijara and other Islamic financing) as of 31 December 2015 was AED 78.4 billion (2014: AED 73.0 billion).
- Customer deposits as of 31 December 2015 were AED 94.9 billion (2014: AED 84.8 billion).

### **Dividends and proposed appropriations**

The Board of Directors have recommended a cash dividend of 24.27% and the following appropriations from retained earnings:

	<i>AED '000</i>
▶ Transfer to general reserves	(195,260)
▶ Proposed dividends to charity for the year ended 31 December 2015	(20,000)
▶ Proposed cash dividend to shareholders for the year ended 31 December 2015	(769,022)
▶ Profit paid on Tier 1 sukuk – Listed during the year	(234,158)
▶ Profit paid on Tier 1 sukuk – Government of Abu Dhabi during the year	(64,574)

BOARD OF DIRECTORS' REPORT continued

Year ended 31 December 2015

**Board of Directors**

The directors during the year were as follows:

1.	H.E. Jawaan Awaidha Suhail Al Khaili	Chairman
2.	Khaled Abdulla Neamat Khouri	Vice Chairman (Resigned on 7 Dec 2015)
3.	Khamis Mohamed Buharoon	Board Member
4.	Juma Khamis Mugheer Al Khaili	Board Member
5.	Ragheed Najeeb Shanti	Board Member
6.	Dr. Sami Ali Al Amri	Board Member
7.	Abdulla Bin Aqeeda Al Muhairi	Board Member



On behalf of the Board of Directors  
H.E. Jawaan Awaidha Suhail Al Khaili  
Chairman

14 February 2016  
Abu Dhabi

**Abu Dhabi Islamic Bank PJSC**  
CONSOLIDATED FINANCIAL STATEMENTS  
31 DECEMBER 2015

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABU DHABI ISLAMIC BANK PJSC**

### **Report on the Consolidated Financial Statements**

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

#### *Management's responsibility for the consolidated financial statements*

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

#### *Auditors' responsibility*

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

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

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

*Opinion*

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

**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 purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015, and the Memorandum and Articles of Association of the Bank;
- iii) the Group has maintained proper books of account;
- iv) the consolidated financial information included in the Directors' report is consistent with the books of account and records of the Group;
- v) investments in shares and stocks are included in note 20 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2015;
- vi) note 41 reflects the disclosures relating to related party transactions and the terms under which they were conducted;
- vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2015, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum and Articles of Association which would materially affect its activities or its consolidated financial position as at 31 December 2015; and
- viii) note 45 reflects the social contributions made during the year.

*Ernst & Young*

Signed by:

Raed Ahmad

Partner

Registration No. 811

14 February 2016

Abu Dhabi



# Abu Dhabi Islamic Bank PJSC

## CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2015

	<i>Notes</i>	<b>2015</b> <b>AED '000</b>	<b>2014</b> <b>AED '000</b>
<b>OPERATING INCOME</b>			
Income from murabaha, mudaraba and wakala with financial institutions		<b>25,341</b>	32,691
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	5	<b>4,362,549</b>	4,100,597
Income from Islamic sukuk measured at amortised cost		<b>249,192</b>	186,944
Income from investments measured at fair value	6	<b>63,136</b>	70,924
Share of results of associates and joint ventures		<b>20,032</b>	6,922
Fees and commission income, net	7	<b>885,329</b>	738,635
Foreign exchange income		<b>79,627</b>	60,114
Income from investment properties	8	<b>45,705</b>	11,999
Other income		<b><u>20,092</u></b>	<u>2,444</u>
		<b><u>5,751,003</u></b>	<u>5,211,270</u>
<b>OPERATING EXPENSES</b>			
Employees' costs	9	<b>(1,403,458)</b>	(1,263,483)
General and administrative expenses	10	<b>(770,265)</b>	(655,958)
Depreciation	22 & 25	<b>(145,584)</b>	(133,293)
Amortisation of intangibles	26	<b>(54,756)</b>	(18,252)
Provision for impairment, net	11	<b><u>(819,954)</u></b>	<u>(757,783)</u>
		<b><u>(3,194,017)</u></b>	<u>(2,828,769)</u>
<b>PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS</b>		<b>2,556,986</b>	2,382,501
Distribution to depositors and sukuk holders	12	<b><u>(616,628)</u></b>	<u>(628,285)</u>
<b>PROFIT FOR THE YEAR BEFORE ZAKAT AND TAX</b>		<b>1,940,358</b>	1,754,216
Zakat and tax		<b><u>(6,315)</u></b>	<u>(3,526)</u>
<b>PROFIT FOR THE YEAR AFTER ZAKAT AND TAX</b>		<b><u>1,934,043</u></b>	<u>1,750,690</u>
Attributable to:			
Equity holders of the Bank		<b>1,931,695</b>	1,746,875
Non-controlling interest		<b><u>2,348</u></b>	<u>3,815</u>
		<b><u>1,934,043</u></b>	<u>1,750,690</u>
Basic and diluted earnings per share attributable to ordinary shares (AED)	13	<b><u>0.529</u></b>	<u>0.465</u>

The attached notes 1 to 45 form part of these consolidated financial statements.

# Abu Dhabi Islamic Bank PJSC

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

	<i>Notes</i>	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
<b>PROFIT FOR THE YEAR AFTER ZAKAT AND TAX</b>		<b>1,934,043</b>	1,750,690
<b>Other comprehensive loss</b>			
<i>Items that will not be reclassified to consolidated income statement</i>			
Net loss on valuation of investments carried at fair value through other comprehensive income	34	<b>(9,317)</b>	(14,348)
Directors' remuneration paid	41	<b>(4,900)</b>	(4,900)
<i>Items that may subsequently be reclassified to consolidated income statement</i>			
Exchange differences arising on translation of foreign operations	34	<b>(66,240)</b>	(36,887)
Gain on hedge of foreign operations	34	<b>21,167</b>	18,729
Fair value gain on cash flow hedges	34	<b>2,907</b>	6,162
<b>OTHER COMPREHENSIVE LOSS FOR THE YEAR</b>		<b><u>(56,383)</u></b>	<u>(31,244)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b><u>1,877,660</u></b>	<u>1,719,446</u>
Attributable to:			
Equity holders of the Bank		<b>1,875,308</b>	1,715,631
Non-controlling interest		<b><u>2,352</u></b>	<u>3,815</u>
		<b><u>1,877,660</u></b>	<u>1,719,446</u>

The attached notes 1 to 45 form part of these consolidated financial statements.

# Abu Dhabi Islamic Bank PJSC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	2015 AED '000	2014 AED '000
<b>ASSETS</b>			
Cash and balances with central banks	14	18,629,361	18,757,580
Balances and wakala deposits with Islamic banks and other financial institutions	15	3,124,314	4,103,625
Murabaha and mudaraba with financial institutions	16	1,617,562	2,166,553
Murabaha and other Islamic financing	17	38,400,777	34,202,627
Ijara financing	18	40,002,454	38,803,654
Investment in Islamic sukuk measured at amortised cost	19	7,282,409	5,421,527
Investments measured at fair value	20	1,453,559	1,007,475
Investment in associates and joint ventures	21	799,356	807,395
Investment properties	22	246,121	299,318
Development properties	23	837,381	837,381
Other assets	24	3,767,424	3,400,488
Property and equipment	25	1,742,052	1,566,532
Goodwill and intangibles	26	<u>474,892</u>	<u>529,648</u>
<b>TOTAL ASSETS</b>		<b><u>118,377,662</u></b>	<b><u>111,903,803</u></b>
<b>LIABILITIES</b>			
Due to financial institutions	27	3,105,610	5,475,734
Depositors' accounts	28	94,927,160	84,776,408
Other liabilities	29	3,433,411	3,374,369
Sukuk financing instruments	30	<u>1,836,250</u>	<u>4,590,625</u>
<b>Total liabilities</b>		<b><u>103,302,431</u></b>	<b><u>98,217,136</u></b>
<b>EQUITY</b>			
Share capital	31	3,168,000	3,000,000
Legal reserve	32	2,102,465	1,766,465
General reserve	32	1,293,820	1,098,560
Credit risk reserve	32	400,000	400,000
Retained earnings		1,858,899	1,244,781
Proposed dividend	33	769,022	700,200
Proposed dividend to charity		20,000	20,000
Other reserves	34	(219,557)	(194,644)
Tier 1 sukuk	35	<u>5,672,034</u>	<u>5,643,109</u>
<b>Equity attributable to the equity and Tier 1 sukuk holders of the Bank</b>		<b>15,064,683</b>	<b>13,678,471</b>
Non-controlling interest	36	<u>10,548</u>	<u>8,196</u>
<b>Total equity</b>		<b><u>15,075,231</u></b>	<b><u>13,686,667</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>118,377,662</u></b>	<b><u>111,903,803</u></b>
<b>CONTINGENT LIABILITIES AND COMMITMENTS</b>	37	<b><u>14,088,296</u></b>	<b><u>13,473,763</u></b>



H.E. Jawaan Awaidha Suhail Al Khaili  
Chairman



Tirad M. Mahmoud  
Chief Executive Officer

The attached notes 1 to 45 form part of these consolidated financial statements.

# Abu Dhabi Islamic Bank PJSC

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

<i>Attributable to the equity holders of the Bank</i>												
<i>Notes</i>	<i>Share capital AED '000</i>	<i>Legal reserve AED '000</i>	<i>General reserve AED '000</i>	<i>Credit risk reserve AED '000</i>	<i>Retained earnings AED '000</i>	<i>Proposed dividend AED '000</i>	<i>Proposed dividend to charity AED '000</i>	<i>Other reserves AED '000</i>	<i>Tier 1 sukuk AED '000</i>	<i>Total AED '000</i>	<i>Non-controlling interest AED '000</i>	<i>Total equity AED '000</i>
Balance at 1 January 2014	2,364,706	1,759,597	911,695	400,000	744,466	1,360,417	20,000	(168,668)	5,625,492	13,017,705	56,187	13,073,892
Profit for the year	-	-	-	-	1,746,875	-	-	-	-	1,746,875	3,815	1,750,690
Other comprehensive loss	-	-	-	-	(4,900)	-	-	(26,344)	-	(31,244)	-	(31,244)
Loss on disposal of investments carried at fair value through other comprehensive income	34	-	-	-	(368)	-	-	368	-	-	-	-
Profit paid on Tier 1 sukuk – Listed	35	-	-	-	(234,158)	-	-	-	-	(234,158)	-	(234,158)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	35	-	-	-	(93,201)	-	-	-	-	(93,201)	-	(93,201)
Movement in Tier 1 sukuk – Listed		-	-	-	-	-	-	-	17,617	17,617	-	17,617
Bonus shares issued	31	635,294	-	-	-	(635,294)	-	-	-	-	-	-
Dividends paid		-	-	-	-	(725,123)	-	-	-	(725,123)	-	(725,123)
Dividends paid to charity		-	-	-	-	-	(20,000)	-	-	(20,000)	-	(20,000)
Transfer to reserves	32	-	6,868	186,865	(193,733)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	(20,000)	-	20,000	-	-	-	-	-
Proposed cash dividend to shareholders	33	-	-	-	(700,200)	700,200	-	-	-	-	-	-
Movement in non-controlling interest		-	-	-	-	-	-	-	-	-	(51,806)	(51,806)
Balance at 1 January 2015	3,000,000	1,766,465	1,098,560	400,000	1,244,781	700,200	20,000	(194,644)	5,643,109	13,678,471	8,196	13,686,667
Profit for the year	-	-	-	-	1,931,695	-	-	-	-	1,931,695	2,348	1,934,043
Other comprehensive loss	-	-	-	-	(4,900)	-	-	(51,505)	-	(56,405)	22	(56,383)
Loss on disposal of investments carried at fair value through other comprehensive income	34	-	-	-	(26,574)	-	-	26,592	-	18	(18)	-
Right shares issued	31 & 32	168,000	336,000	-	-	-	-	-	-	504,000	-	504,000
Right shares issuance cost	31	-	-	-	(3,089)	-	-	-	-	(3,089)	-	(3,089)
Profit paid on Tier 1 sukuk – Listed	35	-	-	-	(234,158)	-	-	-	-	(234,158)	-	(234,158)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	35	-	-	-	(64,574)	-	-	-	-	(64,574)	-	(64,574)
Movement in Tier 1 sukuk - Listed		-	-	-	-	-	-	-	28,925	28,925	-	28,925
Dividends paid	33	-	-	-	-	(700,200)	-	-	-	(700,200)	-	(700,200)
Dividends paid to charity		-	-	-	-	-	(20,000)	-	-	(20,000)	-	(20,000)
Transfer to reserves	32	-	-	195,260	(195,260)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	(20,000)	-	20,000	-	-	-	-	-
Proposed cash dividend to shareholders	33	-	-	-	(769,022)	769,022	-	-	-	-	-	-
Balance at 31 December 2015		<b>3,168,000</b>	<b>2,102,465</b>	<b>1,293,820</b>	<b>400,000</b>	<b>1,858,899</b>	<b>769,022</b>	<b>20,000</b>	<b>(219,557)</b>	<b>5,672,034</b>	<b>10,548</b>	<b>15,075,231</b>

The attached notes 1 to 45 form part of these consolidated financial statements.

# Abu Dhabi Islamic Bank PJSC

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 AED '000	2014 AED '000
<b>OPERATING ACTIVITIES</b>			
Profit for the year		1,934,043	1,750,690
Adjustments for:			
Depreciation on investment properties	22	12,843	12,529
Depreciation on property and equipment	25	132,741	120,764
Amortisation of intangibles	26	54,756	18,252
Share of results of associates and joint ventures		(20,032)	(6,922)
Dividend income	6	(5,697)	(4,569)
Realised gain on sale of investments carried at fair value through profit or loss	6	(10,289)	(20,718)
Unrealised loss (gain) on investments carried at fair value through profit or loss	6	15,488	(228)
Gain on disposal of property and equipment		(887)	(127)
Provision for impairment, net	11	819,954	757,783
Gain on sale of investment properties	8	(24,748)	(652)
Operating profit before changes in operating assets and liabilities		2,908,172	2,626,802
(Increase) decrease in balances with central banks		(1,494,536)	4,381,777
Decrease (increase) in balances and wakala deposits with Islamic banks and other financial institutions		639,652	(964,693)
Decrease (increase) in murabaha and mudaraba with financial institutions		180,134	(282,736)
Increase in murabaha and other Islamic financing		(5,096,667)	(5,438,040)
Increase in ijara financing		(1,085,441)	(4,517,615)
Purchase of investments carried at fair value through profit or loss		(5,356,057)	(4,449,971)
Proceeds from sale of investments carried at fair value through profit or loss		4,885,995	4,824,423
Increase in other assets		(384,052)	(390,273)
(Decrease) increase in due to financial institutions		(376,223)	286,166
Increase in depositors' accounts		10,156,420	7,940,425
Increase (decrease) in other liabilities		77,876	(390,338)
Cash from operations		5,055,273	3,625,927
Directors' remuneration paid	41	(4,900)	(4,900)
Net cash from operating activities		<u>5,050,373</u>	<u>3,621,027</u>
<b>INVESTING ACTIVITIES</b>			
Dividend received	6	5,697	4,569
Purchase of investments carried at fair value through other comprehensive income		-	(2,915)
Proceeds from sale of investments carried at fair value through other comprehensive income		9,462	34,052
Purchase of investments carried at amortised cost		(2,086,059)	(1,155,852)
Redemption proceeds from investments carried at amortised cost		225,177	479,456
Dividends received from an associate		6,667	6,343
Additions in investment in associates and joint ventures		(30,447)	(23,493)
Consideration paid for acquisition of business		-	(1,347,033)
Additions to investment properties		-	(1,764)
Proceeds from sale of investment properties	8	68,733	1,463
Purchase of property and equipment	25	(313,922)	(274,710)
Proceeds from disposal of property and equipment		6,548	509
Net cash used in investing activities		<u>(2,108,144)</u>	<u>(2,279,375)</u>
<b>FINANCING ACTIVITIES</b>			
Right shares issued	31 & 32	504,000	-
Issuance cost of right shares	31	(3,089)	-
Profit paid on Tier 1 sukuk – Listed	35	(234,158)	(234,158)
Profit paid on Tier 1 sukuk to Government of Abu Dhabi	35	(64,574)	(93,201)
Proceeds from own Tier 1 sukuk – Listed		28,925	17,617
Repurchase of sukuk assets - second issue	30	(2,754,375)	-
Dividends paid		(725,038)	(708,733)
Net cash used in financing activities		<u>(3,248,309)</u>	<u>(1,018,475)</u>
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(306,080)</b>	<b>323,177</b>
Cash and cash equivalents at 1 January		<u>9,790,273</u>	<u>9,467,096</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	40	<u><b>9,484,193</b></u>	<u><b>9,790,273</b></u>
Operating cash flows from profit on balances and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, customer financing, Islamic sukuk and customer deposits are as follows:			
Profit received		<u>5,653,674</u>	<u>4,390,187</u>
Profit paid to depositors and sukuk holders		<u>594,668</u>	<u>510,661</u>

The attached notes 1 to 45 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**1 LEGAL STATUS AND PRINCIPAL ACTIVITIES**

Abu Dhabi Islamic Bank PJSC (“the Bank”) was incorporated in the Emirate of Abu Dhabi, United Arab Emirates (UAE), as a public joint stock company with limited liability, in accordance with the provisions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) and the Amiri Decree No. 9 of 1997. The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the existing Federal Law No. 8 of 1984. The Bank is currently assessing the impact of the new law and expects to be fully compliant on or before 30 June 2016.

The Bank and its subsidiaries (“the Group”) carry out full banking services, financing and investing activities through various Islamic instruments such as Murabaha, Istisna’a, Mudaraba, Musharaka, Ijara, Wakalah, Sukuk etc. The activities of the Bank are conducted in accordance with Islamic Shari’a, which prohibits usury as determined by the Fatwa and Shari’a Supervisory Board of the Bank, and within the provisions of the Articles and Memorandum of Association of the respective entities within the Group.

In addition to its main office in Abu Dhabi, the Bank operates through its 88 branches in UAE (2014: 88 branches) and 3 overseas branches in Iraq, Qatar and Sudan and subsidiaries in the UAE and the United Kingdom. The consolidated financial statements combine the activities of the Bank’s head office, its branches and subsidiaries.

The registered office of the Bank is at P O Box 313, Abu Dhabi, UAE.

The consolidated financial statements of the Group were authorised for issue by the Board of Directors on 14 February 2016.

**2 DEFINITIONS**

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

**Murabaha**

A sale contract, in which the Group sells to a customer a physical asset, goods, or shares already owned and possessed (either physically or constructively) at a selling price that consists of the purchase cost plus a mark-up profit.

**Istisna’a**

A sale contract, in which the Group (Al Saanee) sells an asset to be developed using its own materials to a customer (Al Mustasnee) according to pre-agreed upon precise specification, at a specific price, installments dates and to be delivered on a specific date. This developed asset can be either developed directly by the Group or through a subcontractor and then it is handed over to the customer on the pre-agreed upon date.

**Ijara**

A lease contract whereby the Group (the Lessor) leases to a customer (the Lessee) a service or the usufruct of an owned or rented physical asset that either exists currently or to be constructed in future (forward lease) for a specific period of time at specific rental installments. The lease contract could be ended by transferring the ownership of a leased physical asset through an independent mode to the lessee.

**Qard Hasan**

A non-profit bearing loan that enables the borrower to use the borrowed amount for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any charges or profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**2 DEFINITIONS** continued

**Musharaka**

A contract between the Group and a customer to entering into a partnership in an existing project (or to be established), or in the ownership of a specific asset, either on ongoing basis or for a limited time, during which the Group enters in particular arrangements with the customer to sell to him/her its share in this partnership until he/she becomes the sole owner of it (diminishing musharaka). Profits are distributed according to the mutual agreement of the parties as stipulated in the contract; however, losses are borne according to the exact shares in the Musharaka capital on a pro-rata basis.

**Mudaraba**

A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any generated profits are distributed between the parties according to the profit shares that were pre-agreed upon in the contract. The Mudarib is responsible of all losses caused by his misconduct, negligence or violation of the terms and conditions of the Mudaraba; otherwise, losses are borne by Rab Al Mal.

**Wakalah**

A contract between the Group and a customer whereby one party (the principal: the Muwakkil) appoints the other party (the agent: Wakil) to invest certain funds according to the terms and conditions of the Wakala for a fixed fee in addition to any profit exceeding the expected profit as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the Wakil; otherwise, they are borne by the principal.

**Sukuk**

Certificates which are equal in value and represent common shares in the ownership of a specific physical asset (leased or to be leased either existing or to be constructed in future), or in the ownership of cash receivables of selling an existing-owned asset, or in the ownership of goods receivables, or in the ownership of the assets of Mudaraba or Partnership companies. In all these cases, the Sukuk holders shall be the owners of their common shares in the leased assets, or in the cash receivables, or the goods receivable, or in the assets of the Partnership or the Mudaraba.

**3 BASIS OF PREPARATION**

**3.1 (a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), general principles of the Shari’a as determined by the Group’s Fatwa and Shari’a Supervisory Board and applicable requirements of the laws of the UAE.

**3.1 (b) Accounting convention**

The consolidated financial statements have been prepared under the historical cost convention except for investments carried at fair value through profit or loss, investments carried at fair value through other comprehensive income, Shari’a compliant alternatives of derivative financial instruments which have been measured at fair value and land, held as property and equipment, which has been carried at revalued amount.

The consolidated financial statements have been presented in UAE Dirhams (AED), which is the functional currency of the Bank and all values are rounded to the nearest thousand AED except where otherwise indicated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**3 BASIS OF PREPARATION** continued

**3.1 (c) Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Bank and those of its following subsidiaries:

	Activity	Country of incorporation	Percentage of holding	
			2015	2014
Abu Dhabi Islamic Securities Company LLC	Equity brokerage services	United Arab Emirates	<b>95%</b>	95%
Burooj Properties LLC	Real estate investments	United Arab Emirates	<b>100%</b>	100%
MPM Properties LLC	Real estate services	United Arab Emirates	<b>100%</b>	100%
ADIB Invest 1	Equity brokerage services	BVI	<b>100%</b>	100%
Kawader Services Company LLC	Manpower supply	United Arab Emirates	<b>100%</b>	100%
ADIB (UK) Limited	Islamic banking	United Kingdom	<b>100%</b>	100%
ADIB Holdings (Jersey) Ltd*	Special purpose vehicle	British Channel Islands	-	-
ADIB Sukuk Company Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Sukuk Company II Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Capital Invest 1 Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Capital Invest 2 Ltd*	Special purpose vehicle	Cayman Island	-	-

\*The Bank does not have any direct holding in these entities and they are considered to be a subsidiary by virtue of control.

These consolidated financial statements include the operations of the subsidiaries over which the Bank has control. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and gains and losses resulting from intra-group transactions are eliminated in full.

Non-controlling interest represent the portion of the net income or loss and net assets of the subsidiaries not held by the Group and are presented separately in the consolidated statement of comprehensive and within equity in the consolidated statement of financial position, separately shareholders' equity of the Bank.

**3.2 CHANGES IN ACCOUNTING POLICIES**

The accounting policies adopted are consistent with those of the previous financial year except as noted below.

During the year the Group has adopted the following new standards / amendments to the standards effective for the annual period beginning on or after 1 January 2015:

**Amendments to IAS 19 Defined Benefit Plans: Employee Contributions**

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 3 BASIS OF PREPARATION continued

#### 3.2 CHANGES IN ACCOUNTING POLICIES continued

##### **Annual Improvements 2010-2012 Cycle**

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

##### **IFRS 2 Share-based Payment**

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

This improvement does not impact the Group.

##### **IFRS 3 Business Combinations**

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). The amendment does not impact the consolidated financial statements of the Group.

##### **IFRS 8 Operating Segments**

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The amendment does not impact the consolidated financial statements of the Group.

##### **IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets**

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. The amendment does not impact the consolidated financial statements of the Group.

##### **IAS 24 Related Party Disclosures**

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 3 BASIS OF PREPARATION continued

#### 3.2 CHANGES IN ACCOUNTING POLICIES continued

##### Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

##### IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

The amendment is not relevant for the Group and its subsidiaries.

##### IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The Group does not apply the portfolio exception in IFRS 13.

##### IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, the amendment does not impact the consolidated financial statements of the Group.

### 3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

**IFRS 9: Financial Instruments - hedge accounting (Amendments to IFRS 9, IFRS 7 and IAS 39)** introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

**IFRS 9: Financial Instruments - impairment** introduces new requirements for impairment. On 24 July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The IASB has addressed the key concern that arose as a result of the financial crisis that the incurred loss model in IAS 39 contributed to the delayed recognition of credit losses, by issuing the new impairment requirements that are based on a more forward-looking expected credit loss model. The requirements of IFRS 9 relating to impairment are for annual periods beginning on or after 1 January 2018, with early application permitted.

**IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture 28 (Amendments)** address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**3 BASIS OF PREPARATION** continued

**3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE** continued

**IFRS 11: Joint Arrangements (Amendment)** require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

**IFRS 14: Regulatory Deferral Accounts** is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

**IFRS 15: Revenue from Contracts with Customers** was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

**IFRS 16: Leases** was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. It introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, It substantially carries forward the requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. An entity shall apply this Standard for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of this Standard.”

**IAS 16 and IAS 38: Property, Plant and Equipment and Intangible Assets (Amendment)** clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**3 BASIS OF PREPARATION** continued

**3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE** continued

**Annual Improvements 2012-2014 Cycle**

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

**1 - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations** assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

**2 - IFRS 7 Financial Instruments: Disclosures**

(i) **Servicing contracts** amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) **Applicability of the amendments to IFRS 7 to condensed interim financial statements** amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

**3 - IAS 19 Employee Benefits** amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

**4 - IAS 34 Interim Financial Reporting** amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. These amendments are not expected to have any impact on the Group.

**5 - Amendments to IAS 1 Disclosure Initiative** amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements; and
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**3 BASIS OF PREPARATION** continued

**3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE** continued

**Annual Improvements 2012-2014 Cycle** continued

**6 - Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception** amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Management anticipates that these new standards / amendments will be adopted in the Group's consolidated financial statements for the period when they become effective. Management is in the process of assessing the impact of these new standards/ amendments on the consolidated financial statements.

**3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES**

The preparation of the consolidated financial statements in conformity with the International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These judgments, estimates and assumptions also affect the revenue, expenses and provisions as well as fair value changes.

These judgments, estimates and assumptions may affect the reported amounts in subsequent financial years. Estimates and judgments are currently evaluated and are based on historical experience and other factors. In order to reduce the element of subjectivity, the Group has laid down clear criteria to enable estimation of future cash flows. As estimates are based on judgments, actual results may differ, resulting in future changes in such provisions.

*Going concern*

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

*Impairment losses on financing assets and investments carried at amortised cost*

The Group reviews its financing assets and investments carried at amortised cost on a regular basis to assess whether a provision for impairment should be recorded in the consolidated financial statement in relation to any non-performing assets. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment provision. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**3 BASIS OF PREPARATION** continued

**3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES** continued

*Collective impairment provisions on financing assets*

In addition to specific provisions against individually impaired financing assets, the Bank also makes collective impairment provisions against portfolio of financing assets with common features which have not been identified as individually impaired. This collective provision is based on any deterioration in the internal rating of the asset or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

*Contingencies*

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of probability of occurrence of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

*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. The Group's investments in securities are appropriately classified and measured.

*Operating lease commitments - Group as lessor*

The Group has entered into commercial property lease arrangements on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties therefore, accounts for the contracts as operating leases.

*Investment and development properties*

The Group hired services of professional real estate valuer to provide reliable estimates of the market value of investment properties for determining the fair values as of the reporting date, for disclosure purposes and assessing the impairment, if any. The basis of estimate and method used by the valuer has been disclosed in the note 22.

*Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position that cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

*Classification of properties*

In the process of classifying properties, management has made various judgments. Judgment is needed to determine whether a property qualifies as an investment property, development property or property and equipment. The Group develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, development property and property and equipment. In making its judgment, management considers the detailed criteria and related guidance for the classification of properties as set out in IAS 2, IAS 16 and IAS 40, in particular, the intended usage of property as determined by the management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**3 BASIS OF PREPARATION** continued

**3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES** continued

*Impairment of investments in associates and joint ventures*

Management regularly reviews its investment in associates and joint venture for indicators of impairment. This determination of whether investments in associates is impaired, entails management's evaluation of the specific investee's profitability, liquidity, solvency and ability to generate operating cash flows from the date of acquisition and until the foreseeable future. If managements' review results in impairment, the difference between the estimated recoverable amount and the carrying value of investment in associates and joint venture is recognised as an expense in the consolidated income statement.

*Impairment review of investment properties, development properties and advances paid against purchase of properties*

Investment properties, development properties and advances paid against purchase of properties are assessed for impairment based on assessment of cash flows on individual cash-generating units when there is indication that those assets have suffered an impairment loss. Cash flows are determined with reference to recent market conditions, prices existing at the end of the reporting period, contractual agreements and estimations over the useful lives of the assets and discounted using a range of discount rates that reflects current market assessments of the time value of money and the risks specific to the asset. The net present values are compared to the carrying amounts to assess any impairment.

The assessment of current market conditions, including cost of project completion, future rental and occupancy rates and assessment of the projects capital structure and discount rates requires management to exercise its judgment. Management uses internal and external experts to exercise this judgment.

*Impairment of goodwill*

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

*Useful life of property and equipment*

The cost of property and equipment is depreciated over its estimated useful life, which is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors.

*Business combinations*

Accounting for the acquisition of a business requires the allocation of the purchase price to the various assets and liabilities of the acquired business. For most assets and liabilities, the purchase price allocation is accomplished by recording the asset or liability at its estimated fair value. Determining the fair value of assets acquired and liabilities assumed requires estimation by management and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, the useful lives of intangibles other assets and market multiples. The Group's management uses all available information to make these fair value determinations. The Group has, if necessary, up to one year after acquisition closing date to complete these fair value determinations and finalise the purchase price allocation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**4 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

**Revenue recognition**

*Murabaha*

Murabaha income is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

*Istisna'a*

Istisna'a revenue and the associated profit margin (difference between the cash price of al-masnoo to the customer and the Bank's total Istisna'a cost) is accounted for on a time apportioned basis.

*Ijara*

Ijara income is recognised on a time apportioned basis over the lease term.

*Musharaka*

Income is accounted for on the basis of the reducing balance of Musharaka on a time apportioned basis that reflects the effective yield on the asset.

*Mudaraba*

Income or losses on Mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to the Bank's consolidated income statement on their declaration by the Mudarib.

*Sukuk*

Income is accounted for on a time apportioned basis over the terms of the Sukuk.

*Sale of properties*

Revenue on sale of properties is recognised as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's initial investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property; and
- The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

Revenue on sale of units or apartments is deferred until completion of construction works and when delivery to the buyer takes place.

*Fee and commission income*

Fee and commission income is recognised when the related services are performed.

*Operating lease income*

Operating lease income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Revenue recognition** continued

*Gain on sale of investments*

Gain or loss on disposal of fair value through profit or loss investments represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs and is recognised through consolidated income statement.

Gain or loss on disposal of fair value through other comprehensive income investments represents the difference between sale proceeds and their original cost less associated selling costs and is recognised through consolidated statement of comprehensive income and are included within cumulative changes in fair value reserve within equity and not recognised in the consolidated income statement.

*Dividends*

Dividends from investments in equities are recognised when the right to receive the dividend is established.

*Cost of sale of properties*

Cost of sale of properties includes the cost of development. Development costs include the cost of infrastructure and construction.

Cost of sale of land represents the carrying amount at which it is recorded in the consolidated financial statements of the Group.

**Financial instruments**

***Recognition and measurement***

Financial instruments comprise financial assets and financial liabilities. Financial assets of the Group are further analysed as:

- Customer financing;
- Balances and wakala deposits with Islamic banks and other financial institutions;
- Murabaha and mudaraba with financial institutions;
- Investment in sukuk;
- Investment in equity instruments;
- Trade and other receivables; and
- Sharia compliant alternatives of derivatives.

The Group's customer financing comprise the following:

- Murabaha and other Islamic financing; and
- Ijara financing.

Effective 1 January 2011, the Group early adopted classification and measurement principles of IFRS 9 'Financial Instruments' in issue at that time in line with the transitional provisions of IFRS 9.

Financial assets are classified in their entirety on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or fair value.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Financial instruments** continued

**Classification**

*Financial assets at amortised cost*

Murahaba and other Islamic financing and Ijara financing i.e. customer financing and investment in sukuk, are measured at amortised cost, if both the following conditions are met:

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

All other financial assets are subsequently measured at fair value.

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

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

Other financial assets that do not meet the amortised cost criteria are classified as FVTPL. In addition, certain financial assets that meet the amortised cost criteria but at initial recognition are designated as FVTPL in line with the business model of the Group. A financial asset may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different basis.

Financial asset are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of financial assets that are designated as FVTPL on initial recognition is not allowed.

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

At initial recognition, the Group can make an irrevocable election (on instrument-by-instrument basis) to designate investments in equity instruments as FVTOCI.

A financial asset is FVTPL if:

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

**Measurement**

*Financial assets or financial liabilities carried at amortised cost*

Financial assets at amortised cost including customer financing and investment in sukuk are measured at amortised cost, less any reduction for impairment. Amortised cost is calculated using the effective profit rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective profit rate of the instrument.

Balances and deposits with banks and other financial institutions, Murabaha and Mudaraba with financial institutions, Murabaha, Ijara, Mudaraba and certain other Islamic financing are financial assets with fixed or expected profit payments. These assets are not quoted in an active market. They arise when the Group provides funds directly to a customer with no intention of trading the receivable. Financial liabilities are liabilities where the Group has a contractual obligation to deliver cash or another financial asset or exchange financial instruments under conditions that are potentially unfavourable to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Financial instruments** continued

**Measurement** continued

*Financial assets or financial liabilities carried at amortised cost* continued

Balances and wakala deposits with Islamic banks and other financial institutions are stated at amortised cost less amounts written off and provision for impairment, if any.

Murabaha and mudaraba with financial institutions are stated at amortised cost (which excludes deferred income or expected profits) less provisions for impairment.

Islamic financing consist of murabaha receivables, mudaraba, Istisna'a, Islamic covered cards (murabaha based) and other Islamic financing.

Istisna'a cost is measured and reported in the consolidated financial statements at a value not exceeding the cash equivalent value.

Other Islamic financing are stated at amortised cost (which excludes deferred income) less any provisions for impairment.

The Ijara is classified as a finance lease, when the Bank undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represents finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included within 'investment income' in the consolidated income statement.

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

Investments in equity instruments are initially measured at fair value plus transaction costs. Subsequently they are measured at fair value with gains and losses arising from changes in fair value recognised in the consolidated statement of other comprehensive income and accumulated in the cumulative changes in fair values within equity. Where the assets are disposed off, the cumulative gain or loss previously accumulated in the cumulative changes in fair values is not transferred to the consolidated income statement, but is reclassified to retained earnings. Financial assets measured at FVTOCI are not required to be tested for impairment.

For investments quoted in active market, fair value is determined by reference to quoted market prices.

For other investments, where there is no active market, fair value is normally based on one of the following:

- the expected cash flows discounted at current profit rates applicable for items with similar terms and risk characteristics
- brokers' quotes
- recent market transactions

Dividends on investment in equity instruments are recognised in the consolidated income statement when the Group's right to receive the dividend is established, unless the dividends clearly represent a recovery of part of the cost of investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Financial instruments** continued

**Measurement** continued

(i) *Recognition / De-recognition*

The Group initially recognises financial assets at fair value through profit or loss, financial assets at amortised cost and financial assets at fair value through other comprehensive income on the settlement date at which the Group becomes a party to the contractual provisions of the instrument.

Financing to customers are recognised on the day they are disbursed. A financial liability is recognised on the date the Group becomes a party to contractual provisions of the instrument.

A financial asset is de-recognised when the contractual rights to the cash flows from the financial asset expires or when it transfers the financial asset. A financial liability is de-recognised when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets designated at fair value through profit or loss, and financial assets at fair value through other comprehensive income that are sold are de-recognised and corresponding receivables from the buyer for the payment are recognised as at the date the Group commits to sell the assets. The Group uses the specific identification method to determine the gain or loss on de-recognition.

(ii) *Offsetting of financial instruments*

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right and under Sharia'a framework to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

(iii) *Impairment of financial assets*

*Customer financing*

The recoverable amount of customer financing is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective profit rate. Short-term balances are not discounted. Financing is presented net of impairment allowances. Specific allowances are made against the carrying amount of financing that are identified as being impaired, based on regular reviews of outstanding balances to reduce these financing to their recoverable amounts. Portfolio allowances are maintained to reduce the carrying amount of portfolios of similar financing to their estimated recoverable amounts at the statement of financial position date. Change in the impairment allowances are recognized in the consolidated income statement. When a financing is known to be irrecoverable, and all the necessary legal procedures have been completed, the final loss is determined and the financing is written off.

If in a subsequent period the amount of an impairment loss decreases, and the decrease can be linked objectively to an event occurring after the write down, the write down or allowance is reversed through the consolidated income statement.

**Renegotiated financing facilities**

Where possible, the Bank seeks to restructure financing facilities rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Once the terms have been renegotiated, any impairment is measured using the original effective profit rate as calculated before the modification of terms and the financing facility is no longer considered past due. Management continually reviews renegotiated facilities to ensure that all future payments are highly expected to occur. The financing facility continue to be subject to an individual or collective impairment assessment, calculated using the financing facilities' original effective profit rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Collateral valuation**

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's reporting schedule, to the extent it is possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data such as market transactions, rental yields and audited financial statements.

**Impairment of non-financial assets**

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**Fair value measurements**

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic benefit.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs (note 44).

**Business combinations**

Acquisitions of businesses are accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Bank, liabilities incurred by the Bank to the former owners of the acquiree and the cash and equity interests issued by the Bank in exchange for control of the acquiree. Acquisition related costs are recognised in consolidated income statement as incurred.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Business combinations** continued

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Bank entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Bank in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates, with the corresponding gain or loss being recognised in consolidated income statement.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Intangible assets acquired in a business combination**

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date which is regarded as their cost. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses.

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The rates of amortisation are based upon the following estimated useful lives:

- Customer relationship 8 years
- Core deposit intangible 8 years

**Goodwill**

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Bank's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in consolidated income statement.

For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units which are expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**Investment in associates**

The Group's investment in associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and that is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The consolidated income statement reflects the share of the results of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Investment in joint ventures**

The Group has investment in joint ventures, which are jointly controlled entities, whereby venturers have a contractual arrangement that establishes joint control over the economic activities of the entities. The Group's investment in joint ventures is accounted for using the equity method of accounting.

Under the equity method, the investment in the joint ventures is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint venture. The consolidated income statement reflects the share of the results of the joint venture. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The financial statements of the ventures are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

**Investment properties**

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is charged on a straight-line basis over the assets' estimated useful lives. The useful life of buildings is estimated to be 25 years.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefits are expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated income statement.

**Development properties**

Properties in the course of construction for sale or completed properties held for sale are classified as development properties. Completed properties held for sale are stated at the lower of cost or net realizable value. Properties in the course of development for sale are stated at lower of cost or net realizable value. The cost of development properties includes the cost of land and other related expenditure which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property.

The property is considered to be complete when all related activities, including the infrastructure and facilities for the entire project, have been completed.

**Property and equipment**

Property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Land is recorded at revalued amount in the consolidated financial statements.

Depreciation is provided on a straight-line basis over the estimated useful lives of property and equipment, other than freehold land which is deemed to have an indefinite life. The rates of depreciation are based upon the following estimated useful lives:

- |  |          |
|--|----------|
| • Buildings                            | 25 years |
| • Furniture and leasehold improvements | 7 years  |
| • Computer and office equipment        | 4 years  |
| • Motor vehicles                       | 4 years  |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Property and equipment** continued

The carrying values of properties and equipments are reviewed for impairment when events of changes in circumstances indicate the carrying value may not be recoverable. If any such conditions exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Any subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognized in the consolidated income statement as the expense is incurred.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is included in the consolidated income statement in the year the asset is derecognized.

Capital work-in-progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated.

When an asset is revalued, any increase in the carrying amount arising on revaluation is recorded through other comprehensive income and credited to the revaluation reserve in equity, except to the extent that a revaluation increase merely restores the carrying value of an asset to its original cost, whereby it is recognized as income i.e., to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense. A decrease resulting from a revaluation is initially charged directly against any related revaluation surplus held in respect of that asset and the remaining portion being charged as an expense. On disposal, the related revaluation surplus is credited directly to retained earnings.

**Provisions and contingent liabilities**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

**Acceptances**

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

**Deposits**

Customer deposits and due to banks and other financial institutions are carried at amortised cost.

**Sukuk financing instruments**

Sukuk financing instruments are initially measured at fair value and then are subsequently measured at amortised cost using the effective profit rate method, with profit distribution recognised on an effective yield basis.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Employees' pension and end of service benefits**

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are included within 'other liabilities' in the consolidated statement of financial position.

With respect to its UAE national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are recognised in the consolidated income statement when due.

**Shari'a compliant alternatives of derivative financial instruments**

The Bank enters into a Shari'a compliant alternatives of derivative financial instruments to manage the exposure to profit rate risks, including unilateral promise which represents Shari'a compliant alternatives of swap. Those financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All these Shari'a compliant alternatives of 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.

The Bank enters into cash flows 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 highly probable 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 objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

**Cash flow hedges**

The effective portion of changes in the fair value of Shari'a compliant alternatives of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The ineffective part of any gain or loss is recognized immediately in the consolidated income statement. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a nonfinancial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement.

**Net investment hedge**

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in consolidated statement of comprehensive income within foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statement. Gains and losses accumulated in equity are included in the consolidated income statement on the disposal of the foreign operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Zakat**

As the Bank is not required to dispose Zakat by UAE laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, each shareholder is responsible of his or her own Zakat. In accordance with the Articles and Memorandum of Association of the Bank, Zakat is computed by the Bank and it is approved by the Fatwa and Shari'a Supervisory Board of the Bank. However, in few jurisdictions, Zakat of the Bank's branches and subsidiaries is mandatory by laws to be paid to a governmental entity responsible of Zakat, therefore, the Bank acts accordingly to these laws and pays the Zakat to these entities on behalf of the Shareholders and deducts the amount paid as Zakat from the total zakat amount and the Zakat amount per each outstanding share.

Zakat per share is calculated in accordance with AAOIFI's Accounting Standard number 9 & Shari'a Standard number 35, and the Group's Fatwa and Shari'a Supervisory Board Resolutions.

In accordance with the Memorandum of Association, the Group communicates the amount of Zakat per share and it is the responsibility of each shareholder to dispose personally his/her own Zakat (note 39).

**Profit distribution**

Profits or losses of Mudaraba based depositors' accounts are calculated and distributed in accordance with the Banking Service Agreement between the Bank and the investment account holders. Investment in subsidiaries is funded from the shareholders' funds, hence profit or losses from the subsidiaries are not distributed to the investment account holders. Investment in associates is funded jointly from the shareholders and investment account holders' funds, therefore, profits and losses of the associates are distributed among the shareholders and investment account holders. A part of the deserved profits relating to the Mudaraba based investment accounts profit can be reserved as "Profit Equalization Reserve" and shall be subsequently utilized in order to maintain certain level of profit distribution to the account holders.

The same allocation is applicable to Wakala deposits and any share of profit above the fixed Wakala fee and the initially expected profit agreed with the investment account holder, shall pertain to the Wakil (the Bank).

**Cash and cash equivalents**

For the purpose of preparation of the consolidated statement of cash flow, cash and cash equivalents are considered to be cash and balances with central banks, due from banks and international murabahat. Cash equivalents are short-term liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less.

**Trade and settlement date accounting**

All "regular way" purchase and sales of financial assets are recognized on the settlement date, i.e. the date the asset is delivered to the counterparty. Regular way purchases or sales are purchases or sale of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

**Prohibited income**

According to the Fatwa and Shari'a Supervisory Board "FSSB", the Group is required to avoid any transaction or activity deemed to be not acceptable by Shari'a and to identify any income from such source and to set it aside in a separate account (charity account) to be disposed to charity by the Group under the supervision of the FSSB (as purification amount).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**4 SIGNIFICANT ACCOUNTING POLICIES** continued

**Fiduciary assets**

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

**Foreign currencies**

The Group's consolidated financial statements are presented in AED, which is the Bank's functional currency. That is the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the reporting date and their income statement is translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recorded in the other comprehensive income. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

**Financial guarantees**

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the consolidated income statement in 'net fees and commission income' over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement in 'credit loss expense'. Any financial guarantee liability remaining is recognized in the consolidated income statement in 'net fees and commission income' when the guarantee is discharged, cancelled or expires.

**Segment reporting**

The Bank has presented the segment information in respect of its business and geographical segments in the same way as it is presented internally to the management.

**Dividends on ordinary shares**

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

**Treasury shares and contracts on own equity instruments**

Own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognised directly in equity. No gain or loss is recognised in statement of comprehensive income on the purchase, sale, issue or cancellation of own equity instruments.

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**5 INCOME FROM MURABAHA, MUDARABA, IJARA AND OTHER ISLAMIC FINANCING FROM CUSTOMERS**

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
Vehicle murabaha	<b>357,160</b>	368,526
Goods murabaha	<b>508,060</b>	438,611
Share murabaha	<b>992,527</b>	1,019,742
Commodities murabaha – Al Khair	<b>279,060</b>	235,578
Islamic covered cards (murabaha)	<b>378,475</b>	281,640
Other murabaha	<b><u>97,903</u></b>	<u>60,773</u>
 Total murabaha	 <b>2,613,185</b>	 2,404,870
 Mudaraba	 <b>47,663</b>	 115,036
Ijara	<b>1,692,851</b>	1,566,780
Istisna'a	<b><u>8,850</u></b>	<u>13,911</u>
	<b><u>4,362,549</u></b>	<u>4,100,597</u>

**6 INCOME FROM INVESTMENTS MEASURED AT FAIR VALUE**

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
Income from Islamic sukuk measured at fair value through profit or loss	<b>37,671</b>	32,057
Income from other investment assets	<b>24,967</b>	13,352
Dividend income	<b>5,697</b>	4,569
Realised gain on sale of investments carried at fair value through profit or loss	<b>10,289</b>	20,718
Unrealised (loss) gain on investments carried at fair value through profit or loss	<b><u>(15,488)</u></b>	<u>228</u>
	<b><u>63,136</u></b>	<u>70,924</u>

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**7 FEES AND COMMISSION INCOME, NET**

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
<b>Fees and commission income</b>		
Fees and commission income on cards	<b>521,064</b>	431,510
Trade related fees and commission	<b>151,658</b>	136,063
Accounts services fees	<b>44,319</b>	39,619
Projects and property management fees	<b>60,502</b>	39,661
Risk participation and arrangement fees	<b>213,265</b>	192,084
Brokerage fees and commission	<b>52,285</b>	86,273
Other fees and commissions	<b><u>254,482</u></b>	<u>144,147</u>
Total fees and commission income	<b><u>1,297,575</u></b>	<u>1,069,357</u>
<b>Fees and commission expenses</b>		
Card related fees and commission expenses	<b>(355,139)</b>	(281,467)
Other fees and commission expenses	<b><u>(57,107)</u></b>	<u>(49,255)</u>
Total fees and commission expenses	<b><u>(412,246)</u></b>	<u>(330,722)</u>
Fees and commission income, net	<b><u>885,329</u></b>	<u>738,635</u>

**8 INCOME FROM INVESTMENT PROPERTIES**

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
Proceeds from sale of investment properties	<b>68,733</b>	1,463
Less: net book value of properties sold	<b><u>(43,985)</u></b>	<u>(811)</u>
Gain on sale of investment properties	<b>24,748</b>	652
Rental income (note 22)	<b><u>20,957</u></b>	<u>11,347</u>
	<b><u>45,705</u></b>	<u>11,999</u>

**9 EMPLOYEES' COSTS**

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
Salaries and wages	<b>1,269,301</b>	1,132,192
End of service benefits	<b>74,328</b>	70,150
Other staff expenses	<b><u>59,829</u></b>	<u>61,141</u>
	<b><u>1,403,458</u></b>	<u>1,263,483</u>

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**10 GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>2015</b>	<b>2014</b>
	<b>AED '000</b>	<b>AED '000</b>
Legal and professional expenses	<b>153,828</b>	110,086
Premises expenses	<b>226,221</b>	174,008
Marketing and advertising expenses	<b>114,438</b>	107,812
Communication expenses	<b>71,661</b>	59,970
Technology related expenses	<b>78,431</b>	71,150
Other operating expenses	<b><u>125,686</u></b>	<u>132,932</u>
	<b><u>770,265</u></b>	<u>655,958</u>

**11 PROVISION FOR IMPAIRMENT, NET**

	<i>Notes</i>	<b>2015</b>	<b>2014</b>
		<b>AED '000</b>	<b>AED '000</b>
Murabaha and mudaraba with financial institutions	16	<b>31,290</b>	33,639
Murabaha and other Islamic financing	17	<b>884,000</b>	379,968
Ijara financing	18	<b>(113,359)</b>	241,610
Direct write-off		<b>14,517</b>	4,012
Investment in Islamic sukuk measured at amortised cost	19	-	16,969
Investment properties	22	-	1,236
Other assets	24	<b><u>3,506</u></b>	<u>80,349</u>
		<b><u>819,954</u></b>	<u>757,783</u>

The above provision for impairment includes AED 5,156 thousand (2014: AED 74,873 thousand) pertaining to Burooj Properties LLC, a real estate subsidiary of the Bank.

**12 DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS**

	<b>2015</b>	<b>2014</b>
	<b>AED '000</b>	<b>AED '000</b>
Saving accounts	<b>123,750</b>	131,481
Investment accounts	<b>336,877</b>	324,242
Sukuk holders	<b><u>156,001</u></b>	<u>172,562</u>
	<b><u>616,628</u></b>	<u>628,285</u>

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**13 BASIC AND DILUTED EARNINGS PER SHARE**

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of any financial instruments with dilutive effects.

The following reflects the income and shares data used in the earnings per share computations:

	<i>Notes</i>	<b>2015</b>	<i>2014</i>
Profit for the year attributable to equity holders (AED '000)		<b>1,931,695</b>	1,746,875
Less: profit attributable to Tier 1 sukuk holder – Listed (AED '000)	35	<b>(234,158)</b>	(234,158)
Less: profit attributable to Tier 1 sukuk holder - Government of Abu Dhabi (AED '000)	35	<b><u>(64,574)</u></b>	<u>(93,201)</u>
Profit for the year attributable to equity holders after deducting profit relating to Tier 1 sukuk (AED '000)		<b><u>1,632,963</u></b>	<u>1,419,516</u>
Weighted average number of ordinary shares at 1 January in issue (000's)		<b>3,053,247</b>	2,364,706
Effect of Right shares issued			
Bonus element		-	53,247
New shares		<b>32,068</b>	-
Bonus shares issued	31	<b><u>-</u></b>	<u>635,294</u>
Weighted average number of ordinary shares at 31 December in issue (000's)		<b><u>3,085,315</u></b>	<u>3,053,247</u>
Basic and diluted earnings per share (AED)		<b><u>0.529</u></b>	<u>0.465</u>

The Bank does not have any instruments which would have a dilutive impact on earnings per share when converted or exercised. Profit on Tier 1 sukuk is reflected in the EPS computation on the payment of such profit.

**14 CASH AND BALANCES WITH CENTRAL BANKS**

	<i>2015</i>	<i>2014</i>
	<i>AED '000</i>	<i>AED '000</i>
Cash on hand	<b>1,835,100</b>	2,231,856
Balances with central banks:		
- Current accounts	<b>192,153</b>	468,300
- Statutory reserve	<b>9,851,850</b>	8,357,314
- Islamic certificate of deposits	<b><u>6,750,258</u></b>	<u>7,700,110</u>
	<b><u>18,629,361</u></b>	<u>18,757,580</u>



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**14 CASH AND BALANCES WITH CENTRAL BANKS** continued

The Bank is required to maintain statutory reserves with the Central Bank of the UAE, Iraq and Sudan on demand, time and other deposits. The statutory reserves are not available for use in the Bank's day-to-day operations and cannot be withdrawn without the approval of the Central Bank. Cash on hand and current accounts are not profit-bearing. Islamic certificate of deposits are profit bearing, which is based on entering into international commodities Murabaha transaction in which Central Bank of the UAE is the buyer and the Bank is the seller.

The distribution of the cash and balances with central banks by geographic region is as follows:

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
UAE	<b>18,264,069</b>	18,483,541
Rest of the Middle East	<b>249,940</b>	179,361
Europe	<b>1,438</b>	828
Others	<b><u>113,914</u></b>	<u>93,850</u>
	<b><u>18,629,361</u></b>	<u>18,757,580</u>

**15 BALANCES AND WAKALA DEPOSITS WITH ISLAMIC BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
Current accounts	<b>227,331</b>	363,476
Wakala deposits	<b><u>2,896,983</u></b>	<u>3,740,149</u>
	<b><u>3,124,314</u></b>	<u>4,103,625</u>

In accordance with Shari'a principles, deposits are invested only with Islamic financial institutions. The Bank does not earn profits on current accounts with banks and financial institutions.

The distribution of the balances and wakala deposits with Islamic banks and other financial institutions by geographic region is as follows:

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
UAE	<b>476,614</b>	1,058,617
Rest of the Middle East	<b>1,045,333</b>	1,176,433
Europe	<b>72,093</b>	120,961
Others	<b><u>1,530,274</u></b>	<u>1,747,614</u>
	<b><u>3,124,314</u></b>	<u>4,103,625</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**16 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS**

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
Murabaha	<b>1,596,772</b>	2,158,981
Mudaraba	<b><u>215,530</u></b>	<u>171,022</u>
	<b>1,812,302</b>	2,330,003
Less: provision for impairment	<b><u>(194,740)</u></b>	<u>(163,450)</u>
	<b><u>1,617,562</u></b>	<u>2,166,553</u>

In accordance with Shari'a principles, Mudaraba are with Islamic financial institutions or provided for the activities that are entirely Sharia' compliant.

The movement in the provision for impairment during the year was as follows:

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
At 1 January	<b>163,450</b>	129,811
Charge for the year (note 11)	<b><u>31,290</u></b>	<u>33,639</u>
At 31 December	<b><u>194,740</u></b>	<u>163,450</u>

The distribution of the gross murabaha and mudaraba with financial institutions by geographic region is as follows:

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
UAE	<b>1,360,232</b>	1,921,425
Rest of the Middle East	<b>379,711</b>	293,062
Others	<b><u>72,359</u></b>	<u>115,516</u>
	<b><u>1,812,302</u></b>	<u>2,330,003</u>

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**17 MURABAHA AND OTHER ISLAMIC FINANCING**

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
Vehicle murabaha	<b>6,442,157</b>	6,324,106
Goods murabaha	<b>10,250,391</b>	7,457,263
Share murabaha	<b>17,945,857</b>	15,702,991
Commodities murabaha / advance murabaha – Al Khair	<b>6,623,523</b>	4,764,135
Islamic covered cards (murabaha / advance murabaha)	<b>16,995,176</b>	17,092,463
Other murabaha	<b><u>2,379,343</u></b>	<u>2,916,643</u>
 Total murabaha	 <b>60,636,447</b>	 54,257,601
 Mudaraba	 <b>1,213,861</b>	 1,527,907
Istisna'a	<b>146,377</b>	104,964
Other financing receivables	<b><u>338,683</u></b>	<u>119,552</u>
 Total murabaha and other Islamic financing	 <b>62,335,368</b>	 56,010,024
Less: deferred income on murabaha	<b><u>(22,073,741)</u></b>	<u>(20,405,367)</u>
	<b>40,261,627</b>	35,604,657
Less: provision for impairment	<b><u>(1,860,850)</u></b>	<u>(1,402,030)</u>
	<b><u>38,400,777</u></b>	<u>34,202,627</u>

The movement in the provision for impairment during the year was as follows:

	<i>2015</i>			<i>2014</i>		
	<i>Individual impairment AED '000</i>	<i>Collective impairment AED '000</i>	<i>Total AED '000</i>	<i>Individual impairment AED '000</i>	<i>Collective impairment AED '000</i>	<i>Total AED '000</i>
At 1 January	<b>519,623</b>	<b>882,407</b>	<b>1,402,030</b>	1,662,499	455,230	2,117,729
Charge for the year (note 11)	<b>599,227</b>	<b>284,773</b>	<b>884,000</b>	(47,209)	427,177	379,968
Written off during the year	<b>(425,180)</b>	-	<b>(425,180)</b>	(1,105,786)	-	(1,105,786)
Other movements	<b>-</b>	-	-	10,119	-	10,119
At 31 December	<b><u>693,670</u></b>	<b><u>1,167,180</u></b>	<b><u>1,860,850</u></b>	<u>519,623</u>	<u>882,407</u>	<u>1,402,030</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**17 MURABAHA AND OTHER ISLAMIC FINANCING** continued

The distribution of the gross murabaha and other Islamic financing by industry sector and geographic region was as follows:

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
<b><i>Industry sector:</i></b>		
Government	77,299	6,988
Public sector	952,592	524,228
Corporates	7,586,931	6,901,567
Financial institutions	405,653	380,829
Individuals	28,975,566	25,488,629
Small and medium enterprises	<u>2,263,586</u>	<u>2,302,416</u>
	<u>40,261,627</u>	<u>35,604,657</u>
<b><i>Geographic region:</i></b>		
UAE	38,835,151	34,053,254
Rest of the Middle East	959,989	921,067
Europe	244,830	297,382
Others	<u>221,657</u>	<u>332,954</u>
	<u>40,261,627</u>	<u>35,604,657</u>

**18 IJARA FINANCING**

This represents net investment in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The documentation includes a separate undertaking from the Bank to sell the leased assets to the lessee upon the maturity of the lease.

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
The aggregate future lease receivables are as follows:		
Due within one year	9,301,428	9,529,745
Due in the second to fifth year	21,521,419	21,465,987
Due after five years	<u>21,491,474</u>	<u>19,375,174</u>
Total ijara financing	52,314,321	50,370,906
Less: deferred income	<u>(11,177,578)</u>	<u>(10,215,939)</u>
Net present value of minimum lease payments receivable	41,136,743	40,154,967
Less: provision for impairment	<u>(1,134,289)</u>	<u>(1,351,313)</u>
	<u>40,002,454</u>	<u>38,803,654</u>

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**18 IJARA FINANCING** continued

The movement in the provision for impairment during the year was as follows:

	2015			2014		
	<i>Individual impairment AED '000</i>	<i>Collective impairment AED '000</i>	<i>Total AED '000</i>	<i>Individual impairment AED '000</i>	<i>Collective impairment AED '000</i>	<i>Total AED '000</i>
At 1 January	558,077	793,236	1,351,313	774,631	468,619	1,243,250
(Reversal) charge for the year (note 11)	(167,371)	54,012	(113,359)	(83,007)	324,617	241,610
Written off during the year	(103,665)	-	(103,665)	(133,907)	-	(133,907)
Other movements	-	-	-	360	-	360
At 31 December	<u>287,041</u>	<u>847,248</u>	<u>1,134,289</u>	<u>558,077</u>	<u>793,236</u>	<u>1,351,313</u>

The distribution of the gross ijara financing by industry sector and geographic region was as follows:

	2015 AED '000	2014 AED '000
<b>Industry sector:</b>		
Government	374,591	36,274
Public sector	3,792,330	4,720,539
Corporates	19,075,045	18,585,937
Financial institutions	213,663	139,801
Individuals	17,138,079	16,225,785
Small and medium enterprises	351,856	323,650
Non-profit organisations	191,179	122,981
	<u>41,136,743</u>	<u>40,154,967</u>
<b>Geographic region:</b>		
UAE	39,253,812	38,659,120
Rest of the Middle East	1,219,375	939,979
Europe	752	1,254
Others	662,804	554,614
	<u>41,136,743</u>	<u>40,154,967</u>

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**19 INVESTMENT IN ISLAMIC SUKUK MEASURED AT AMORTISED COST**

	2015 AED '000	2014 AED '000
Sukuk	<u>7,282,409</u>	<u>5,421,527</u>

The movement in the provision for impairment during the year was as follows:

	2015 AED '000	2014 AED '000
At 1 January	98,277	81,308
Charge for the year (note 11)	<u>-</u>	<u>16,969</u>
At 31 December	<u>98,277</u>	<u>98,277</u>

The distribution of the gross investments by geographic region was as follows:

	2015 AED '000	2014 AED '000
UAE	4,995,579	3,725,228
Rest of the Middle East	1,270,127	1,065,093
Europe	111,510	-
Others	<u>1,003,470</u>	<u>729,483</u>
	<u>7,380,686</u>	<u>5,519,804</u>

**20 INVESTMENTS MEASURED AT FAIR VALUE**

	2015 AED '000	2014 AED '000
<i>Investments carried at fair value through profit or loss</i>		
Quoted investments		
Equities	11,319	-
Sukuk	<u>1,258,537</u>	<u>804,993</u>
	<u>1,269,856</u>	<u>804,993</u>
<i>Investments carried at fair value through other comprehensive income</i>		
Quoted investments		
Equities	<u>846</u>	<u>960</u>
Unquoted investments		
Funds	51,363	61,640
Private equities	<u>131,494</u>	<u>139,882</u>
	<u>182,857</u>	<u>201,522</u>
	<u>183,703</u>	<u>202,482</u>
	<u>1,453,559</u>	<u>1,007,475</u>

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**20 INVESTMENTS MEASURED AT FAIR VALUE** continued

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
The distribution of the gross investments by geographic region was as follows:		
UAE	<b>902,263</b>	527,333
Rest of the Middle East	<b>138,347</b>	167,245
Europe	<b>822</b>	77,533
Others	<b><u>412,127</u></b>	<u>235,364</u>
	<b><u>1,453,559</u></b>	<u>1,007,475</u>

**21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES**

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
Cost of investment	<b>962,206</b>	931,759
Share of results	<b>60,688</b>	40,656
Dividend received	<b>(22,661)</b>	(15,994)
Foreign currency translation	<b><u>(200,877)</u></b>	<u>(149,026)</u>
	<b><u>799,356</u></b>	<u>807,395</u>

Details of the Bank's investment in associates and joint ventures at 31 December is as follows:

	<i>Place of incorporation</i>	<i>Proportion of ownership interest</i>		<i>Principal activity</i>
		<i>2015</i> %	<i>2014</i> %	
<i>Associates</i>				
Abu Dhabi National Takaful PJSC	UAE	<b>42</b>	42	Islamic insurance
Bosna Bank International D.D	Bosnia	<b>27</b>	27	Islamic banking
<i>Joint ventures</i>				
Abu Dhabi Islamic Bank – Egypt (S.A.E.)	Egypt	<b>49</b>	49	Banking (under conversion to Islamic bank)
Saudi Finance Company CSJC (Formerly Saudi Installment House)	Kingdom of Saudi Arabia	<b>51</b>	51	Islamic Retail Finance
Arab Link Money Transfer PSC	UAE	<b>51</b>	51	Currency Exchange
Abu Dhabi Islamic Merchant Acquiring Company LLC	UAE	<b>51</b>	51	Merchant acquiring

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**21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES** continued

Summarised financial information of investment in significant associates and joint venture are set out below:

	2015 AED '000	2014 AED '000
<i>1 - Abu Dhabi National Takaful PJSC</i>		
<i>Share of associate's statement of financial position</i>		
Assets	307,289	266,960
Liabilities	<u>(210,911)</u>	<u>(179,840)</u>
<b>Net assets</b>	<b><u>96,378</u></b>	<b><u>87,120</u></b>
<i>Share of associate's revenue and profits:</i>		
Revenue for the year	<u>35,430</u>	<u>27,882</u>
Profit for the year	<u>16,802</u>	<u>11,452</u>
Dividends received during the year	<u>6,667</u>	<u>6,343</u>
<i>2 - Bosna Bank International D.D</i>		
<i>Share of associate's statement of financial position</i>		
Assets	353,068	350,061
Liabilities	<u>(300,419)</u>	<u>(294,586)</u>
<b>Net assets</b>	<b><u>52,649</u></b>	<b><u>55,475</u></b>
<i>Share of associate's revenue and profits:</i>		
Revenue for the year	<u>15,692</u>	<u>16,139</u>
Profit for the year	<u>2,850</u>	<u>2,086</u>
<i>3 - Abu Dhabi Islamic Bank – Egypt (S.A.E.)</i>		
<i>Share of joint venture's statement of financial position</i>		
Assets	5,335,571	4,584,564
Liabilities	<u>(5,094,716)</u>	<u>(4,396,800)</u>
<b>Net assets</b>	<b><u>240,855</u></b>	<b><u>187,764</u></b>
<i>Share of joint venture's revenue and profits:</i>		
Revenue for the year	<u>204,446</u>	<u>110,455</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES** continued

As of 31 December 2015, the Bank's share of the contingent liabilities and commitments of associates and joint ventures amounted to AED 286,836 thousand (2014: AED 258,550 thousand). The equity instruments of Abu Dhabi National Takaful PJSC are quoted in Abu Dhabi Securities Exchange, UAE and the quoted value of the Banks' share of investment at 31 December 2015 amounted to AED 177,472 thousand (2014: AED 262,458 thousand) and its carrying value as of 31 December 2015 amounted to AED 170,825 thousand (2014: AED 160,689 thousand).

The distribution of the gross investment in associates and joint ventures by geographic region was as follows:

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
UAE	<b>198,167</b>	163,223
Rest of the Middle East	<b>64,033</b>	58,022
Europe	<b>51,511</b>	54,322
Others	<b><u>485,645</u></b>	<u>531,828</u>
	<b><u>799,356</u></b>	<u>807,395</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**22 INVESTMENT PROPERTIES**

The movement in investment properties balance during the year was as follows:

	<i>Land</i> <i>AED '000</i>	<i>Other</i> <i>properties</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
<b>2015</b>			
Cost:			
Balance at 1 January	30,131	335,316	365,447
Transfers from other assets	-	13,610	13,610
Other movements	-	(9,979)	(9,979)
Disposals	<u>(4,080)</u>	<u>(48,761)</u>	<u>(52,841)</u>
Gross balance at 31 December	26,051	290,186	316,237
Less: provision for impairment	<u>(12,292)</u>	<u>(11,033)</u>	<u>(23,325)</u>
Net balance at 31 December	<b><u>13,759</u></b>	<b><u>279,153</u></b>	<b><u>292,912</u></b>
Accumulated depreciation:			
Balance at 1 January	-	40,782	40,782
Charge for the year	-	12,843	12,843
Relating to disposals	<u>-</u>	<u>(6,834)</u>	<u>(6,834)</u>
Balance at 31 December	<u>-</u>	<b><u>46,791</u></b>	<b><u>46,791</u></b>
Net book value at 31 December	<b><u>13,759</u></b>	<b><u>232,362</u></b>	<b><u>246,121</u></b>
<b>2014</b>			
Cost:			
Balance at 1 January	30,131	303,600	333,731
Additions	-	21,792	21,792
Transfers from other assets	-	10,822	10,822
Disposals	<u>-</u>	<u>(898)</u>	<u>(898)</u>
Gross balance at 31 December	30,131	335,316	365,447
Less: provision for impairment	<u>(13,872)</u>	<u>(11,475)</u>	<u>(25,347)</u>
Net balance at 31 December	<b><u>16,259</u></b>	<b><u>323,841</u></b>	<b><u>340,100</u></b>
Accumulated depreciation:			
Balance at 1 January	-	28,340	28,340
Charge for the year	-	12,529	12,529
Relating to disposals	<u>-</u>	<u>(87)</u>	<u>(87)</u>
Balance at 31 December	<u>-</u>	<b><u>40,782</u></b>	<b><u>40,782</u></b>
Net book value at 31 December	<b><u>16,259</u></b>	<b><u>283,059</u></b>	<b><u>299,318</u></b>

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 20,957 thousand (2014: AED 11,347 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**22 INVESTMENT PROPERTIES** continued

The fair values of investment properties at 31 December 2015 amounted to AED 382,955 thousand (2014: AED 446,210 thousand) are as per valuation conducted by professional valuers employed by a subsidiary of the Bank. The professional valuer is a member of various professional valuers' associations, and has appropriate qualifications and experience in the valuation of properties in the UAE. The fair value of the properties has been determined either based on transactions observable in the market or valuation models.

The valuation methodologies considered by external valuers include:

- a) Comparison method: This method derives the value by analyzing recent sales transactions of similar properties in a similar location.
- b) Investment method: This method derives the value by converting the future cash flow to a single current capital value.

The movement in provision for impairment during the year was as follows:

	<i>Land</i> <i>AED '000</i>	<i>Other</i> <i>properties</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
At 1 January 2014	13,707	10,404	24,111
Charge for the year (note 11)	<u>165</u>	<u>1,071</u>	<u>1,236</u>
At 1 January 2015	13,872	11,475	25,347
Charge for the year (note 11)	-	-	-
Relating to disposal	<u>(1,580)</u>	<u>(442)</u>	<u>(2,022)</u>
At 31 December 2015	<b><u>12,292</u></b>	<b><u>11,033</u></b>	<b><u>23,325</u></b>

The distribution of investment properties by geographic region was as follows:

	<i>Land</i> <i>AED '000</i>	<i>Other</i> <i>properties</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
<b>2015:</b>			
UAE	<b>17,837</b>	<b>243,395</b>	<b>261,232</b>
Rest of the Middle East	<b><u>8,214</u></b>	<b><u>-</u></b>	<b><u>8,214</u></b>
	<b><u>26,051</u></b>	<b><u>243,395</u></b>	<b><u>269,446</u></b>
<b>2014:</b>			
UAE	21,917	294,534	316,451
Rest of the Middle East	<u>8,214</u>	<u>-</u>	<u>8,214</u>
	<b><u>30,131</u></b>	<b><u>294,534</u></b>	<b><u>324,665</u></b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**23 DEVELOPMENT PROPERTIES**

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
Development properties	<u><b>837,381</b></u>	<u><b>837,381</b></u>

Development properties include land with a carrying value of AED 800,000 thousand (2014: AED 800,000 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

**24 OTHER ASSETS**

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
Advances against purchase of properties	<b>1,330,207</b>	1,286,956
Acceptances	<b>671,346</b>	874,806
Assets acquired in satisfaction of claims	<b>172,691</b>	207,025
Trade receivables	<b>368,650</b>	285,905
Prepaid expenses	<b>692,351</b>	544,750
Accrued profit	<b>106,489</b>	75,602
Advance to contractors	<b>3,528</b>	1,416
Advance for investments	<b>183,625</b>	183,625
Others	<u><b>529,180</b></u>	<u><b>238,363</b></u>
	<b>4,058,067</b>	3,698,448
Less: provision for impairment	<u><b>(290,643)</b></u>	<u><b>(297,960)</b></u>
	<u><b>3,767,424</b></u>	<u><b>3,400,488</b></u>

The movement in the provision for impairment during the year was as follows:

	<i>Advances against purchase of properties AED '000</i>	<i>Assets acquired against satisfaction of claims AED '000</i>	<i>Trade receivables AED '000</i>	<i>Others AED '000</i>	<i>Total AED '000</i>
At 1 January 2014	285,866	-	29,826	23,883	339,575
Charge for the year (note 11)	73,637	6,712	-	-	80,349
Written off during the year	(103,088)	-	(18,876)	-	(121,964)
At 1 January 2015	256,415	6,712	10,950	23,883	297,960
Charge for the year (note 11)	5,156	(1,650)	-	-	3,506
Written off during the year	(5,761)	(5,062)	-	-	(10,823)
At 31 December 2015	<u><b>255,810</b></u>	<u><b>-</b></u>	<u><b>10,950</b></u>	<u><b>23,883</b></u>	<u><b>290,643</b></u>

Assets acquired in exchange for claims in order to achieve an orderly realization are recorded as "Assets acquired in satisfaction of claims". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the claim (net of provision for impairment) at the date of exchange.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**25 PROPERTY AND EQUIPMENT**

	<i>Land</i> AED '000	<i>Buildings</i> AED '000	<i>Furniture and fixtures</i> AED '000	<i>Computer and office equipment</i> AED '000	<i>Motor vehicles</i> AED '000	<i>Capital work-in- progress</i> AED '000	<i>Total</i> AED '000
<b>2015</b>							
Cost or revaluation:							
At 1 January	241,478	226,683	338,660	647,898	14,770	782,196	2,251,685
Additions	-	177	2,776	14,981	2,448	293,540	313,922
Transfers from capital work-in-progress	-	16,298	43,323	106,270	-	(165,891)	-
Disposals	-	-	(3,760)	(1,077)	(3,969)	-	(8,806)
At 31 December	<u>241,478</u>	<u>243,158</u>	<u>380,999</u>	<u>768,072</u>	<u>13,249</u>	<u>909,845</u>	<u>2,556,801</u>
Depreciation:							
At 1 January	-	26,033	210,133	439,125	9,862	-	685,153
Charge for the year	-	7,777	38,434	84,074	2,456	-	132,741
Relating to disposals	-	-	(300)	(161)	(2,684)	-	(3,145)
At 31 December	-	<u>33,810</u>	<u>248,267</u>	<u>523,038</u>	<u>9,634</u>	-	<u>814,749</u>
Net book value:							
At 31 December	<u>241,478</u>	<u>209,348</u>	<u>132,732</u>	<u>245,034</u>	<u>3,615</u>	<u>909,845</u>	<u>1,742,052</u>
<b>2014</b>							
Cost or revaluation:							
At 1 January	241,478	214,981	314,961	527,280	14,347	674,087	1,987,134
Additions	-	1,699	8,511	26,247	1,650	236,603	274,710
Acquisition of business	-	-	1,974	-	-	-	1,974
Disposal of a subsidiary	-	-	(4,306)	(3,172)	(49)	(2,490)	(10,017)
Transfers from capital work-in-progress	-	10,003	17,762	98,239	-	(126,004)	-
Disposals	-	-	(242)	(696)	(1,178)	-	(2,116)
At 31 December	<u>241,478</u>	<u>226,683</u>	<u>338,660</u>	<u>647,898</u>	<u>14,770</u>	<u>782,196</u>	<u>2,251,685</u>
Depreciation:							
At 1 January	-	18,538	172,162	366,977	8,899	-	566,576
Charge for the year	-	7,495	38,204	72,909	2,156	-	120,764
Disposal of a subsidiary	-	-	(146)	(292)	(15)	-	(453)
Relating to disposals	-	-	(87)	(469)	(1,178)	-	(1,734)
At 31 December	-	<u>26,033</u>	<u>210,133</u>	<u>439,125</u>	<u>9,862</u>	-	<u>685,153</u>
Net book value:							
At 31 December	<u>241,478</u>	<u>200,650</u>	<u>128,527</u>	<u>208,773</u>	<u>4,908</u>	<u>782,196</u>	<u>1,566,532</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

## 26 GOODWILL AND INTANGIBLES

	<i>Other intangible assets</i>			<i>Total AED '000</i>
	<i>Goodwill AED '000</i>	<i>Customer relationships AED '000</i>	<i>Core deposit AED '000</i>	
Amounts recognized on acquisition of business	109,888	364,797	73,215	547,900
Amortisation during the period	-	<u>(15,200)</u>	<u>(3,052)</u>	<u>(18,252)</u>
At 1 January 2015	109,888	349,597	70,163	529,648
Amortisation during the year	-	<u>(45,600)</u>	<u>(9,156)</u>	<u>(54,756)</u>
At 31 December 2015	<u><b>109,888</b></u>	<u><b>303,997</b></u>	<u><b>61,007</b></u>	<u><b>474,892</b></u>

On 6 April 2014, the Bank acquired retail banking business of Barclays Bank in the U.A.E. During the second quarter 2014, the acquisition was approved by the Central Bank of the UAE. Based on the purchase price allocation, the Bank has recognized AED 438,012 thousand as intangible asset and AED 109,888 as goodwill.

**Goodwill**

For the purpose of impairment testing, goodwill is allocated to the Bank's operating divisions which represent the lowest level within the Bank at which the goodwill is monitored for internal management purposes.

**Other intangible assets**

**Customer relationships** Customer relationship intangible asset represents the value attributable to the business expected to be generated from customers that existed at the acquisition date. In determining the fair value of customer relationships, covered cards customers were considered separately, given their differing risk profiles, relationships and loyalty. The relationships are expected to generate material recurring income in the form of customer revenues, fees and commissions.

**Core deposit** The value of core deposit intangible asset arises from the fact that the expected profit distribution on these deposits, governed by their contractual terms, are expected to be lower than other wholesale or treasury sukuk instruments' expected profit distributions. The spread between the expected profit distributions on these deposits and sukuk instruments represents the value of the core deposit intangible.

**Impairment assessment of goodwill**

No impairment losses on goodwill were recognised during the year ended 31 December 2015 (2014: Nil).

The recoverable amounts have been assessed based on their value in use. Value in use was determined by discounting the future cash flows expected to be generated from the continuing use of this operating division.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**26 GOODWILL AND INTANGIBLES** continued

**Impairment assessment of goodwill** continued

The recoverable amount of goodwill of cash generating unit, determined on the basis of value in use calculation, uses cash flow projections covering a five year period, with a terminal growth rate of 2% applied thereafter. The forecast cash flows have been discounted at a rate of 10.5%.

Sensitivity to a one percentage point changes in the discount rate or the terminal growth rate and based on the results; management believes that no reasonably possible change in any of the above mentioned key assumptions would cause the carrying value to exceed the recoverable amount.

**27 DUE TO FINANCIAL INSTITUTIONS**

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
Current accounts	<b>1,404,404</b>	868,611
Investment deposits	<b><u>1,659,598</u></b>	<u>4,607,123</u>
	<b>3,064,002</b>	5,475,734
Current account – Central Bank of UAE	<b><u>41,608</u></b>	<u>-</u>
	<b><u><u>3,105,610</u></u></b>	<u><u>5,475,734</u></u>

The distribution of due to financial institutions by geographic region was as follows:

UAE	<b>286,473</b>	2,151,467
Rest of the Middle East	<b>1,655,660</b>	2,150,545
Europe	<b>144,330</b>	366,343
Others	<b><u>1,019,147</u></b>	<u>807,379</u>
	<b><u><u>3,105,610</u></u></b>	<u><u>5,475,734</u></u>

**28 DEPOSITORS' ACCOUNTS**

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
Current accounts	<b>30,140,475</b>	25,595,658
Investment accounts	<b>64,392,321</b>	58,840,591
Profit equalisation reserve	<b><u>394,364</u></b>	<u>340,159</u>
	<b><u><u>94,927,160</u></u></b>	<u><u>84,776,408</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**28 DEPOSITORS' ACCOUNTS** continued

The movement in the profit equalisation reserve during the year was as follows:

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
At 1 January	<b>340,159</b>	276,073
Share of profit for the year	<u><b>54,205</b></u>	<u>64,086</u>
At 31 December	<u><b>394,364</b></u>	<u>340,159</u>

The distribution of the gross depositors' accounts by industry sector, geographic region and currency was as follows:

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
<b>Industry sector:</b>		
Government	<b>8,381,971</b>	3,555,308
Public sector	<b>11,819,047</b>	16,570,108
Corporates	<b>12,884,064</b>	11,017,798
Financial institutions	<b>820,125</b>	923,693
Individuals	<b>48,524,233</b>	42,778,421
Small and medium enterprises	<b>9,690,842</b>	7,006,797
Non-profit organisations	<u><b>2,806,878</b></u>	<u>2,924,283</u>
	<u><b>94,927,160</b></u>	<u>84,776,408</u>
<b>Geographic region:</b>		
UAE	<b>90,779,105</b>	80,786,044
Rest of the Middle East	<b>3,237,817</b>	3,277,313
Europe	<b>279,862</b>	151,261
Others	<u><b>630,376</b></u>	<u>561,790</u>
	<u><b>94,927,160</b></u>	<u>84,776,408</u>
<b>Currencies:</b>		
UAE Dirham	<b>79,995,433</b>	72,328,178
US Dollar	<b>12,535,107</b>	9,548,418
Euro	<b>1,292,047</b>	1,706,248
Sterling Pound	<b>377,146</b>	307,676
Others	<u><b>727,427</b></u>	<u>885,888</u>
	<u><b>94,927,160</b></u>	<u>84,776,408</u>

The Bank invests all of its investment accounts including saving accounts, adjusted for UAE, Iraq and Sudan Central Bank reserve requirements and the Group's liquidity requirements.

With respect to investment deposits, the Bank is liable only in case of misconduct, negligence or breach of contract otherwise it is on the account of the fund's provider (Rab Al Mal) or the principal (the Muwakkil).



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31 December 2015

**29 OTHER LIABILITIES**

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
Accounts payable	<b>485,248</b>	435,958
Acceptances	<b>671,346</b>	874,806
Payable for purchase of properties	-	22,160
Accrued profit for distribution to depositors and sukuk holders	<b>192,695</b>	224,881
Bankers' cheques	<b>636,831</b>	360,568
Provision for staff benefits and other expenses	<b>380,115</b>	375,682
Retentions payable	<b>28,236</b>	39,704
Advances from customers	<b>167,086</b>	156,300
Accrued expenses	<b>181,747</b>	160,797
Unclaimed dividends	<b>119,902</b>	144,740
Deferred income	<b>197,555</b>	211,254
Charity account	<b>6,530</b>	9,274
Donation account	<b>15,239</b>	11,440
Negative fair value of Shari'a compliant alternatives of derivative financial instruments (note 38)	<b>18,049</b>	17,968
Others	<b><u>332,832</u></b>	<u>328,837</u>
	<b><u>3,433,411</u></b>	<u>3,374,369</u>

**30 SUKUK FINANCING INSTRUMENTS**

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
Second issue	-	2,754,375
Third issue	<b><u>1,836,250</u></b>	<u>1,836,250</u>
	<b><u>1,836,250</u></b>	<u>4,590,625</u>

**Second issue - USD 750 million**

In November 2015, the Bank purchased back the Sukukholders' entire Co-Owned Assets of the second issue of medium term sukuk from these Sukukholders' amounting to AED 2,754,375 thousand (USD 750 million).

**Third issue - USD 500 million**

In November 2011, the Bank through a Shari'a compliant sukuk arrangement, raised medium term sukuk amounting to AED 1,836,250 thousand (USD 500 million) as the third issue under a USD 5 billion programme. The sukuk are listed on the London Stock Exchange. The sukuk will mature in November 2016. The sukuk deserved profit is distributed in accordance with fixed profit rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**30 SUKUK FINANCING INSTRUMENTS** continued

**Terms of arrangement**

The terms of the arrangement include transfer of the ownership of certain assets ("the Co-Owned Assets"), including original ijara assets of the Bank, to a sukuk company, ADIB Sukuk Company Ltd - the Issuer, a subsidiary of the Bank, specially formed for the sukuk transaction. The assets are owned by the investors, however the assets are controlled by the Bank and shall continue to be serviced by the Bank as the managing agent.

The issuer will pay the quarterly distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to the sukuk holders on the quarterly distribution dates. Upon maturity of the sukuk, the Bank has undertaken to repurchase the assets at an exercise price which equals the value of the Issuer's co-ownership interest in the unpaid rental installments due and payable in respect of the Co-Owned Assets, which may equal the amount of AED 1,836,250 thousand (USD 500 million) (31 December 2014: AED 4,590,625 thousand (USD 1,250 million)).

**31 SHARE CAPITAL**

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
<b><i>Authorised share capital:</i></b>		
4,000,000 thousand (2014: 3,000,000 thousand) ordinary shares of AED 1 each (2014: AED 1 each)	<b><u>4,000,000</u></b>	<b><u>3,000,000</u></b>
<b><i>Issued and fully paid share capital:</i></b>		
At 1 January		
3,000,000 thousand (2014: 2,364,706 thousand) ordinary shares of AED 1 each (2014: AED 1 each)	<b>3,000,000</b>	2,364,706
Right shares issued: 0.056 share against each share held of AED 1 each (2014: Nil)	<b>168,000</b>	-
Bonus shares issued	<b><u>-</u></b>	<b><u>635,294</u></b>
At 31 December		
3,168,000 thousand (2014: 3,000,000 thousand) ordinary shares of AED 1 each (2014: AED 1 each)	<b><u>3,168,000</u></b>	<b><u>3,000,000</u></b>

On 28 June 2015, the shareholders in an extra ordinary general meeting have approved the increase of authorized share capital to AED 4,000,000 thousand. Furthermore, shareholders also approved the right issue of 168,000 thousand shares of AED 1 each representing 5.6% (2014: Nil) of the paid up capital along with the premium of AED 2 per share. Subsequently, Bank has issued right shares of AED 168,000 thousand (2014: Nil). Issuance costs amounting to AED 3,089 thousand were incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**32 RESERVES**

**32.1 Legal reserve**

As required by the Federal Law No. 2 of 2015, concerning Commercial Companies and the Articles of Association of the Bank and its subsidiaries, 10% of the profit for the year is transferred to the legal reserve. The Bank shall resolve to discontinue such annual transfers as the reserve equals to or more than 50% of the paid up share capital of the Bank. The legal reserve is not available for distribution to the shareholders.

As per Article 203 of UAE Federal Commercial Companies Law No. 8 of 1984 (as amended), the Bank has transferred the share premium amounting to AED 1,529,412 thousand to the legal reserve. As the balance of the reserve exceeds 50% of the total paid up share capital, no transfer to the legal reserve has been made from the profit during the year for the Bank.

During 2015, the Bank has transferred the share premium amounting to AED 336,000 thousand (2014: Nil) pertaining to the right share issue of 168,000 to the legal reserve after the shareholders' approval in the extra ordinary general meeting held on 28 June 2015.

**32.2 General reserve**

Under Article 57(2) of the Bank's Articles of Association, the Annual General Assembly of the Bank, upon recommendation of the Board of Directors, have resolved to transfer 10% of the profit for the year to the general reserve. This reserve shall be used in the future for purposes determined by the shareholders' General Assembly upon the recommendation of the Board of Directors.

**32.3 Credit risk reserve**

Upon the recommendation of the Board of Directors, the Bank has established a special reserve for credit risk which is subject to the approval by the shareholders in the Annual General Assembly. Contributions to the reserve are voluntary.

**33 PROPOSED DIVIDENDS**

	<i>2015</i>	<i>2014</i>
	<i>AED '000</i>	<i>AED '000</i>
Cash dividend: AED 0.2427 per share of AED 1 each (2014: AED 0.2334 per share of AED 1 each)	<u><b>769,022</b></u>	<u><b>700,200</b></u>

Cash dividend of 24.27% of the paid up capital relating to year ended 31 December 2015 amounting to AED 769,022 thousand shall be paid after the approval by the shareholders in the Annual General Assembly.

Cash dividend of 23.34% of the paid up capital relating to year ended 31 December 2014 amounting to AED 700,200 thousand has been paid after the approval by the shareholders at the Annual General Assembly held on 1 April 2015.

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**34 OTHER RESERVES**

	<i>Cumulative changes in fair values AED '000</i>	<i>Land revaluation reserve AED '000</i>	<i>Foreign currency translation reserve AED '000</i>	<i>Hedging reserve AED '000</i>	<i>Total AED '000</i>
At 1 January 2014	(158,060)	143,000	(132,882)	(20,726)	(168,668)
Net loss on valuation of investments carried at FVTOCI	(14,348)	-	-	-	(14,348)
Loss on disposal of investments carried at FVTOCI	368	-	-	-	368
Exchange differences arising on translation of foreign operations	-	-	(36,887)	-	(36,887)
Gain on hedge of foreign operations	-	-	18,729	-	18,729
Fair value gain on cash flow hedges	-	-	-	<u>6,162</u>	<u>6,162</u>
At 1 January 2015	(172,040)	143,000	(151,040)	(14,564)	(194,644)
Net loss on valuation of investments carried at FVTOCI	(9,321)	-	-	-	(9,321)
Loss on disposal of investments carried at FVTOCI	26,574	-	-	-	26,574
Exchange differences arising on translation of foreign operations	-	-	(66,240)	-	(66,240)
Gain on hedge of foreign operations	-	-	21,167	-	21,167
Fair value gain on cash flow hedges	-	-	-	<u>2,907</u>	<u>2,907</u>
At 31 December 2015	<u>(154,787)</u>	<u>143,000</u>	<u>(196,113)</u>	<u>(11,657)</u>	<u>(219,557)</u>

**35 TIER 1 SUKUK**

	<i>2015 AED '000</i>	<i>2014 AED '000</i>
Tier 1 sukuk – Listed	<b>3,672,034</b>	3,643,109
Tier 1 sukuk – Government of Abu Dhabi	<b><u>2,000,000</u></b>	<u>2,000,000</u>
	<b><u>5,672,034</u></b>	<u>5,643,109</u>

**Tier 1 sukuk – Listed**

On 19 November 2012, the Bank through a Shari'a compliant sukuk arrangement has issued Tier 1 sukuk – Listed (the "Sukuk") amounting to AED 3,672,500 thousand (USD 1 billion). This Sukuk was issued under the authorities approved by the shareholders of the Bank in the Extraordinary General Meeting held on 21 October 2012.

As of 31 December 2015, sukuk with a face value of AED 466 thousand (USD 0.1 million) were repurchased by the Bank (31 December 2014: AED 29,391 thousand (USD 8.0 million). Issuance costs amounting to AED 37,281 thousand were incurred.

This Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitute direct, unsecured, subordinated obligations of the Bank subject to the terms and conditions of the Mudaraba. The sukuk is listed on the London stock exchange and is callable by the Bank after period ending on 16 October 2018 (the "First Call Date") or any profit payment date thereafter subject to certain conditions. The Sukuk bear an expected Mudaraba profit rate of 6.375% payable during the initial period of six years semi-annually in arrears. After the initial period, and for every 6<sup>th</sup> year thereafter, resets to a new expected Mudaraba profit rate based on the then 6 year LIBOR rate plus an expected margin of 5.393% Profit distributions will be reported in the consolidated statement of changes in equity.

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**35 TIER 1 SUKUK** continued

**Tier 1 sukuk – Listed** continued

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of two consecutive expected mudaraba profit distribution.

**Tier 1 sukuk – Government of Abu Dhabi**

On 16 April 2009, under the Government of Abu Dhabi Bank capitalisation programme, the Bank has issued Tier 1 sukuk (the "Sukuk-Gov") to the Department of Finance of the Government of Abu Dhabi, with a principal amount of AED 2,000,000 thousand. Issuance of this Sukuk-Gov was approved by the shareholders of the Bank in the Extraordinary General Meeting held on 22 March 2009.

This Sukuk-Gov is a perpetual security in respect of which there is no fixed redemption date and constitute direct, unsecured, subordinated obligations of the Bank subject to the terms and conditions of the Mudaraba. The Sukuk-Gov is callable by the Bank subject to certain conditions. The Sukuk-Gov bear an expected mudaraba profit rate of 6% payable during the initial period of five years semi-annually in arrears and, after the initial period, bear an expected variable mudaraba profit rate payable of 6 months EIBOR plus an expected margin of 2.3%. Profit distributions will be reported in the consolidated statement of changes in equity.

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of two consecutive expected mudaraba profit distribution.

**36 NON-CONTROLLING INTEREST**

Non-controlling interest represents the minority shareholder's proportionate share in the aggregate value of the net assets of subsidiaries.

**37 CONTINGENT LIABILITIES AND COMMITMENTS**

Credit related commitments include commitments to extend Islamic credit facilities, standby letters of credit, guarantees, which are designed to meet the requirements of the Bank's customers.

Commitments to extend Islamic credit facilities represent contractual commitments under Islamic financing contracts. Commitments generally have fixed expiration dates, or other termination clauses and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**37 CONTINGENT LIABILITIES AND COMMITMENTS** continued

Standby letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of contracts.

The Bank has the following credit related contingencies, commitments and other capital commitments:

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
<b><i>Contingent liabilities</i></b>		
Letters of credit	<b>2,083,463</b>	2,918,790
Letters of guarantee	<b><u>11,276,968</u></b>	<u>9,972,187</u>
	<b><u>13,360,431</u></b>	<u>12,890,977</u>
<b><i>Commitments</i></b>		
Undrawn facilities commitments	<b>583,032</b>	357,229
Future capital expenditure	<b>70,776</b>	74,358
Investment and development properties	<b><u>74,057</u></b>	<u>151,199</u>
	<b><u>727,865</u></b>	<u>582,786</u>
	<b><u>14,088,296</u></b>	<u>13,473,763</u>

**38 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS**

Shari'a compliant alternatives of swaps are based on a unilateral Wa'ad (promise) structure between two parties to buy a specific Shari'a compliant commodity at an agreed price on an agreed date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. For Shari'a compliant alternatives of swap, counter parties enter into two separate and independent Murabaha transactions, the results of which are exchanged between them in a manner that enables one of them to receive the equivalent of the fixed reference rate and the other counterparty to receive the equivalent of the reference floating rate, where the profit payments are based on a notional value in a single currency.

The table below shows the fair values of Shari'a compliant alternatives of derivative financial instruments, together with the notional amounts analysed by term of maturity. The notional amount is based on the amount of the underlying transaction, reference rate or index and is the basis upon which changes in the value of transactions are measured. The notional amounts indicate the volume of transactions outstanding at the reporting date and are neither indicative of the market risk nor credit risk.

	<i>Negative fair value AED '000</i>	<i>Notional amount AED '000</i>	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>
<i>31 December 2015: Notional amount by term to maturity</i>						
Shari'a compliant alternatives of swap (note 29)	<b><u>18,049</u></b>	<b><u>2,990,492</u></b>	<b><u>1,049,849</u></b>	<b><u>678,027</u></b>	<b><u>745,527</u></b>	<b><u>517,089</u></b>
<i>31 December 2014: Notional amount by term to maturity</i>						
Shari'a compliant alternatives of swap (note 29)	<b><u>17,968</u></b>	<b><u>3,595,168</u></b>	<b><u>206,732</u></b>	<b><u>243,362</u></b>	<b><u>2,352,030</u></b>	<b><u>793,044</u></b>

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**39 ZAKAT**

As the Bank is not required to pay Zakat by laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, accordingly the responsibility of paying Zakat is that of the shareholders. Based on the management valuation of the Bank's net assets, which are subject to Zakat, the share value, for Zakat purposes based on Gregorian year, was estimated at AED 173,361 thousand (2014: AED 158,999 thousand) and accordingly, Zakat is estimated at AED 0.05472 (2014: AED 0.05300) per outstanding share.

However, in few jurisdictions, Zakat of the Bank's branches is mandatory by law either by taking provision or paying to a respective governmental entity responsible for Zakat. Therefore, the Bank has acted according to the law and paid the Zakat to these entities on behalf of the Shareholders and deducted the amount paid from the above total Zakat amount and accordingly adjusted the Zakat amount per each outstanding share.

**40 CASH AND CASH EQUIVALENTS**

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
Cash and balances with central banks, short term	<b>8,777,511</b>	10,400,266
Balances and wakala deposits with Islamic banks and other financial institutions, short term	<b>2,355,254</b>	2,694,913
Murabaha and mudaraba with financial institutions, short term	<b>1,428,832</b>	1,766,399
Due to financial institutions, short term	<b><u>(3,077,404)</u></b>	<b><u>(5,071,305)</u></b>
	<b><u>9,484,193</u></b>	<b><u>9,790,273</u></b>

The following significant non-cash transactions have been excluded from the consolidated statement of cash flows:

Transfer from other assets to investment properties (note 22)	<b><u>13,610</u></b>	<b><u>10,822</u></b>
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**41 RELATED PARTY TRANSACTIONS**

In the ordinary course of its activities, the Bank enters into transactions with related parties, comprising associates, directors, major shareholder, key management and their related concerns. The Bank obtains collateral, including charges over real estate properties and securities, the extent of which is dependent on the Bank's assessment of the credit risk of the related party. All financial assets are performing and free of any provision for impairment.

Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**41 RELATED PARTY TRANSACTIONS** continued

Profit rates earned on balances and wakala deposits with banks and financial institutions and customer financing extended to related parties during the year has ranged from 0% to 6% (2014: 0% to 9% per annum).

Profit rates paid on due to financial institution and customers' deposits placed by related parties during the year have ranged from 0% to 0.9% per annum (2014: 0% to 0.9% per annum).

During the year, significant transactions with related parties included in the consolidated income statement were as follows:

	<i>Major shareholder AED '000</i>	<i>Directors AED '000</i>	<i>Associates AED '000</i>	<i>Others AED '000</i>	<i>Total AED '000</i>
<b>31 December 2015</b>					
Income from murabaha, mudaraba and wakala with financial institutions	<u>—</u>	<u>—</u>	<u>4,835</u>	<u>—</u>	<u>4,835</u>
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	<u>85,750</u>	<u>1,240</u>	<u>398</u>	<u>124,044</u>	<u>211,342</u>
Income from investments measured at fair value	<u>63</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>63</u>
Fees and commission income, net	<u>3,201</u>	<u>22</u>	<u>330</u>	<u>7,734</u>	<u>11,287</u>
Operating expenses	<u>—</u>	<u>432</u>	<u>—</u>	<u>—</u>	<u>432</u>
Distribution to depositors and sukuk holders	<u>2</u>	<u>47</u>	<u>356</u>	<u>343</u>	<u>748</u>
<b>31 December 2014</b>					
Income from murabaha, mudaraba and wakala with financial institutions	<u>—</u>	<u>—</u>	<u>1,647</u>	<u>—</u>	<u>1,647</u>
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	<u>84,873</u>	<u>1,492</u>	<u>26</u>	<u>125,612</u>	<u>212,003</u>
Income from investments measured at fair value	<u>782</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>782</u>
Fees and commission income, net	<u>281</u>	<u>27</u>	<u>691</u>	<u>5,563</u>	<u>6,562</u>
Operating expenses	<u>—</u>	<u>432</u>	<u>—</u>	<u>—</u>	<u>432</u>
Distribution to depositors and sukuk holders	<u>—</u>	<u>38</u>	<u>255</u>	<u>196</u>	<u>489</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**41 RELATED PARTY TRANSACTIONS** continued

The related party balances included in the consolidated statement of financial position were as follows:

	<i>Major shareholder AED '000</i>	<i>Directors AED '000</i>	<i>Associates AED '000</i>	<i>Others AED '000</i>	<i>Total AED '000</i>
<b>31 December 2015</b>					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	1,354,353	-	1,354,353
Murabaha and Mudaraba with financial institutions	-	-	171,611	-	171,611
Murabaha, mudaraba, ijara and other Islamic financing	2,595,521	30,667	30,052	3,619,764	6,276,004
Other assets	-	-	13,616	183,625	197,241
	<u>2,595,521</u>	<u>30,667</u>	<u>1,569,632</u>	<u>3,803,389</u>	<u>7,999,209</u>
Due to financial institutions	-	-	30,180	-	30,180
Depositors' accounts	50	21,479	98,200	214,906	334,635
Other liabilities	-	63	25	179	267
	<u>50</u>	<u>21,542</u>	<u>128,405</u>	<u>215,085</u>	<u>365,082</u>
<b>31 December 2014</b>					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	1,580,965	-	1,580,965
Murabaha and Mudaraba with financial institutions	-	-	78,398	-	78,398
Murabaha, mudaraba, ijara and other Islamic financing	2,523,480	29,072	20,027	3,556,597	6,129,176
Other assets	-	-	11,413	183,625	195,038
	<u>2,523,480</u>	<u>29,072</u>	<u>1,690,803</u>	<u>3,740,222</u>	<u>7,983,577</u>
Due to financial institutions	-	-	14,861	-	14,861
Depositors' accounts	30	18,260	78,478	244,595	341,363
Other liabilities	-	-	25	261	286
	<u>30</u>	<u>18,260</u>	<u>93,364</u>	<u>244,856</u>	<u>356,510</u>

The Bank and its major shareholder jointly own a controlling stake in Abu Dhabi Islamic Bank – Egypt (S.A.E.) ("ADIB-Egypt") and have a formal joint control arrangement for their investment in ADIB-Egypt (note 21).

**Compensation of key management personnel**

The compensation of key management personnel during the year was as follows:

	<i>2015 AED '000</i>	<i>2014 AED '000</i>
Salaries and other benefits	32,778	30,923
Employees' end of service benefits	3,684	3,158
	<u>36,462</u>	<u>34,081</u>

Board of Directors remuneration for the year ended 31 December 2015 amounting to AED 4,200 thousand is subject to the approval of the shareholders at the forthcoming Annual General Assembly. During 2015, AED 4,900 thousand was paid to Board of Directors pertaining to the year ended 31 December 2014 after the approval by the shareholders in the Annual General Assembly held on 1 April 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**42 SEGMENT INFORMATION**

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision makers of the Bank in order to allocate resources to the segment and to assess its performance. Information reported to the chief operating decision makers for the purpose of resource allocation and assessment of performance is based on following strategic business units offering products and services to the different markets.

Global Retail banking - Principally handling small and medium businesses and individual customers' deposits, providing consumer and commercial murabahat, Ijara, Islamic covered card and funds transfer facilities and trade finance facilities.

Global Wholesale banking – Principally handling financing and other credit facilities and deposits and current accounts for corporate and institutional customers.

Private banking - Principally handling financing and other credit facilities, deposits and current accounts for high net worth individual customers.

Treasury – Principally handling money market, trading and treasury services, as well as the management of the Bank's funding operations by use of investment deposits.

Real estate – Subsidiaries of the Bank handling the acquisition, selling, development and leasing including both land and buildings, management and resale of properties and all associated activities.

Other operations - Other operations comprises mainly of Head Office, subsidiaries, associates and joint ventures other than above categories including unallocated costs.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**42 SEGMENT INFORMATION** continued

Business segments information for the year ended 31 December 2015 were as follows:

	<i>Global Retail banking AED '000</i>	<i>Global Wholesale banking AED '000</i>	<i>Private banking AED '000</i>	<i>Treasury AED '000</i>	<i>Real estate AED '000</i>	<i>Other operations AED '000</i>	<i>Total AED '000</i>
<b>Revenue and results</b>							
Segment revenues, net	3,043,279	1,330,625	108,682	444,569	118,382	88,838	5,134,375
Operating expenses excluding provision for impairment, net	(1,619,242)	(360,448)	(59,346)	(42,765)	(86,262)	(212,315)	(2,380,378)
Operating profit (margin)	1,424,037	970,177	49,336	401,804	32,120	(123,477)	2,753,997
Provision for impairment, net	(501,687)	(187,768)	(11,862)	-	(5,156)	(113,481)	(819,954)
<b>Profit (loss) for the year</b>	<b>922,350</b>	<b>782,409</b>	<b>37,474</b>	<b>401,804</b>	<b>26,964</b>	<b>(236,958)</b>	<b>1,934,043</b>
Non-controlling interest	-	-	-	-	-	(2,348)	(2,348)
Profit (loss) for the year attributable to equity holders of the Bank	922,350	782,409	37,474	401,804	26,964	(239,306)	1,931,695
<b>Assets</b>							
Segmental assets	52,418,734	35,058,966	3,061,715	16,539,451	2,671,626	8,627,170	118,377,662
<b>Liabilities</b>							
Segmental liabilities	54,655,766	28,770,951	2,492,733	13,473,886	373,318	3,535,777	103,302,431

Business segments information for the year ended 31 December 2014 were as follows:

	<i>Global Retail banking AED '000</i>	<i>Global Wholesale banking AED '000</i>	<i>Private banking AED '000</i>	<i>Treasury AED '000</i>	<i>Real estate AED '000</i>	<i>Other operations AED '000</i>	<i>Total AED '000</i>
<b>Revenue and results</b>							
Segment revenues, net	2,639,646	1,194,510	88,792	345,655	67,225	247,157	4,582,985
Operating expenses excluding provision for impairment, net	(1,401,521)	(342,914)	(52,441)	(45,808)	(106,132)	(125,696)	(2,074,512)
Operating profit (margin)	1,238,125	851,596	36,351	299,847	(38,907)	121,461	2,508,473
Provision for impairment, net	(353,935)	(107,331)	(29,154)	-	(74,873)	(192,490)	(757,783)
<b>Profit (loss) for the year</b>	<b>884,190</b>	<b>744,265</b>	<b>7,197</b>	<b>299,847</b>	<b>(113,780)</b>	<b>(71,029)</b>	<b>1,750,690</b>
Non-controlling interest	-	-	-	-	-	(3,815)	(3,815)
Profit (loss) for the year attributable to equity holders of the Bank	884,190	744,265	7,197	299,847	(113,780)	(74,844)	1,746,875
<b>Assets</b>							
Segmental assets	46,918,936	32,554,757	2,536,395	17,698,196	2,658,585	9,536,934	111,903,803
<b>Liabilities</b>							
Segmental liabilities	45,688,825	29,603,612	2,639,107	16,216,899	372,570	3,696,123	98,217,136

Effective 1 January 2015, the Bank changed its Funds Transfer Pricing methodology ("FTP"). As a result of the change in the FTP, comparative figures relating to business segments have been adjusted for consistency purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**42 SEGMENT INFORMATION** continued

The following is the analysis of the total segment revenues of each segment between revenues from external parties and inter-segment:

	<i>Global Retail banking AED '000</i>	<i>Global Wholesale banking AED '000</i>	<i>Private banking AED '000</i>	<i>Capital markets AED '000</i>	<i>Real estate AED '000</i>	<i>Other operations AED '000</i>	<i>Total AED '000</i>
<b>2015</b>							
Total segment revenues, net	<b>3,105,203</b>	<b>1,398,736</b>	<b>159,478</b>	<b>314,708</b>	<b>118,382</b>	<b>37,868</b>	<b>5,134,375</b>
Inter-segment revenues, net	<u>(61,924)</u>	<u>(68,111)</u>	<u>(50,796)</u>	<u>129,861</u>	<u>-</u>	<u>50,970</u>	<u>-</u>
Segment revenues, net	<b><u>3,043,279</u></b>	<b><u>1,330,625</u></b>	<b><u>108,682</u></b>	<b><u>444,569</u></b>	<b><u>118,382</u></b>	<b><u>88,838</u></b>	<b><u>5,134,375</u></b>
<b>2014</b>							
Total segment revenues, net	2,719,830	1,272,248	158,971	217,685	67,225	147,026	4,582,985
Inter-segment revenues, net	<u>(80,184)</u>	<u>(77,738)</u>	<u>(70,179)</u>	<u>127,970</u>	<u>-</u>	<u>100,131</u>	<u>-</u>
Segment revenues, net	<b><u>2,639,646</u></b>	<b><u>1,194,510</u></b>	<b><u>88,792</u></b>	<b><u>345,655</u></b>	<b><u>67,225</u></b>	<b><u>247,157</u></b>	<b><u>4,582,985</u></b>

**Geographical information**

The Group operates in two principal geographic areas that are domestic and international. The United Arab Emirates is designated as domestic area which represents the operations of the Group that originates from the U.A.E. branches, associates and subsidiaries; and international area represents the operations of the Bank that originates from its branches in Iraq, Qatar and Sudan and through its subsidiaries and associates outside U.A.E. Given that, UAE contributes the majority of the revenues and the Group's total assets in UAE represent a significant portion of its total assets and liabilities, hence no further geographical analysis of segment revenues, expenses, operating profit (margin), assets and liabilities is presented.

**43 RISK MANAGEMENT**

**43.1 Introduction**

Risk is inherent in all of the Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls in accordance with regulatory and Board requirements. The Group is exposed principally to credit risk, liquidity risk, market risk and operational risk but other risks such as reputational risk, legal risk and the various risks defined by the Basel accord are also monitored and managed.

**43.1.1 Risk management governance structure**

The Board of Directors ("Board") continues to have overall responsibility for the establishment and oversight of the Bank's risk management framework, as well as for approving the Bank's overall risk appetite, and ensuring that business is conducted within this framework. The Board is the ultimate sanctioning authority. During 2015, the Board approved a corporate governance framework and refreshed the charters of the various Board committees.

*Strategy Committee*

The Strategy Committee is appointed by the Board and is responsible to guide the Group's Executive Management to develop the Group's strategic objectives and business strategy, conduct periodic review of the achievement of strategic objectives and business plans and direct corrective actions wherever required. In addition, this committee also acts as a conduit between the Board and senior management on business issues.

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31 December 2015

**43 RISK MANAGEMENT** continued

**43.1 Introduction** continued

**43.1.1 Risk management governance structure** continued

*Risk and Investment Approval Committee*

The Risk and Investment Approval Committee is appointed by the Board and is responsible for the approvals of the Group's risk exposures, high value transactions and major items of capital expenditure. In addition, the Committee is also responsible for monitoring credit portfolio quality and provisions.

*Governance and Risk Policy Committee*

The Governance and Risk Policy Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibilities in respect of the following for the Bank and all of its subsidiaries and material affiliates:

- Review the risk profile of the Group keeping in view the requirement pertaining to enterprise risk management and to make recommendations to calibrate the risk profile of the Group in line with the applicable regulatory requirements, rating considerations and business strategy;
- Assist the Board in overseeing the Group's response to the risks it faces through the approval of the Group's risk policies and standards; and
- Review and recommend the corporate governance and risk management frameworks and risk strategy to the Board in alignment with the business growth requirements of the Group.

*Audit Committee*

The Audit Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibilities in respect of the following for the Bank and all its subsidiaries and material affiliates:

- Ensuring the integrity of the Group's consolidated financial statements and financial reporting process;
- To review the financial and internal control systems, quality assurance and risk management framework;
- To review the performance of the internal audit function;
- To review the internal controls over financial reporting and annual independent audit of the Group's consolidated financial statements;
- To recommend to the Board the engagement of the external auditors and evaluation of their qualifications, independence and performance; and
- To ensure compliance by the Group with legal and regulatory requirements as pertaining to its business activities.

The duties and responsibilities of the committees are governed by formally approved charters.

**43.1.2 The Risk Management Group ("RMG")**

The Risk Management Group is an independent risk organization that works in close partnership with the business units to support their activities, whilst safeguarding the risk profile of the Group. The RMG is led by the Group Chief Risk Officer (GCRO) and has six main responsibilities:

- Ensure adherence to risk policies and procedures across the Group
- Ensure compliance with risk related legal and regulatory guidelines in the UAE and in our overseas markets
- Maintain the primary relationship with local regulators with respect to risk related issues
- Approve commercial and consumer financing transactions with its delegated authorities
- Maintain prudent risk control systems and processes, and
- Ensure a robust credit process is maintained in support of all business lines.

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**43 RISK MANAGEMENT** continued

**43.1 Introduction** continued

**43.1.2 The Risk Management Group (“RMG”)** continued

Reporting to the GCRO are senior, experienced risk specialists who manage specific areas of risk, including Wholesale Banking, Private Banking, Retail Banking, Operational Risk, Credit Control, Remedial Management, Portfolio Management, Regulation & Policy. RMG responsibilities extend across all the business units of the Bank in all of the geographies in which the Bank operates.

*Credit Committee*

All customer related business proposals are reviewed and approved by a credit committee with delegated authority approved by the Board. The credit committee consists of designated credit officers and senior credit officers appointed following a rigorous and extended process of qualification. These appointments are made by the Chief Executive Officer upon the recommendation of the GCRO. The credit approval process and the authorities vested with the committee members are laid out in the Bank’s Credit Policy & Procedures Manual. The manual is revised periodically.

**43.1.3 Risk measurement and reporting systems**

In order to effectively monitor and control risks, the RMG maintains a capability that allows it to:

- Prepare portfolio reports across a range of indicators such as portfolio concentrations by geography, industry type, product and risk rating, which are used to analyse and monitor overall portfolio quality;
- Monitor the integrity and consistency of data, including risk ratings, risk migrations, exposures and losses, including the maintenance of a central loss database for the monitoring and analysis of losses;
- Set parameters to be used for the calculation of expected loss and risk capital requirements;
- Consolidate portfolio management data and reports for use by Executive Management and the Board; and
- Establish and maintain a set of early warning indicators to identify emerging risks.

Detailed reporting of industry, customer and geographic risks acquired takes place frequently. These reports are examined and discussed closely in a series of quarterly portfolio reviews held with senior business and risk managers. Decisions on risk appetite, adjustments to financing criteria and other initiatives are taken as a result of these meetings. Risk reports are presented to the Chief Executive Officer, the Governance & Risk Policy Committee and the Board regularly. Senior management assesses the adequacy of the provision for credit losses on a monthly basis.

The Group actively uses collateral to reduce its credit risks.

**43.1.4 Risk concentration**

The Bank seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers or in specific locations or businesses. It also obtains security when appropriate.

Details of the composition of the financing portfolio are provided in notes 17 and 18.

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**43 RISK MANAGEMENT** continued

**43.1 Introduction** continued

**43.1.5 Group Internal Audit**

Risk management processes throughout the Bank are reviewed periodically by the internal audit function that reviews both the adequacy of the procedures and the Bank's compliance with the procedures. Group Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee. The Head of Group Internal Audit has a direct reporting line to the Audit Committee thus demonstrating his independence and objectivity in all audit engagements undertaken within the Bank.

**43.1.6 Basel II / Internal Capital Adequacy Assessment Process ("ICAAP")**

Since 2009, the UAE Central Bank, as part of the international Basel II regulatory regime, has required each UAE bank to submit a report on its internal capital adequacy assessment process – this is known as "ICAAP". The Bank has prepared and submitted its ICAAP report in each of the past five years. The process aligns the Bank's risk appetite with its risk capacity which, in turn, produces an enterprise-wide set of risk limits set within and relevant to the Bank's overall strategy.

**43.2 Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by the use of a focused target market discipline which defines who the Bank is prepared to deal with from a risk profile perspective and the use of risk acceptance criteria, which define what type and volume of risk the Bank is prepared to undertake with each counterparty. These critical tools are used in conjunction with close monitoring of credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of all counter-parties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counter-parties to mitigate credit risk.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

All commercial credit risk exposures are risk rated using Moody's Risk Analyst risk rating system, recognized as an industry wide standard. This platform supports a number of different rating models for various businesses which are now well embedded. Facility Risk Ratings are also applied. Consumer exposures are rated using a pool concept as required by Basel II.

*Credit-related commitments risks*

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letters of guarantee. They expose the Bank to similar risks as financing and these are mitigated by the same control processes and policies.

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31 December 2015

**43 RISK MANAGEMENT** continued

**43.2 Credit risk** continued

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

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

	<i>Notes</i>	<i>Gross maximum exposure 2015 AED '000</i>	<i>Gross maximum exposure 2014 AED '000</i>
Balances and wakala deposits with Islamic banks and other financial institutions	15	<b>3,124,314</b>	4,103,625
Murabaha and mudaraba with financial institutions	16	<b>1,812,302</b>	2,330,003
Murabaha and other Islamic financing	17	<b>40,261,627</b>	35,604,657
Ijara financing	18	<b>41,136,743</b>	40,154,967
Investment in Islamic sukuk measured at amortised cost	19	<b>7,380,686</b>	5,519,804
Investments measured at fair value	20	<b>1,258,537</b>	804,993
Other assets		<b><u>1,679,193</u></b>	<u>1,476,092</u>
		<b><u>96,653,402</u></b>	<u>89,994,141</u>
Contingent liabilities	37	<b>13,360,431</b>	12,890,977
Commitments		<b><u>583,032</u></b>	<u>357,229</u>
Total		<b><u>13,943,463</u></b>	<u>13,248,206</u>
<b>Total credit risk exposure</b>		<b><u>110,596,865</u></b>	<u>103,242,347</u>

**43.2.2 Credit risk concentration**

Concentration of risk is managed by customer/counterparty, by geographical region and by industry sector. The credit exposure to the top 5 customers as of 31 December 2015 was AED 7,472,796 thousand (2014: AED 7,324,399 thousand) before taking account of collateral or other credit enhancements.

The concentration of the Group's assets and liabilities by geographical segment is based primarily upon the location of the counter party.



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31 December 2015

**43 RISK MANAGEMENT** continued

**43.2 Credit risk** continued

**43.2.2 Credit risk concentration** continued

The distribution of the Group's financial assets which are subject to credit risk by geographic region is as follows:

	<i>Balances and wakala deposits with Islamic banks and other financial institutions</i> AED '000	<i>Murabaha and mudaraba with financial institutions</i> AED '000	<i>Murabaha and other Islamic financing</i> AED '000	<i>Ijara financing</i> AED '000	<i>Investment in Islamic sukuk measured at amortised cost</i> AED '000	<i>Investments measured at fair value</i> AED '000	<i>Other assets</i> AED '000	<i>Total</i> AED '000
<b>31 December 2015</b>								
UAE	476,614	1,360,232	38,835,151	39,253,812	4,995,579	821,726	1,523,258	87,266,372
Rest of Middle East	1,045,333	379,711	959,989	1,219,375	1,270,127	47,529	125,580	5,047,644
Europe	72,093	-	244,830	752	111,510	-	-	429,185
Others	1,530,274	72,359	221,657	662,804	1,003,470	389,282	30,355	3,910,201
Financial assets subject to credit risk	<u>3,124,314</u>	<u>1,812,302</u>	<u>40,261,627</u>	<u>41,136,743</u>	<u>7,380,686</u>	<u>1,258,537</u>	<u>1,679,193</u>	<u>96,653,402</u>
<b>31 December 2014</b>								
UAE	1,058,617	1,921,425	34,053,254	38,659,120	3,725,228	451,423	1,298,065	81,167,132
Rest of Middle East	1,176,433	293,062	921,067	939,979	1,065,093	70,110	121,209	4,586,953
Europe	120,961	-	297,382	1,254	-	77,361	-	496,958
Others	1,747,614	115,516	332,954	554,614	729,483	206,099	56,818	3,743,098
Financial assets subject to credit risk	<u>4,103,625</u>	<u>2,330,003</u>	<u>35,604,657</u>	<u>40,154,967</u>	<u>5,519,804</u>	<u>804,993</u>	<u>1,476,092</u>	<u>89,994,141</u>

The credit risk arising from off-balance sheet items mentioned in note 43.2.1 are mainly relating to the UAE.

The distribution of the Group's financial assets by industry sector is as follows:

	<b>2015</b> <b>AED '000</b>	<b>2014</b> <b>AED '000</b>
Government	2,871,640	1,992,762
Public sector	4,744,922	5,244,767
Financial institutions	7,978,492	8,645,603
Trading and manufacturing	12,098,417	11,087,465
Construction and real estate	9,618,272	9,693,666
Energy	707,336	504,006
Personal	46,131,487	41,740,633
Others	12,502,836	11,085,239
Financial assets subject to credit risk	<u>96,653,402</u>	<u>89,994,141</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**43 RISK MANAGEMENT** continued

**43.2 Credit risk** continued

**43.2.3 Impairment assessment**

The main consideration for the impairment assessment include whether any payments of principal or profit are overdue by more than 90 days or there are any known difficulties in the cash flows of the counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed impairment losses and collective impairment provisions on financing assets.

*Individually assessed impairment losses on financing assets*

The Group determines the allowances appropriate for each individually significant customer financing on an individual basis. Items considered when determining impairment loss amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated on monthly basis unless unforeseen circumstances require more careful attention.

*Collective impairment provisions on financing assets*

Collective impairment provisions are assessed for losses on customer financing that are not individually significant where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individual assessed impairment, and expected receipts and recoveries once impaired. The impairment allowance is reviewed by credit management to ensure alignment with the Bank's overall policy.

*Write-off of financing assets*

Board approved policies are in place covering the timing and amount of provisions and write offs for all the financing portfolios of the bank. These reflect both the UAE Central bank guidelines and rules, accepted international accounting standards, and market and industry best practice and are stringently adhered to.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**43 RISK MANAGEMENT** continued

**43.2 Credit risk** continued

**43.2.4 Collateral and other credit enhancements**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For repurchase and reverse repurchase transactions, cash or securities;
- For commercial financing, charges over real estate properties, inventory, trade receivables and securities; and
- For retail financing, charge over assets, mortgage of properties and assignment of salaries in favor of the Bank.

The table below shows the lower of the collateral value or the outstanding balance of customer financing as at the reporting date:

	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
<i><b>Against customer financing not impaired</b></i>		
Property	<b>24,218,205</b>	20,665,157
Securities	<b>877,237</b>	1,095,418
Cash margin and lien over deposits	<b>765,835</b>	675,726
Others	<b><u>7,092,837</u></b>	<u>6,226,067</u>
	<b><u>32,954,114</u></b>	<u>28,662,368</u>
<i><b>Against individually impaired</b></i>		
Property	<b>1,040,864</b>	1,319,528
Securities	<b>49,072</b>	71,873
Cash margin and lien over deposits	<b>7,936</b>	8,700
Others	<b><u>274,034</u></b>	<u>105,656</u>
	<b><u>1,371,906</u></b>	<u>1,505,757</u>
	<b><u>34,326,020</u></b>	<u>30,168,125</u>

The Bank also obtains guarantees from parent companies for financing their subsidiaries, but their benefits are not included in the above table.

Management regularly monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and assesses the market value of collateral obtained during its review of the adequacy of the provision for impairment losses.

The Bank also makes use of master netting agreements with counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**43 RISK MANAGEMENT** continued

**43.2 Credit risk** continued

**43.2.5 Credit quality per class of financial assets**

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality for balance and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, murabaha, ijara and other Islamic financing based on the Group's credit rating system.

	<i>Moody's equivalent grade</i>	<i>2015 AED '000</i>	<i>2014 AED '000</i>
<b>Low risk</b>			
Risk rating class 1	Aaa	-	28,166
Risk rating classes 2 and 3	Aa1-A3	<b>2,963,050</b>	1,883,289
Risk rating class 4	Baa1-Baa3	<b>11,649,339</b>	13,884,115
Risk rating classes 5 and 6	Ba1-B3	<b>60,901,257</b>	55,588,890
<b>Fair risk</b>			
Risk rating class 7	Caa1-Caa3	<b>7,938,762</b>	7,730,149
<b>Impaired</b>			
Risk rating class 8, 9 and 10		<u><b>2,882,578</b></u>	<u>3,078,643</u>
		<u><b>86,334,986</b></u>	<u>82,193,252</u>

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class. In accordance with the requirements of Basel II a number of new rating models aligned to specific business segments, were introduced during the course of the year.

**Renegotiated murabaha, ijara and other Islamic financings**

The total carrying amount of financing whose terms have been renegotiated during the year amounted to AED 1,447,960 thousand (2014: AED 2,008,012 thousand).

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**43 RISK MANAGEMENT** continued

**43.2 Credit risk** continued

**43.2.5 Credit quality per class of financial assets** continued

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset and impairment losses, if any. The table shows the maximum exposure to credit risk / price risk for murabaha, mudaraba, ijara, other Islamic financing and investment in islamic sukuk measured at amortised cost.

	<i>Balances and wakala deposits with Islamic banks and other financial institutions</i>		<i>Murabaha and mudaraba with financial institutions</i>		<i>Murabaha and other Islamic financing</i>		<i>Ijara financing</i>		<i>Investment in islamic sukuk measured at amortised cost</i>	
	<i>31 December</i>		<i>31 December</i>		<i>31 December</i>		<i>31 December</i>		<i>31 December</i>	
	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
<b>Individually impaired</b>										
Substandard	-	-	-	-	604,144	107,201	621,604	1,098,368	-	-
Doubtful	-	-	-	67,278	208,593	253,055	644,413	899,563	12,802	12,802
Loss	-	-	194,740	129,811	476,450	396,865	132,634	126,502	91,813	91,813
Gross amount	-	-	194,740	197,089	1,289,187	757,121	1,398,651	2,124,433	104,615	104,615
Provision for individual impairment	-	-	(194,740)	(163,450)	(693,670)	(519,623)	(287,041)	(558,077)	(98,277)	(98,277)
	-	-	-	33,639	595,517	237,498	1,111,610	1,566,356	6,338	6,338
<b>Past due but not impaired</b>										
Less than 90 days	-	-	-	-	480,196	215,983	269,147	209,366	-	-
More than 90 days	-	-	-	-	39,794	14,890	407,426	412,714	-	-
	-	-	-	-	519,990	230,873	676,573	622,080	-	-
<b>Neither past due nor impaired</b>	3,124,314	4,103,625	1,617,562	2,132,914	38,452,450	34,616,663	39,061,519	37,408,454	7,276,071	5,415,189
<b>Collective allowance for impairment</b>	-	-	-	-	(1,167,180)	(882,407)	(847,248)	(793,236)	-	-
<b>Carrying amount</b>	<b>3,124,314</b>	<b>4,103,625</b>	<b>1,617,562</b>	<b>2,166,553</b>	<b>38,400,777</b>	<b>34,202,627</b>	<b>40,002,454</b>	<b>38,803,654</b>	<b>7,282,409</b>	<b>5,421,527</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**43 RISK MANAGEMENT** continued

**43.2 Credit risk** continued

**43.2.5 Credit quality per class of financial assets** continued

An analysis of past due financing, by age, is provided below:

**Ageing analysis of past due but not impaired**

	<i>Less than 30 days AED '000</i>	<i>31 -60 days AED '000</i>	<i>61 -90 days AED '000</i>	<i>More than 90 days AED '000</i>	<i>Total AED '000</i>
<b>2015</b>					
Murabaha and other Islamic financing	246,329	127,034	106,833	39,794	519,990
Ijara financing	<u>242,485</u>	<u>22,973</u>	<u>3,689</u>	<u>407,426</u>	<u>676,573</u>
	<u>488,814</u>	<u>150,007</u>	<u>110,522</u>	<u>447,220</u>	<u>1,196,563</u>
<b>2014</b>					
Murabaha and other Islamic financing	158,083	40,917	16,983	14,890	230,873
Ijara financing	<u>175,131</u>	<u>29,673</u>	<u>4,562</u>	<u>412,714</u>	<u>622,080</u>
	<u>333,214</u>	<u>70,590</u>	<u>21,545</u>	<u>427,604</u>	<u>852,953</u>

More detailed information in respect of the allowance for impairment losses on murabaha and other islamic financing and ijara financing have been disclosed in notes 17 and 18 respectively.

**43.3 Liquidity risk and funding management**

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains statutory deposits with the Central Bank. The liquidity position is assessed and managed under a variety of scenarios, given due consideration to stress factors relating to both the market in general and specifically to the Group.

The high quality of the asset portfolio ensure its liquidity and coupled with the Bank's own funds and "evergreen" customer deposits help these form a stable funding source. Even under adverse conditions, the Bank has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

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31 December 2015

**43 RISK MANAGEMENT** continued

**43.3 Liquidity risk and funding management** continued

**43.3.1 Treasury**

Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Bank.

**43.3.2 Asset & Liability Committee ("ALCO")**

The Asset & Liability Management ("ALM") process focusses on planning, acquiring, and directing the flow of funds through the organization. The ultimate objective of this process is to generate adequate stable earnings and to steadily build equity over time, while taking measured business risk aligned to the overall risk appetite of the Bank. The Bank has a defined ALM policy which describes the objective, role and function of the ALCO. This process revolves around ALCO, the body within the Bank that holds the responsibility to make strategic decisions relating to the management of financial position related risks. The ALCO consists of the Bank's senior management including the CEO and normally meets once a month.

**43.3.3 Liquidity risk management process**

The Group's liquidity risk management process, as carried out within the Group and monitored by a separate team in Group Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes reenlistment of funds as they mature or when financing are provided to customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Managing statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**43 RISK MANAGEMENT** continued

**43.3 Liquidity risk and funding management** continued

**43.3.4 Analysis of financial assets and financial liabilities by remaining contractual maturities**

The table below summarises the maturity profile of the Group's financial assets and liabilities at reporting date based on contractual maturities.

	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>	<i>Total AED '000</i>
<b>31 December 2015</b>					
<b>ASSETS</b>					
Cash and balances with central banks	18,629,361	-	-	-	18,629,361
Balances and wakala deposits with Islamic banks and other financial institutions	2,355,253	169,061	600,000	-	3,124,314
Murabaha and mudaraba with financial institutions	1,604,203	13,359	-	-	1,617,562
Murabaha and other Islamic financing	4,296,572	8,300,615	17,787,993	8,015,597	38,400,777
Ijara financing	906,906	4,374,357	17,398,192	17,322,999	40,002,454
Investments in Islamic sukuk measured at amortised cost	16,039	430,548	3,764,602	3,071,220	7,282,409
Investments measured at fair value	-	1,434,589	18,970	-	1,453,559
Investment in associates and joint ventures	-	-	-	799,356	799,356
Other assets	1,487,172	-	328,595	12,218	1,827,985
Financial assets	29,295,506	14,722,529	39,898,352	29,221,390	113,137,777
Non-financial assets	-	-	-	-	5,239,885
Total assets	-	-	-	-	118,377,662
<b>LIABILITIES</b>					
Due to financial institutions	3,085,610	20,000	-	-	3,105,610
Depositors' accounts	88,402,326	4,448,332	2,076,502	-	94,927,160
Other liabilities	2,380,455	248,476	804,480	-	3,433,411
Sukuk financing instruments	-	1,836,250	-	-	1,836,250
Total liabilities	93,868,391	6,553,058	2,880,982	-	103,302,431
<b>31 December 2014</b>					
<b>ASSETS</b>					
Cash and balances with central banks	18,757,580	-	-	-	18,757,580
Balances and wakala deposits with Islamic banks and other financial institutions	3,063,607	315,928	724,090	-	4,103,625
Murabaha and mudaraba with financial institutions	2,023,459	143,094	-	-	2,166,553
Murabaha and other Islamic financing	3,252,902	7,921,449	16,077,954	6,950,322	34,202,627
Ijara financing	1,063,931	4,803,799	18,810,999	14,124,925	38,803,654
Investments in Islamic sukuk measured at amortised cost	-	-	2,928,286	2,493,241	5,421,527
Investments measured at fair value	-	984,549	22,926	-	1,007,475
Investment in associates and joint ventures	-	-	-	807,395	807,395
Other assets	1,260,475	147,244	201,399	9,054	1,618,172
Financial assets	29,421,954	14,316,063	38,765,654	24,384,937	106,888,608
Non-financial assets	-	-	-	-	5,015,195
Total assets	-	-	-	-	111,903,803
<b>LIABILITIES</b>					
Due to financial institutions	5,475,734	-	-	-	5,475,734
Depositors' accounts	76,056,513	7,795,053	924,842	-	84,776,408
Other liabilities	2,153,499	429,348	791,522	-	3,374,369
Sukuk financing instruments	-	2,754,375	1,836,250	-	4,590,625
Total liabilities	83,685,746	10,978,776	3,552,614	-	98,217,136



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**43 RISK MANAGEMENT** continued

**43.3 Liquidity risk and funding management** continued

**43.3.4 Analysis of financial assets and financial liabilities by remaining contractual maturities** continued

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations, including cash flows pertaining to principal repayment and profit payable to maturity.

	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>	<i>Total AED '000</i>
<b>31 December 2015</b>					
<b>LIABILITIES</b>					
Due to financial institutions	3,044,041	20,024	-	-	3,064,065
Depositors' accounts	88,418,667	4,475,289	2,160,997	-	95,054,953
Other liabilities	2,380,455	248,476	804,480	-	3,433,411
Sukuk financing instruments	-	1,899,765	-	-	1,899,765
Total liabilities	<u>93,843,163</u>	<u>6,643,554</u>	<u>2,965,477</u>	<u>-</u>	<u>103,452,194</u>
<b>31 December 2014</b>					
<b>LIABILITIES</b>					
Due to financial institutions	5,476,934	-	-	-	5,476,934
Depositors' accounts	76,062,776	7,797,549	933,032	-	84,793,357
Other liabilities	2,153,499	429,348	791,522	-	3,374,369
Sukuk financing instruments	-	2,725,210	1,969,366	-	4,694,576
Total liabilities	<u>83,693,209</u>	<u>10,952,107</u>	<u>3,693,920</u>	<u>-</u>	<u>98,339,236</u>

The disclosed financial instruments in the above table are the gross undiscounted cash flows.

The table below shows the contractual expiry of the Bank's contingent liabilities and commitments. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>	<i>Total AED '000</i>
<b>2015</b>					
Contingent liabilities	10,470,928	2,123,571	759,606	6,326	13,360,431
Commitments	-	52,439	92,394	-	144,833
<b>Total</b>	<u>10,470,928</u>	<u>2,176,010</u>	<u>852,000</u>	<u>6,326</u>	<u>13,505,264</u>
<b>2014</b>					
Contingent liabilities	10,924,372	1,696,458	265,074	5,073	12,890,977
Commitments	7,500	72,717	145,340	-	225,557
Total	<u>10,931,872</u>	<u>1,769,175</u>	<u>410,414</u>	<u>5,073</u>	<u>13,116,534</u>

The Bank does not expect that all of the contingent liabilities or commitments will be drawn before expiry.

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**43 RISK MANAGEMENT** continued

**43.4 Market risk**

Market risk arises from changes in market rates such as profit rates, foreign exchange rates and equity prices, as well as in their correlation and implied volatilities. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, foreign exchange rates or equity prices. The Group is exposed to diverse the financial instruments including securities, foreign currencies, equities and commodities.

The Group pays considerable attention to market risk. The Group uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises of the following elements:

- Limit to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by the senior management; and
- Independent mark-to-market valuation, reconciliation of positions and tracking of stop-losses for trading positions on timely basis.

The policies and procedures and the trading limits are set to ensure the implementation of the Group's market risk policy in day-to-day operations. These are viewed periodically to ensure they remain in line with the Group's general market risk policy. The ALCO ensure that the market risk management process is always adequately and appropriately staffed. In addition to its internal procedures and systems, the Group is required to comply with the guidelines and regulations of the Central Bank.

**43.4.1 Profit rate risk**

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability of the fair values of financial instruments. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-statement of financial position instruments that mature or re-price in a given period. The Group manages this risk through risk management strategies.

The effective profit rate (effective yield) of a monetary instrument is the rate that, when used in present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating instrument or an instrument carried at fair value.

The following table estimates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Group's consolidated income statement. The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates (whether increase or decrease) on the net profit for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December.

	<i>Increase in basis points 2015</i>	<i>Sensitivity of profit on financial assets and liabilities AED '000</i>	<i>Increase in basis points 2014</i>	<i>Sensitivity of profit on financial assets and liabilities AED '000</i>
<b>Currency</b>				
AED	25	58,538	25	53,978
USD	25	12,540	25	11,704
Euro	25	(1,083)	25	(343)
Other currencies	25	6,029	25	1,656

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**43 RISK MANAGEMENT** continued

**43.4 Market risk** continued

**43.4.2 Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The table below indicates the extent to which the Group was exposed to currency risk at 31 December on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against AED with all other variable held constant on the consolidated income statement (due to the changes in fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated in consolidated income statement on investments carried at fair value through other comprehensive income - equity instruments and investment in associates and joint ventures).

	<i>% Increase currency rates</i>	<i>Effect on net profit AED '000</i>	<i>Effect on equity AED '000</i>
<b>31 December 2015</b>			
<i>Currency</i>			
USD	<b>5</b>	<b>94,426</b>	<b>6,177</b>
Euro	<b>5</b>	<b>(83,479)</b>	<b>2,580</b>
GBP	<b>5</b>	<b>(2,399)</b>	<b>-</b>
Other currencies	<b>5</b>	<b>75,674</b>	<b>27,484</b>
<b>31 December 2014</b>			
<i>Currency</i>			
USD	<b>5</b>	<b>124,288</b>	<b>6,600</b>
Euro	<b>5</b>	<b>(2,763)</b>	<b>2,721</b>
GBP	<b>5</b>	<b>(3,050)</b>	<b>-</b>
Other currencies	<b>5</b>	<b>(36,077)</b>	<b>29,761</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**43 RISK MANAGEMENT** continued

**43.4 Market risk** continued

**43.4.2 Currency risk** continued

The table below shows the Group's exposure to foreign currencies.

	<i>AED</i> <i>AED '000</i>	<i>USD</i> <i>AED '000</i>	<i>Euro</i> <i>AED '000</i>	<i>GBP</i> <i>AED '000</i>	<i>Others</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
<b>31 December 2015</b>						
<b>Financial assets</b>						
Cash and balances with central banks	17,535,170	864,922	2,362	1,469	225,438	18,629,361
Balances and wakala deposits with Islamic banks and other financial institutions	494,003	478,736	125,985	176,913	1,848,677	3,124,314
Murabaha and mudaraba with financial institutions	1,350,106	195,097	-	-	72,359	1,617,562
Murabaha and other Islamic financing	35,863,954	1,971,818	-	359,338	205,667	38,400,777
Ijara financing	32,054,387	7,484,860	51,271	106,710	305,226	40,002,454
Investments in Islamic sukuk measured at amortised cost	-	7,168,922	-	113,487	-	7,282,409
Investments measured at fair value	71,259	1,317,182	582	6	64,530	1,453,559
Investment in associates and joint ventures	198,166	-	51,511	-	549,679	799,356
Other assets	<u>4,910,073</u>	<u>(2,351,694)</u>	<u>(510,859)</u>	<u>(277,875)</u>	<u>58,340</u>	<u>1,827,985</u>
	<u>92,477,118</u>	<u>17,129,843</u>	<u>(279,148)</u>	<u>480,048</u>	<u>3,329,916</u>	<u>113,137,777</u>
<b>Financial liabilities</b>						
Due to financial institutions	1,474,642	1,258,341	24,775	146,266	201,586	3,105,610
Depositors' accounts	79,995,433	12,535,107	1,292,047	377,146	727,427	94,927,160
Other liabilities	2,585,148	482,880	23,022	4,616	337,745	3,433,411
Sukuk financing instruments	-	1,836,250	-	-	-	1,836,250
	<u>84,055,223</u>	<u>16,112,578</u>	<u>1,339,844</u>	<u>528,028</u>	<u>1,266,758</u>	<u>103,302,431</u>
<b>31 December 2014</b>						
<b>Financial assets</b>						
Cash and balances with central banks	17,891,901	706,743	2,064	902	155,970	18,757,580
Balances and wakala deposits with Islamic banks and other financial institutions	1,010,707	1,326,058	142,299	251,214	1,373,347	4,103,625
Murabaha and mudaraba with financial institutions	1,000,038	531,794	491,325	-	143,396	2,166,553
Murabaha and other Islamic financing	30,943,222	2,340,518	99,663	598,192	221,032	34,202,627
Ijara financing	29,388,731	9,216,202	82,423	3	116,295	38,803,654
Investments in Islamic sukuk measured at amortised cost	-	5,391,600	-	29,927	-	5,421,527
Investments measured at fair value	93,564	796,803	96	77,361	39,651	1,007,475
Investment in associates and joint ventures	163,223	-	54,322	-	589,850	807,395
Other assets	<u>2,894,293</u>	<u>(1,080,282)</u>	<u>951,458</u>	<u>25,534</u>	<u>(1,172,831)</u>	<u>1,618,172</u>
	<u>83,385,679</u>	<u>19,229,436</u>	<u>1,823,650</u>	<u>983,133</u>	<u>1,466,710</u>	<u>106,888,608</u>
<b>Financial liabilities</b>						
Due to financial institutions	2,348,296	1,966,932	57,988	727,012	375,506	5,475,734
Depositors' accounts	72,328,178	9,548,418	1,706,248	307,676	885,888	84,776,408
Other liabilities	2,329,866	637,709	60,340	9,441	337,013	3,374,369
Sukuk financing instruments	-	4,590,625	-	-	-	4,590,625
	<u>77,006,340</u>	<u>16,743,684</u>	<u>1,824,576</u>	<u>1,044,129</u>	<u>1,598,407</u>	<u>98,217,136</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**43 RISK MANAGEMENT** continued

**43.4 Market risk** continued

**43.4.3 Equity price risk**

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's quoted investments in the investment portfolio.

The following table estimates the sensitivity to a possible change in equity markets on the Bank's consolidated income statement. Sensitivity is the effect of the assumed change in the reference equity benchmark in the fair value of investments carried at fair value through profit or loss on the consolidated income statement,

	<i>% Increase in market indices 2015</i>	<i>Effect on net profit 2015 AED '000</i>	<i>%Increase in market indices 2014</i>	<i>Effect on net profit 2014 AED '000</i>
<i>Investments carried at fair value through profit or loss</i>				
Abu Dhabi Stock Market	<b>10</b>	<b>483</b>	10	-
Dubai Financial Market	<b>10</b>	<b>583</b>	10	-
Others	<b>10</b>	<b>66</b>	10	-

The effect on equity (as a result of a change in the fair value of equity instruments held as investments carried at fair value through other comprehensive income at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	<i>% Increase in market indices 2015</i>	<i>Effect on equity 2015 AED '000</i>	<i>%Increase in market indices 2014</i>	<i>Effect on equity 2014 AED '000</i>
<i>Investments carried at fair value through other comprehensive income</i>				
Others	<b>10</b>	<b>85</b>	10	96

**43.4.4 Operational risk**

Operational risk is the potential exposure to financial or other damage arising from inadequate or failed internal processes, people or system.

The Bank has implemented a detailed operational risk framework in accordance with Basel II guidelines. The framework articulates clearly defined roles and responsibilities of individuals / units across different functions of the Bank involved in performing various operational risk management tasks. The Operational Risk Management Framework ensures that operational risks within the Bank are properly identified, monitored, reported and actively managed. Key elements of the framework include process mapping, management of an operational loss database, key risk indicators, regular business unit level self-assessment, risk analysis and risk management reporting.

Each new product introduced is subject to a risk review and signoff process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product. Variations of existing products are also subject to a similar process. Business and support units are responsible for managing operational risk in their respective functional areas. They operate within the Bank's operational risk management framework and ensure that risk is being actively identified, monitored and managed within their respective business units. The day-to-day operational risk is managed also through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedures to monitor transaction positions and documentation, as well as maintenance of key backup procedures and business contingency planning, which is regularly assessed and tested.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**43 RISK MANAGEMENT** continued

**43.4.5 Compliance risk review**

Given its commitment to best practice governance, in 2014 the Bank appointed external legal counsel to assist in reviewing its compliance with sanctions laws, and its compliance processes generally. The external legal counsel is yet to complete its review, and to the extent that this review assists the Bank in the identification of any additional steps that can be taken to ensure compliance with applicable sanctions laws, the Bank will enhance its processes accordingly. The Bank is continuing its internal review, and it is premature to speculate on any potential impact on the Bank. The Bank will share the outcome of the internal review with the relevant regulator once it is finalized.

**43.5 Capital management**

The Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The Central Bank of the UAE vide circular No. 4004/2009 dated 30 August 2009, requires all banks operating in the UAE to maintain a risk asset ratio at a minimum of 12% (2014: 12%) at all times in which Tier 1 capital should not be less than 8% (2014: 8%) of the total risk weighted assets. In implementing current capital requirements of the Central Bank of the U.A.E, the Group maintains the required ratio of the regulatory capital to total risk weighted assets.

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

- Tier 1 capital, which includes ordinary share capital, retained earnings, translation reserve, non-controlling interest and Tier 1 sukuk after deductions of goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment provisions on financing assets and the element of the fair value reserve relating to unrealised gains and losses on financial instruments classified as investments carried at fair value through other comprehensive income, gains or losses arising on translation of foreign operations and unrealised gains or losses arising on Sharia'a compliant financial instruments designated as cash flow hedges.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or to adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

The Central Bank of the U.A.E vide its notice 27/2009 dated 17 November 2009, requires all the banks operating in the U.A.E. to implement Standardised approach of Basel II. For credit and market risks, the Central Bank of the U.A.E. has issued guidelines for implementation of Standardised approach. For operational risk, the Central Bank of the U.A.E. has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Basic Indicators approach.

Furthermore, as required by the above circular, certain Basel II pillar 3 disclosures will be included in the annual report issued by the Bank for the year 2015.

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31 December 2015

**43 RISK MANAGEMENT** continued

**43.5 Capital management** continued

The table below shows summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2015 and 2014. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject:

	<i>Basel II</i>	
	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
<b><i>Tier 1 capital</i></b>		
Share capital	<b>3,168,000</b>	3,000,000
Legal reserve	<b>2,102,465</b>	1,766,465
General reserve	<b>1,293,820</b>	1,098,560
Credit risk reserve	<b>400,000</b>	400,000
Retained earnings	<b>1,858,899</b>	1,244,781
Proposed dividend	<b>769,022</b>	700,200
Proposed dividend to charity	<b>20,000</b>	20,000
Foreign currency translation reserve	<b>(196,113)</b>	(151,040)
Tier 1 sukuk	<b>5,672,034</b>	5,643,109
Non-controlling interest	<b><u>10,548</u></b>	<u>8,196</u>
	<b>15,098,675</b>	13,730,271
Goodwill and intangibles	<b>(474,892)</b>	(529,648)
Deductions for Tier 1 capital	<b><u>(399,678)</u></b>	<u>(403,697)</u>
<b>Total Tier 1</b>	<b><u>14,224,105</u></b>	<u>12,796,926</u>
<b><i>Tier 2 capital</i></b>		
Cumulative changes in fair value and hedging reserve	<b>(166,444)</b>	(186,604)
Collective impairment provision for financing assets	<b><u>1,096,403</u></b>	<u>1,040,470</u>
	<b>929,959</b>	853,866
Deductions for Tier 2 capital	<b><u>(399,678)</u></b>	<u>(403,698)</u>
<b>Total Tier 2</b>	<b><u>530,281</u></b>	<u>450,168</u>
<b>Total capital base</b>	<b><u>14,754,386</u></b>	<u>13,247,094</u>
<b><i>Risk weighted assets</i></b>		
Credit risk	<b>87,712,261</b>	83,237,585
Market risk	<b>2,218,921</b>	2,170,413
Operational risk	<b><u>7,549,954</u></b>	<u>6,826,723</u>
<b>Total risk weighted assets</b>	<b><u>97,481,136</u></b>	<u>92,234,721</u>
<b><i>Capital ratios</i></b>		
Total regulatory capital expressed as a percentage of total risk weighted assets	<b><u>15.14%</u></b>	<u>14.36%</u>
Tier 1 capital expressed as a percentage of total risk weighted assets	<b><u>14.59%</u></b>	<u>13.87%</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**44 FAIR VALUE OF FINANCIAL INSTRUMENTS**

*Quoted investments – at fair value*

Quoted investments represent marketable equities and sukuk that are measured at fair value. The fair values of these investments are based on quoted prices as of the reporting date. For investments carried at fair value through other comprehensive income, the impact of change in fair valuation from previous carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

*Unquoted investments – at fair value*

The consolidated financial statements include investments in unquoted funds and private equities which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalization of sustainable earnings basis. The valuation models include some assumptions that are not supported by observable market prices or rates. The impact of change in fair value from previous carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

In the opinion of management, the estimated carrying values and fair values of those financial assets and liabilities that are not carried at fair value in the consolidated financial statements are not materially different (except investment carried at amortised cost and investment in associates and joint ventures (note 21), since those financial assets and liabilities are either short term in nature or in the case of deposits and financing asset, are frequently repriced. The fair value of investments carried at amortised cost is disclosed below.

	<i>Carrying value 2015 AED '000</i>	<i>Fair value 2015 AED '000</i>	<i>Carrying value 2014 AED '000</i>	<i>Fair value 2014 AED '000</i>
<i>Fair value of investments - at amortised cost</i>				
Investments carried at amortised cost - sukuk (note 19)	<u>7,282,409</u>	<u>7,453,656</u>	<u>5,421,527</u>	<u>5,569,155</u>

**Fair value measurement recognized in the consolidated statement of financial position**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instrument by valuation technique:

*Level 1:* quoted (unadjusted prices in active markets for identical assets or liabilities).

*Level 2:* other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

*Level 3:* techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**44 FAIR VALUE OF FINANCIAL INSTRUMENTS** continued

**Fair value measurement recognized in the consolidated statement of financial position** continued

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

	<i>Level 1</i> <i>AED '000</i>	<i>Level 2</i> <i>AED '000</i>	<i>Level 3</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
<b>31 December 2015</b>				
<b>Assets and liabilities measured at fair value:</b>				
<b>Financial assets</b>				
<i>Investments carried at fair value through profit or loss</i>				
Equities	11,319	-	-	11,319
Sukuk	<u>1,258,537</u>	<u>-</u>	<u>-</u>	<u>1,258,537</u>
	<u>1,269,856</u>	<u>-</u>	<u>-</u>	<u>1,269,856</u>
<i>Investments carried at fair value through other comprehensive income</i>				
<i>Quoted investments</i>				
Equities	<u>846</u>	<u>-</u>	<u>-</u>	<u>846</u>
<i>Unquoted investments</i>				
Funds	-	-	51,363	51,363
Private equities	<u>-</u>	<u>-</u>	<u>131,494</u>	<u>131,494</u>
	<u>-</u>	<u>-</u>	<u>182,857</u>	<u>182,857</u>
	<u>846</u>	<u>-</u>	<u>182,857</u>	<u>183,703</u>
<b>Financial liabilities</b>				
Shari'a compliant alternatives of swap (note 38)	<u>-</u>	<u>18,049</u>	<u>-</u>	<u>18,049</u>
<b>Assets for which fair values are disclosed:</b>				
Investment properties (note 22)	<u>-</u>	<u>382,955</u>	<u>-</u>	<u>382,955</u>
Investment carried at amortised cost- Sukuk	<u>7,453,656</u>	<u>-</u>	<u>-</u>	<u>7,453,656</u>
<b>31 December 2014</b>				
<b>Assets and liabilities measured at fair value:</b>				
<b>Financial assets</b>				
<i>Investments carried at fair value through profit or loss</i>				
Equities	-	-	-	-
Sukuk	<u>804,993</u>	<u>-</u>	<u>-</u>	<u>804,993</u>
	<u>804,993</u>	<u>-</u>	<u>-</u>	<u>804,993</u>
<i>Investments carried at fair value through other comprehensive income</i>				
<i>Quoted investments</i>				
Equities	<u>960</u>	<u>-</u>	<u>-</u>	<u>960</u>
<i>Unquoted investments</i>				
Funds	-	-	61,640	61,640
Private equities	<u>-</u>	<u>-</u>	<u>139,882</u>	<u>139,882</u>
	<u>-</u>	<u>-</u>	<u>201,522</u>	<u>201,522</u>
	<u>960</u>	<u>-</u>	<u>201,522</u>	<u>202,482</u>
<b>Financial liabilities</b>				
Shari'a compliant alternatives of swap (note 38)	<u>-</u>	<u>17,968</u>	<u>-</u>	<u>17,968</u>
<b>Assets for which fair values are disclosed:</b>				
Investment properties (note 22)	<u>-</u>	<u>446,210</u>	<u>-</u>	<u>446,210</u>
Investment carried at amortised cost- Sukuk	<u>5,569,155</u>	<u>-</u>	<u>-</u>	<u>5,569,155</u>

There were no transfers between level 1, 2 and 3 during the current year and in the prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

**44 FAIR VALUE OF FINANCIAL INSTRUMENTS** continued

**Fair value measurement recognized in the consolidated statement of financial position** continued

A significant part of the investments classified under Level 3 are valued using inputs from investment managers and in the opinion of the management it is not practical to disclose the sensitivity of inputs to the valuation techniques used.

The following table shows a reconciliation of the opening and closing amount of level 3 of financial assets which are recorded at fair value:

	<b>2015</b>	<b>2014</b>
	<b>AED '000</b>	<b>AED '000</b>
At 1 January	<b>201,522</b>	228,297
Net disposals	<b>(8,995)</b>	(18,813)
Loss recorded in equity	<b><u>(9,670)</u></b>	<u>(7,962)</u>
At 31 December	<b><u>182,857</u></b>	<u>201,522</u>

**45 SOCIAL CONTRIBUTIONS**

The social contributions (including donations and charity) made during the year amount to AED 20,000 thousand which were approved by the shareholders at the Annual General Assembly held on 1 April 2015.