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Al Khaliji France S.A.
United Arab Emirates Branches

Independent auditor's report
and financial statements
for the year ended 31 December 2016

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

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INDEPENDENT AUDITOR'S REPORT

To the Head Office of
Al Khaliji France S.A.
United Arab Emirates Branches
United Arab Emirates

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Al Khaliji France S.A., United Arab Emirates Branches (the "Branches"), which comprise the statement of financial position as at 31 December 2016, and the statement of income, statement of comprehensive income, statement of changes in head office equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Al Khaliji France S.A., United Arab Emirates Branches as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Branches in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Branches' financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with the requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and its preparation in compliance with the applicable provisions of the Articles of Association of the Branches and U.A.E. Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Branches' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Branches or to cease operations, or has no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branches' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Branches to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- the financial statements of the Branches have been prepared and comply, in all material respects, with the applicable provisions of the U.A.E. Federal Law No. (2) of 2015;
- the Branches have maintained proper books of account;
- the Branches have not purchased or invested in any shares during the year ended 31 December 2016;
- note 6 to the financial statements of the Branches discloses material related party transactions and the terms under which they were conducted; and
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Branches have contravened during the financial year ended 31 December 2016, any of the applicable provisions of the U.A.E. Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2016.

  Furthermore, as required by the U.A.E. Union Law No. (10) of 1980, as amended. We report that we have obtained all the information and explanations we consider necessary for the purpose of our audit.

Deloitte & Touche (M.E.)

Musa Ramahi
Registration No. 872
29 March 2017
Dubai
United Arab Emirates

Statement of financial position
As of 31 December 2016

	Notes	31 December 2016 AED'000	31 December 2015 AED'000 (Restated)	1 January 2015 AED'000 (Restated)
ASSETS				
Cash and balances with the Central Bank of the U.A.E.	5	**753,780**	419,761	557,664
Due from related parties	6	**150,430**	159,951	231,100
Due from banks and financial institutions	7	**112,668**	142,544	81,485
Financial investments	8	**239,212**	278,095	236,758
Loans and advances to customers	9	**2,324,798**	2,596,837	2309,078
Customers' liability under acceptances		**23,893**	114,367	131,658
Other assets	10	**53,514**	32,255	44,439
Property and equipment	11	**3,314**	3,395	1,988
Intangibles	12	**8,091**	2,912	3,982
Total assets		**3,669,700**	3,750,117	3,598,152
LIABILITIES AND HEAD OFFICE EQUITY				
Liabilities				
Due to banks and financial institutions	13	**207,135**	96,977	96,893
Customers' deposits	14	**2,747,738**	2,840,037	2,694,010
Due to related parties	6	**8,800**	9,996	35,253
Liability under acceptances		**23,893**	114,367	131,658
Other liabilities	15	**81,105**	68,334	117,788
Total liabilities		**3,068,671**	3,129,711	3,075,602
Head Office equity				
Assigned capital	16(a)	**375,000**	375,000	335,000
Statutory reserve	16(b)	**52,506**	52,506	46,720
Retained earnings		**173,523**	192,900	140,830
Total Head Office equity		**601,029**	620,406	522,550
Total liabilities and Head Office equity		**3,669,700**	3,750,117	3,598,152

....
Gilles Dermaux
General Manager

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

Statement of income
for the year ended 31 December 2016

	Notes	2016 AED'000	2015 AED'000 (Restated)
Interest income		**156,808**	152,213
Interest expense		**(47,328)**	(33,654)
Net interest income		**109,480**	118,559
Fee and commission income		**30,527**	39,959
Fee and commission expense		**(421)**	(541)
Net fee and commission income		**30,106**	39,418
Net gain from foreign currency transactions		**5,804**	6,961
Operating income for the year		**145,390**	164,938
General and administrative expenses	17	**(46,457)**	(49,942)
Allowance for impairment, net	18	**(124,135)**	(40,613)
Net operating expenses		**(170,592)**	(90,555)
(Loss)/profit before tax		**(25,202)**	74,383
Income tax - income/(expense)	19	**5,825**	(16,527)
Net (loss)/profit for the year		**(19,377)**	57,856

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

Statement of comprehensive income
for the year ended 31 December 2016

	2016 AED'000	2015 AED'000 (Restated)
(Loss)/profit for the year	**(19,377)**	57,856
Other comprehensive income	-	-
Other comprehensive income for the year	-	-
Total comprehensive (loss)/income for the year	**(19,377)**	57,856

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

Statement of changes in Head Office equity
for the year ended 31 December 2016

	Assigned capital AED'000	Statutory reserve AED'000	Retained earnings AED'000	Total AED'000
Balance at 31 December 2014				
- as previously reported	335,000	46,720	137,136	518,856
Net effect of restatements (note 28)	-	-	3,694	3,694
Balance at 1 January 2015 - restated	335,000	46,720	140,830	522,550
Profit for the year – restated	-	-	57,856	57,856
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	57,856	57,856
Increase in assigned capital	40,000	-	-	40,000
Transfer to statutory reserve	-	5,786	(5,786)	-
Balance at 31 December 2015 - restated	375,000	52,506	192,900	620,406
Loss for the year	-	-	(19,377)	(19,377)
Other comprehensive income for the year	-	-	-	-
Total comprehensive loss for the year	-	-	(19,377)	(19,377)
Balance at 31 December 2016	**375,000**	**52,506**	**173,523**	**601,029**

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

Statement of cash flows
for the year ended 31 December 2016

	2016 AED'000	2015 AED'000 (Restated)
Cash flows from operating activities		
(Loss)/profit before tax	**(25,202)**	74,383
Adjustments for:		
Impairment losses on loans, net of recoveries	**124,135**	40,613
Loss on disposal of property and equipment	**-**	82
Depreciation and amortisation	**3,887**	2,590
Provision for employees' end-of-service benefits	**2,064**	2,236
Operating profit before changes in operating assets and liabilities	**104,884**	119,904
Decrease/(increase) in cash reserve with the Central Bank of the U.A.E.	**4,012**	(3,054)
Decrease/(increase) in loans and advances	**147,904**	(328,372)
Decrease in other assets	**3,366**	18,927
(Decrease)/increase in customers' deposits	**(92,299)**	146,027
Increase/(decrease) in other liabilities	**18,060**	(54,243)
Cash generated from/(used in) operations	**185,927**	(100,811)
Tax paid	**(23,487)**	(17,540)
End of service benefits paid	**(2,666)**	(3,177)
Net cash from/(used in) operating activities	**159,774**	(121,528)
Cash flows from investing activities		
Purchase of property and equipment	**(1,511)**	(2,424)
Purchase of intangibles	**(7,474)**	(585)
Purchase of investments	**(2,023)**	(46,527)
Proceeds from maturity/sale of investments	**40,906**	5,190
Net cash from/(used in) investing activities	**29,898**	(44,346)
Cash flows from financing activity		
Increase in assigned capital	**-**	40,000
Net cash from financing activity	**-**	40,000
Net increase/(decrease) in cash and cash equivalents	**189,672**	(125,874)
Cash and cash equivalents, at the beginning of the year	**481,036**	606,910
Cash and cash equivalents, at the end of the year (Note 20)	**670,708**	481,036

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

Notes to the financial statements
for the year ended 31 December 2016

1. Status and activities

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

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

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

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

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

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2016, have been adopted in these financial statements. The application of these revised IFRS has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- IFRS 14 *Regulatory Deferral Accounts.*
- Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure Initiative.
- Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations.
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortisation.
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture*: Bearer Plants.
- Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities.
- Annual Improvements to IFRS 2012-2014 Cycle covering amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7 *Financial Instruments: Disclosures,* IAS 19 *Employee Benefits* and IAS 34 *Interim Financial Reporting.*

Notes to the financial statements
for the year ended 31 December 2016 (continued)

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

2.2 New and revised IFRS in issue but not yet effective

The Branches has not yet applied the following new and revised IFRS that have been issued but are not yet effective:

New and revised IFRS	**Effective for annual periods beginning on or after**
Annual Improvements to IFRS Standards 2014 - 2016 Cycle amending IFRS 1, IFRS 12 and IAS 28	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017
Amendments to IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealised losses.	1 January 2017
Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017
IFRIC 22 *Foreign Currency Transactions and Advance Consideration* The interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary.	1 January 2018
Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018

Notes to the financial statements
for the year ended 31 December 2016 (continued)

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

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

New and revised IFRS	Effective for annual periods beginning on or after
Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied
Finalised version of IFRS 9 [IFRS 9 Financial Instruments (2014)] was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model.	1 January 2018

- **Impairment**: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting**: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition**: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.

Notes to the financial statements
for the year ended 31 December 2016 (continued)

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

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

New and revised IFRS	Effective for annual periods beginning on or after
IFRS 15 *Revenue from Contracts with Customers*: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.	1 January 2018
IFRS 16 *Leases* provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.	1 January 2019
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely

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

Management anticipates that IFRS 9 will be adopted in the Branches' financial statements for the annual period beginning 1 January 2018. The application of IFRS 9 may have significant impact on amounts reported and disclosures made in the Branches' financial statements in respect of the Branches' financial assets and financial liabilities.

However, it is not practicable to provide a reasonable estimate of effects of the application of until the Branches performs a detailed review.

3. Significant accounting policies

Statement of compliance

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

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

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. Significant accounting policies (continued)

Basis of preparation

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

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

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

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

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

The principal accounting policies are set out below:

Revenue recognition

Interest income and expense

The Branches recognise interest income and interest expense in the statement of income for all interest bearing financial instruments classified as held to maturity, available-for-sale and loans and receivables using the effective interest method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability on initial recognition. When there is doubt in the collection of the principal or the interest, the recognition of interest income ceases. Interest income from financial assets measured at FVTPL is recognised on accrual basis. Recoveries in respect of loans fully provided for are accounted for on a cash receipt basis.

3. Significant accounting policies (continued)

Revenue recognition (continued)

Fees and commission income and expense

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

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

Fee income from providing transaction services fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Foreign currency transactions

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

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

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

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

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

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment loss, if any. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets.

3. Significant accounting policies (continued)

Property and equipment (continued)

Depreciation is determined using the straight-line method over the estimated useful life as follows:

	Years
Vehicles	3
Office equipment	3 - 5
Furniture and fittings	3 - 5
Leasehold improvements	5 - 7

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

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

Gain or loss on disposal is determined by comparing the proceeds with the carrying amount and are recognised in the statement of income.

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

Intangible assets

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

Impairment of tangible and intangible assets

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

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets (continued)

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

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

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

Financial instruments

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

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

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Classification of financial assets

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

Held to maturity investments

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and advances

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

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

<u>Financial assets at amortised cost</u>

A financial asset measured at amortised cost are categorised under such category if both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments, including held to maturity investments loans and advances and investments products, are measured at amortised cost if both of the following conditions are met:

(a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

(b) the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest/profit on the principal amount outstanding.

Cash and cash equivalents

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

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

Individually assessed loans

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

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

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

Notes to the financial statements
for the year ended 31 December 2016 (continued)

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances on:

Performing commercial and other loans

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

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

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

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

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

De-recognition of financial assets

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

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial guarantees

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

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

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

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

De-recognition of financial liabilities

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

Notes to the financial statements
for the year ended 31 December 2016 (continued)

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Fair values

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

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

Offsetting of financial assets and liabilities

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

Derivative financial instruments and hedge accounting

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

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

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

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

3. Significant accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)

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

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

Fair Value Hedge

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

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

Cash Flow Hedge

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

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

Notes to the financial statements
for the year ended 31 December 2016 (continued)

3. Significant accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)

Embedded Derivatives

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

Employees' end of service benefits

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

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

Operating leases

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

Income Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the statement of financial position date. The Branches provide for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realized or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the statement of financial position date.

Notes to the financial statements
for the year ended 31 December 2016 (continued)

3. Significant accounting policies (continued)

Provisions

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

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

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

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

Acceptances

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

Documentary credits

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

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

Commitments to extend credit

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

Notes to the financial statements
for the year ended 31 December 2016 (continued)

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

Classification and measurement of financial assets

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

Impairment of financial assets measured at amortised cost

The Branches' accounting policy for allowances in relation to impaired financial assets measured at amortised cost is described in note 3. Impairment is calculated on the basis of discounted estimated future cash flows or by applying a certain percentage on the performing unclassified loan based on market trend and historical pattern of defaults. For retail loans and advances impairment is calculated based on a formulaic approach depending on past due instalments and payments.

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

Individually assessed loans

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

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

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

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

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

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

Impairment of loans (continued)

Collectively assessed loans

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

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

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

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

Property and equipment

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

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

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

	2016 **AED'000**	2015 AED'000
Cash on hand	**10,495**	12,940
Balances with the Central bank of the U.A.E.		
Current account	**238,050**	272,574
Statutory deposits	**130,235**	134,247
Certificates of deposit	**375,000**	-
	753,780	419,761

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

Notes to the financial statements
for the year ended 31 December 2016 (continued)

6. Related party transactions

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

The Branches maintain certain deposits with the Head Office and the Ultimate Parent Company and conducts banking transactions with them as part of its normal activities.

The Head Office provides administrative and management support to the Branches (Note 17) for which the Branches were charged a fee for the year ended 31 December 2016 of AED 1.49 million (2015: AED 0.73 million).

	2016 AED'000	2015 AED'000
Due from related parties comprise:		
Current accounts		
Ultimate Parent Company	**3,436**	5,311
Head Office	**51,769**	55,668
Term deposits		
Ultimate Parent Company	**-**	7,464
Head Office	**95,225**	91,508
	150,430	159,951
Due to related parties comprise:		
Current accounts		
Ultimate Parent Company	**5,134**	6,355
Head Office	**3,614**	3,486
Entity under common control		
Qatar Capital Limited, State of Qatar	**52**	155
	8,800	9,996

Profit for the year includes related party transactions as follows:

	2016 AED'000	2015 AED'000
Interest income	**574**	829
Commission income	**-**	266
Interest expense	**583**	96
Commission expense	**74**	38
Head Office charges (Note 17)	**1,493**	730

Notes to the financial statements
for the year ended 31 December 2016 (continued)

6. Related party transactions (continued)

	2016 AED'000	2015 AED'000
Key management personnel compensation:		
Compensation accrued during the year to key management personnel	**5,058**	7,704

7. Due from banks and financial institutions

	2016 AED'000	2015 AED'000
Due from banks and financial institutions outside the U.A.E.	**111,626**	113,425
Due from banks and financial institutions in the U.A.E.	**1,042**	29,119
	112,668	142,544

8. Financial investments

	2016 AED'000	2015 AED'000
Held to maturity	**239,212**	278,095
	239,212	278,095

	2016 AED'000	2015 AED'000
Investments by geographic concentration are as follows:		
- Within the U.A.E.	**98,016**	136,561
- Outside the U.A.E.	**141,196**	141,534
	239,212	278,095

Notes to the financial statements
for the year ended 31 December 2016 (continued)

8. Financial investments (continued)

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

	2016 AED'000	2015 AED'000
Government and Public Sector	**147,152**	185,636
Financial Institutions	**92,060**	92,459
	239,212	278,095

9. Loans and advances to customers

a) Loans and advances comprise:

	2016 AED'000	2015 AED'000
Loans and advances	**2,559,797**	2,706,712
Less: Allowance for impairment	**(234,999)**	(109,875)
	2,324,798	2,596,837

At 31 December 2016, the fair value of collateral held against loans and advances to customers was AED 1,968 million (2015: AED 2,331 million) an analysis of which is provided in Note 26.

b) The movement of the allowance for impairment of loans and advances to customers is as follows:

	2016 AED'000	2015 AED'000
At 1 January	**109,875**	64,374
Impairment allowance for the year	**140,724**	45,791
Amounts written off during the year	**(14,632)**	-
Recoveries during the year	**(968)**	(290)
At 31 December	**234,999**	109,875

Allowance for the year includes AED 15.62 million of suspended interest (2015: AED 4.89 million) and no recoveries during the year of suspended interest (2015: AED 1,906).

In determining the recoverability of loans and advances, the Branches consider any change in the credit quality of the loans and advances measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

Notes to the financial statements
for the year ended 31 December 2016 (continued)

9. Loans and advances to customers (continued)

	2016 AED'000	2015 AED'000
Specific impairment	**177,682**	52,558
Collective impairment	**57,317**	57,317
	234,999	109,875

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

	2016 AED'000	2015 AED'000
Corporate lending	**2,052,826**	2,132,411
Small business lending	**137,275**	179,292
Retail lending	**369,696**	395,009
	2,559,797	2,706,712

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

	2016 AED'000	2015 AED'000
Within the U.A.E.	**2,202,508**	2,529,818
Outside the U.A.E.	**357,289**	176,894
	2,559,797	2,706,712

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

	2016 AED'000	2015 AED'000
Wholesale and retail trade	**558,921**	734,967
Personal loans	**366,868**	391,247
Manufacturing	**348,018**	429,795
Transport and communication	**105,701**	74,755
Construction	**514,808**	652,793
Services	**545,118**	377,242
Electricity	**34,570**	-
Financial Institutions	**85,793**	45,913
	2,559,797	2,706,712

Notes to the financial statements
for the year ended 31 December 2016 (continued)

10. Other assets

	2016 AED'000	2015 AED'000 (Restated)
Deferred tax asset (i)	**35,062**	10,437
Interest receivable	**11,508**	12,395
Prepaid expenses	**3,510**	2,772
Other	**3,434**	6,651
	53,514	32,255

i) The movement in deferred tax asset during the year was as follows:

	2016 AED'000	2015 AED'000 (Restated)
Balance at the beginning of the year	**10,437**	3,694
Addition during the year	**24,625**	6,743
Balance at the end of the year	**35,062**	10,437

Tax Authorities in UAE review the tax calculation of the Branches on a periodical basis, as a result of the review, Tax Authorities rejected to recognise impairment allowance for loans and advances as an expense for certain customers, based on their assessment. These rejected amounts create a temporary difference in the tax base resulting in deferred tax assets, which will be utilised when Tax Authorities accept to recognise the before mentioned allowances as an expense in the income statement.

Notes to the financial statements
for the year ended 31 December 2016 (continued)

10. Other assets (continued)

	Opening balance AED'000	Additions AED'000	Release AED'000	Ending balance AED'000	Deferred tax assets as of 31 December 2016 AED'000	Transferred to statement of income during the year AED'000	Deferred tax assets as of 31 December 2015 AED'000 (Restated)
Impairment allowance for loans and advances to customers	44,840	113,648	(968)	157,520	31,504	22,536	8,968
Suspended interest	7,345	10,445	-	17,790	3,558	2,089	1,469
	52,185	**124,093**	**(968)**	**175,310**	**35,062**	**24,625**	**10,437**

	Opening balance AED'000	Additions AED'000	Release AED'000	Ending balance AED'000	Deferred tax assets as of 31 December 2015 AED'000 (Restated)	Transferred to statement of income during the year AED'000 (Restated)	Deferred tax assets as of 31 December 2014 AED'000 (Restated)
Impairment allowance for loans and advances to customers	15,830	29,297	(287)	44,840	8,968	5,802	3,166
Suspended interest	2,640	4,707	(2)	7,345	1,469	941	528
	18,470	34,004	(289)	52,185	10,437	6,743	3,694

Notes to the financial statements
for the year ended 31 December 2016 (continued)

11. Property and equipment

	Office equipment AED'000	Furniture and fittings AED'000	Vehicles AED'000	Leasehold improvements AED'000	Capital work in progress AED'000	Total AED'000
Cost						
At 1 January 2015	4,419	1,157	425	4,770	54	10,825
Additions during the year	195	7	-	28	2,194	2,424
Disposals during the year	(399)	-	-	-	(82)	(481)
At 31 December 2015	4,215	1,164	425	4,798	2,166	12,768
Additions during the year	980	1	-	217	313	1,511
Capitalisation of CWIP	1,554	-	-	612	(2,166)	-
Disposals during the year	(502)	-	-	-	-	(502)
At 31 December 2016	**6,247**	**1,165**	**425**	**5,627**	**313**	**13,777**
Accumulated depreciation						
At 1 January 2015	3,422	1,049	118	4,248	-	8,837
Charge for the year	533	50	142	210	-	935
Disposals during the year	(399)	-	-	-	-	(399)
At 31 December 2015	3,556	1,099	260	4,458	-	9,373
Charge for the year	1,059	47	142	344	-	1,592
Disposals during the year	(502)	-	-	-	-	(502)
At 31 December 2016	**4,113**	**1,146**	**402**	**4,802**	-	**10,463**
Carrying amount						
At 31 December 2016	**2,134**	**19**	**23**	**825**	**313**	**3,314**
At 31 December 2015	659	65	165	340	2,166	3,395

12. Intangibles

	Software AED'000	Intangibles work in progress AED'000	Total AED'000
Cost			
At 1 January 2015	12,195	96	12,291
Additions during the year	118	467	585
At 31 December 2015	12,313	563	12,876
Additions during the year	5,109	2,365	7,474
At 31 December 2016	**17,422**	**2,928**	**20,350**
Accumulated depreciation			
At 1 January 2015	8,309	-	8,309
Charge for the year	1,655	-	1,655
At 31 December 2015	9,964	-	9,964
Charge for the year	2,295	-	2,295
At 31 December 2016	**12,259**	-	**12,259**
Carrying amount			
At 31 December 2016	**5,163**	**2,928**	**8,091**
At 31 December 2015	2,349	563	2,912

13. Due to banks and financial institutions

	2016 AED'000	2015 AED'000
Due to banks and financial institutions outside the U.A.E.	**207,095**	96,975
Due to banks and financial institutions in the U.A.E.	**40**	2
	207,135	96,977

Notes to the financial statements
for the year ended 31 December 2016 (continued)

14. Customers' deposits

	2016 AED'000	2015 AED'000
Current accounts	**639,472**	786,282
Saving accounts	**12,940**	14,512
Time deposits	**1,940,530**	1,844,127
Margin accounts	**154,796**	195,116
	2,747,738	2,840,037

Time deposits held under lien as security for loans and advances (funded and unfunded) as at 31 December 2016 amounted to AED 493 million (2015: AED 500 million).

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

15. Other liabilities

	2016 AED'000	2015 AED'000
Income tax provision (Note 19)	**18,583**	23,270
Provision for employees' end of service indemnity (i)	**18,328**	18,930
Interest payable	**18,778**	13,040
Banker's draft and other	**25,416**	13,094
	81,105	68,334

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

	2016 AED'000	2015 AED'000
Balance at the beginning of the year	**18,930**	19,871
Charge for the year	**2,064**	2,236
Payments during the year	**(2,666)**	(3,177)
Balance at the end of the year	**18,328**	18,930

Notes to the financial statements
for the year ended 31 December 2016 (continued)

16. Assigned capital and statutory reserve

(a) Assigned capital

During the year, the Branches maintained the assigned capital at AED 375 million.

(b) Statutory reserve

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

17. General and administrative expenses

	2016 AED'000	2015 AED'000
Salaries and employees related expenses	**30,020**	36,884
Depreciation and amortisation	**3,887**	2,590
Head Office charges (Note 6)	**1,493**	730
Other	**11,057**	9,738
	46,457	49,942

18. Allowance for impairment, net

	2016 AED'000	2015 AED'000
Allowance for impairment on loans and advances	**125,103**	40,901
Recoveries during the year	**(968)**	(288)
Impairment losses on loans, net of recoveries	**124,135**	40,613

The impairment losses on loans, net of recoveries stated above excludes suspended interest of AED 15.62 million (2015: AED 4.89 million).

Notes to the financial statements
for the year ended 31 December 2016 (continued)

19. Income tax - net

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

Income tax (income)/expense for the year shown in the statement of income represents the following:

	2016 AED'000	2015 AED'000 (Restated)
In respect of the current year	**18,583**	23,270
In respect of the prior year	**217**	-
	18,800	23,270
Deferred tax	**(24,625)**	(6,743)
Total income tax (income)/expenses recognised in the current year	**(5,825)**	16,527

(a) The movements in income tax provision during the year were as follows:

	2016 AED'000	2015 AED'000
Balance, at the beginning of the year	**23,270**	17,540
In respect of the current year	**18,583**	23,270
In respect of the prior year	**217**	-
Paid during the year	**(23,487)**	(17,540)
Balance, at the end of the year (note 15)	**18,583**	23,270

(b) Relationship between tax expense and accounting profit:

	2016 AED'000	2015 AED'000
(Loss)/profit before tax	**(25,202)**	74,383
Income not subject to tax	**(4,880)**	(3,710)
Items not subject to tax (impairment allowance net)	**123,125**	33,715
Others	**(130)**	11,960
Taxable profit	**92,913**	116,348
Income tax rate	**20%**	20%
Income tax expense	**18,583**	23,270

Notes to the financial statements
for the year ended 31 December 2016 (continued)

20. Cash and cash equivalents

	2016 AED'000	2015 AED'000
Cash and balances with the Central Bank of the U.A.E.	**248,545**	285,514
Cash reserves and certificates of deposit with the Central Bank of the U.A.E.	**505,235**	134,247
Due from related parties	**150,430**	159,951
Due from banks and financial institutions	**112,668**	142,544
	1,016,878	722,256
Due to related parties	**(8,800)**	(9,996)
Due to banks and financial institutions	**(207,135)**	(96,977)
Statutory reserve with the Central Bank of the U.A.E.	**(130,235)**	(134,247)
Total cash and cash equivalents	**670,708**	481,036

Notes to the financial statements
for the year ended 31 December 2016 (continued)

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

	31 December 2016			31 December 2015 (Restated)		
	Assets	**Liabilities and equity**	**Off balance sheet items**	Assets	Liabilities and equity	Off balance sheet items
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
Geographic regions						
U.A.E.	**2,906,259**	**3,422,001**	**1,313,664**	3,157,447	3,534,301	1,743,467
Other Middle East countries	**421,175**	**234,132**	**14,057**	288,531	149,263	15,530
O.E.C.D.	**250,259**	**11,807**	**-**	193,786	58,176	37
Other	**92,007**	**1,760**	**-**	110,353	8,377	-
Total	**3,669,700**	**3,669,700**	**1,327,721**	3,750,117	3,750,117	1,759,034
Industry Sector						
Government and Public Sector	**925,007**	**452,396**	**-**	592,456	977,128	-
Commercial and Business	**1,858,807**	**1,629,711**	**1,313,022**	2,270,283	1,401,550	1,725,577
Personal	**369,522**	**626,440**	**324**	395,009	555,089	652
Financial Institutions	**440,950**	**279,019**	**14,375**	440,867	127,611	32,805
Other	**75,414**	**682,134**	**-**	51,502	688,739	-
Total	**3,669,700**	**3,669,700**	**1,327,721**	3,750,117	3,750,117	1,759,034

Notes to the financial statements
for the year ended 31 December 2016 (continued)

22. Classification of financial assets and financial liabilities

The table below sets out the Branches' classification of each class of financial assets and financial liabilities and their carrying amounts as at 31 December 2016:

	Loans and advances (including cash and cash equivalents) AED'000	Other amortised cost AED'000	Carrying amount AED'000
Financial assets			
Cash and balances with the Central Bank of the U.A.E.	753,780	-	753,780
Due from related parties	150,430	-	150,430
Due from banks and financial institutions	112,668	-	112,668
Financial investments	-	239,212	239,212
Loans and advances to customers	2,324,798	-	2,324,798
Other assets	-	50,004	50,004
Total	3,341,676	289,216	3,630,892
Financial liabilities			
Due to banks and financial institutions	-	207,135	207,135
Customer deposits	-	2,747,738	2,747,738
Due to related parties	-	8,800	8,800
Other liabilities	-	44,194	44,194
Total	-	3,007,867	3,007,867

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

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

	Loans and advances (including cash and cash equivalents) AED'000	Other amortised cost AED'000	Carrying amount AED'000
Financial assets			
Cash and balances with the Central Bank of the U.A.E.	419,761	-	419,761
Due from related parties	159,951	-	159,951
Due from banks and financial institutions	142,544	-	142,544
Financial investments	-	278,095	278,095
Loans and advances to customers	2,596,837	-	2,596,837
Other assets	-	29,483	29,483
Total	3,319,093	307,578	3,626,671
Financial liabilities			
Due to banks and financial institutions	-	96,977	96,977
Customer deposits	-	2,840,037	2,840,037
Due to related parties	-	9,996	9,996
Other liabilities	-	26,134	26,134
Total	-	2,973,144	2,973,144

Notes to the financial statements
for the year ended 31 December 2016 (continued)

23. Liquidity profile

(a) The following table summarises the maturity profile of the Branches' assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date:

	Less than 3 months AED'000	3 Months to 1 year AED'000	Over 1 year AED'000	Total AED'000
2016				
Assets				
Cash and balances with the Central Bank of the U.A.E.	623,545	-	130,235	753,780
Due from related parties	150,430	-	-	150,430
Due from banks and financial institutions	20,843	91,825	-	112,668
Financial investments	18,401	59,379	161,432	239,212
Loans and advances to customers	856,228	348,977	1,119,593	2,324,798
Customers' liability under acceptances	20,408	3,485	-	23,893
Other assets	-	15,284	38,230	53,514
Property and equipment	-	-	3,314	3,314
Intangibles	-	-	8,091	8,091
Total assets	1,689,855	518,950	1,460,895	3,669,700
Liabilities and Head Office equity				
Due to banks and financial institutions	23,485	-	183,650	207,135
Customers' deposits	1,793,230	948,518	5,990	2,747,738
Due to related parties	8,800	-	-	8,800
Liability under acceptances	20,408	3,485	-	23,893
Other liabilities	62,777	-	18,328	81,105
Head Office equity	-	-	601,029	601,029
Total liabilities and Head Office equity	1,908,700	952,003	808,997	3,669,700

Notes to the financial statements
for the year ended 31 December 2016 (continued)

23. Liquidity profile (continued)

	Less than 3 months AED'000	3 Months to 1 year AED'000	Over 1 year AED'000	Total AED'000
2015 (Restated)				
Assets				
Cash and balances with the Central Bank of the U.A.E.	285,514	-	134,247	419,761
Due from related parties	151,687	8,264	-	159,951
Due from banks and financial institutions	32,354	110,190	-	142,544
Financial investments	-	41,181	236,914	278,095
Loans and advances to customers	1,199,549	598,944	798,344	2,596,837
Customers' liability under acceptances	105,711	8,656	-	114,367
Other assets	-	32,255	-	32,255
Property and equipment	-	-	3,395	3,395
Intangibles	-	-	2,912	2,912
Total assets	1,774,815	799,490	1,175,812	3,750,117
Liabilities and Head Office equity				
Due to banks and financial institutions	5,152	91,825	-	96,977
Customers' deposits	2,266,079	523,958	50,000	2,840,037
Due to related parties	9,996	-	-	9,996
Liability under acceptances	105,711	8,656	-	114,367
Other liabilities	49,404	-	18,930	68,334
Head Office equity	-	-	620,406	620,406
Total Liabilities and Head Office equity	2,436,342	624,439	689,336	3,750,117

Notes to the financial statements
for the year ended 31 December 2016 (continued)

23. Liquidity profile (continued)

(b) Liquidity profile - undiscounted cash flows of the financial liabilities

The following table details the Branches contractual maturity for non-derivative financial liabilities. The table below is the undiscounted cash flow of financial liabilities based on the earliest date on which the Branches can be required to pay.

	Weighted average effective interest rate %	Less than 3 months AED'000	3 Months to 1 year AED'000	Over 1 year AED'000	Total AED'000
2016					
Financial liabilities					
Due to banks and financial institutions	0.6	23,879	-	183,650	207,529
Customers' deposits	1.5	1,795,235	953,400	38,293	2,786,928
Due to related parties	0.6	8,800	-	-	8,800
Liability under acceptances	-	20,408	3,485	-	23,893
Other liabilities	-	62,777	-	18,328	81,105
Total		1,911,099	956,885	240,271	3,108,255
2015					
Financial liabilities					
Due to banks and financial institutions	0.2	5,498	92,516	-	98,014
Customers' deposits	1.2	2,267,286	533,766	61,828	2,862,880
Due to related parties	0.2	9,996	-	-	9,996
Liability under acceptances	-	105,711	8,656	-	114,367
Other liabilities	-	49,404	-	18,930	68,334
Total		2,437,895	634,938	80,758	3,153,591

24. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Branches take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

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

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and

- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Fair value of the Branches' financial assets that are measured at amortised cost on recurring basis

Some of the Branches' financial assets are measured at amortised cost at the end of the reporting period. Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

	Carrying	**Fair value**			
	Amount AED'000	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
2016					
Financial assets					
Held to maturity investments	**239,212**	**235,928**	**-**	**4,251**	**240,179**
2015					
Financial assets					
Held to maturity investments	278,095	274,749	-	4,193	278,942

25. Capital management

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

The Branches' objectives when managing capital are:

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

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

Regulatory capital

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

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

The Branches' regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, statutory reserve after deductions for intangible assets, if any.

- Tier 2 capital, which includes collective impairment subject to the limit of 1.25% of CRWA and the element of the fair value reserve (up to a minimum of 45% of the excess of market value over the net book value) relating to unrealised gains on financial investments classified as available for sale.

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

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

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

Notes to the financial statements
for the year ended 31 December 2016 (continued)

25. Capital management (continued)

Regulatory capital (continued)

The Branches' regulatory capital position is as follows:

	2016 AED'000	2015 AED'000 (Restated)
Tier 1 capital		
Assigned capital	**375,000**	375,000
Statutory reserve	**52,506**	52,506
Retained earnings	**173,523**	192,900
Less: Intangibles – Software	**(8,091)**	(2,912)
Total	**592,938**	617,494
Tier 2 capital		
Collective provision for impairment	**36,506**	43,411
Total capital base (a)	**629,444**	660,905
Risk-weighted assets		
Credit risk:		
On balance sheet	**2,271,465**	2,466,361
Off balance sheet	**648,996**	1,006,499
	2,920,461	3,472,860
Market risk	**1,811**	145
Operational risk	**286,473**	273,362
Total risk-weighted assets (b)	**3,208,745**	3,746,367
***Capital adequacy ratio* = [a/b x 100]**	**19.62%**	17.64%

Capital allocation

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

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

26. Risk management

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

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

Risk management framework

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

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

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

Credit risk management

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

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

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

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

Notes to the financial statements
for the year ended 31 December 2016 (continued)

26. Risk management (continued)

Credit risk management (continued)

Retail lending

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

Commercial lending

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

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

Credit review procedures and loan classification

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

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

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

Notes to the financial statements
for the year ended 31 December 2016 (continued)

26. Risk management (continued)

Impaired loans and advances

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

Past due but not impaired loans

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

Allowances for impairment

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

Write-off policy

The Branches write off a loan (and any related allowances for impairment losses) when Branches Credit Committee determines that the loans are uncollectible in whole or in part. This determination is reached after all avenues for recovery have failed. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Notes to the financial statements
for the year ended 31 December 2016 (continued)

26. Risk management (continued)

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

	Due from banks and financial institutions		Loans and advances to customers		Financial investments	
	2016	2015	**2016**	2015	**2016**	2015
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Impaired						
Substandard	-	-	**9,083**	64,740	-	-
Doubtful	-	-	**76,906**	15,639	-	-
Loss	-	-	**119,460**	15,301	-	-
Gross amount	-	-	**205,449**	95,680	-	-
Interest suspended	-	-	**(20,158)**	(7,718)	-	-
Specific allowance for impairment	-	-	**(157,524)**	(44,840)	-	-
	-	-	**27,767**	43,122	-	-
Past due but not impaired						
Loans by less than 180 days	-	-	**1,521**	1,118	-	-
Past due loans less than 30 days	-	-	**4,025**	3,191	-	-
	-	-	**5,546**	4,309	-	-
Neither past due nor impaired						
Gross amount	**112,668**	142,544	**2,348,802**	2,606,723	**239,212**	278,095
Collective allowance for impairment	-	-	**(57,317)**	(57,317)	-	-
	112,668	142,544	**2,291,485**	2,549,406	**239,212**	278,095
Carrying amount	**112,668**	142,544	**2,324,798**	2,596,837	**239,212**	278,095

Notes to the financial statements
for the year ended 31 December 2016 (continued)

26. Risk management (continued)

The Branches hold collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to Branches. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2016 or 2015.

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

	Loans and advances to customers	
	2016	2015
	AED'000	AED'000
Against impaired		
Property	**27,432**	8,821
Debt securities	-	-
Equities	-	-
Cash	-	-
Others	-	-
Against past due but not impaired		
Property	**2,154**	5,577
Debt securities	-	-
Equities	-	-
Cash	-	-
Others	-	-
Against neither past due nor impaired		
Property	**1,752,050**	2,035,283
Debt securities	-	-
Equities	-	-
Cash	**171,387**	262,615
Others	**14,673**	18,390
Total	**1,967,696**	2,330,686

Notes to the financial statements
for the year ended 31 December 2016 (continued)

26. Risk management (continued)

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

	U.A.E. AED'000	Middle East countries AED'000	O.E.C.D AED'000	Other countries AED'000	Total AED'000
2016					
Non-performing loans	**205,449**	-	-	-	**205,449**
Impairment allowance for credit losses	**157,524**	-	-	-	**157,524**
Interest in suspense	**20,158**	-	-	-	**20,158**
	=======	=======	=======	=======	=======
2015					
Non-performing loans	95,680	-	-	-	95,680
Impairment allowance for credit losses	44,840	-	-	-	44,840
Interest in suspense	7,718	-	-	-	7,718
	=======	=======	=======	=======	=======

Notes to the financial statements
for the year ended 31 December 2016 (continued)

26. Risk management (continued)

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement as at 31 December 2016:

Interest Rate Sensitivity Gap:

	Within 3 months AED'000	From 3 to 6 months AED'000	From 6 to 12 months AED'000	Over one year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with the Central Bank of the U.A.E.	375,000	-	-	-	378,780	753,780
Due from related parties	126,846	-	-	-	23,584	150,430
Due from banks and financial institutions	14,849	-	91,825	-	5,994	112,668
Financial investments	18,401	22,658	36,721	161,432	-	239,212
Loans and advances to customers	1,698,643	324,031	87,805	179,473	34,846	2,324,798
Customers' liability under acceptances	-	-	-	-	23,893	23,893
Other assets	-	-	-	-	53,514	53,514
Property and equipment	-	-	-	-	3,314	3,314
Intangibles	-	-	-	-	8,091	8,091
Total assets	2,233,739	346,689	216,351	340,905	532,016	3,669,700
Liabilities and Head Office equity						
Due to banks and financial institutions	183,650	-	-	-	23,485	207,135
Customers' deposits	1,053,161	434,088	514,430	5,990	740,069	2,747,738
Due to related parties	-	-	-	-	8,800	8,800
Liability under acceptances	-	-	-	-	23,893	23,893
Other liabilities	-	-	-	-	81,105	81,105
Head Office Equity	-	-	-	-	601,029	601,029
Total liabilities and head office equity	1,236,811	434,088	514,430	5,990	1,478,381	3,669,700
On Balance Sheet gap	996,928	(87,399)	(298,079)	334,915	(946,365)	-
Cumulative interest rate sensitivity gap	996,928	909,529	611,450	946,365	-	-

Notes to the financial statements
for the year ended 31 December 2016 (continued)

26. Risk management (continued)

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

Interest Rate Sensitivity Gap:

	Within 3 months AED'000	From 3 to 6 months AED'000	From 6 to 12 months AED'000	Over one year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with the Central Bank of the U.A.E.	-	-	-	-	419,761	419,761
Due from related parties	130,646	7,464	800	-	21,041	159,951
Due from banks and financial institutions	28,529	-	110,190	-	3,825	142,544
Financial investments	-	41,182	-	236,913	-	278,095
Loans and advances to customers	2,042,519	293,879	72,903	143,416	44,120	2,596,837
Customers' liability under acceptances	-	-	-	-	114,367	114,367
Other assets	-	-	-	-	32,255	32,255
Property and equipment	-	-	-	-	3,395	3,395
Intangibles	-	-	-	-	2,912	2,912
Total assets	2,201,694	342,525	183,893	380,329	641,676	3,750,117
Liabilities and Head Office equity						
Due to banks and financial institutions	91,825	-	-	-	5,152	96,977
Customers' deposits	1,381,968	342,807	181,151	50,000	884,111	2,840,037
Due to related parties	-	-	-	-	9,996	9,996
Liability under acceptances	-	-	-	-	114,367	114,367
Other liabilities	-	-	-	-	68,334	68,334
Head Office Equity	-	-	-	-	620,406	620,406
Total liabilities and head office equity	1,473,793	342,807	181,151	50,000	1,702,366	3,750,117
On Balance Sheet gap	727,901	(282)	2,742	330,329	(1,060,690)	-
Cumulative interest rate sensitivity gap	727,901	727,619	730,361	1,060,690	-	-

Notes to the financial statements
for the year ended 31 December 2016 (continued)

26. Risk management (continued)

Liquidity risk

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

Management of liquidity risk

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

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

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

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

Market risk management

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

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

26. Risk management (continued)

Market risk - Non Trading or Banking Book

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

i) Interest rate risk management

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

The Branches use monitoring tools to periodically measure and monitor interest rate sensitivity. The results are analyzed and monitored by Local Management Committee. Since a portion of the Branches' assets and liabilities have floating rates, deposits and loans generally repriced simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Branches' assets and liabilities are repriced within one year, thereby further limiting interest rate risk. The following paragraphs depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Branches' statement of income or head office equity. The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2016, including the effect of hedging instruments. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in AED million.

The impact of 1% sudden movement in benchmark interest rate on net income over a 12 months period as on 31 December 2016 would have been a decrease in net income by –33.14% (in case of decrease of interest rate) and would have been an increase in net income by +33.14% (in case of increase of interest rate) [2015: -10.40% and +10.40%] respectively.

The effective interest rate on bank placements, financial institutions, investments and certificates of deposits with Central Bank was 1.26% (2015: 1.14%), on loans and advances 5.43% (2015: 5.39%), on customer deposits 1.54% (2015: 1.13%) and on bank borrowings 1.73% (2015: 1.08%).

ii) Currency risk

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

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

Notes to the financial statements
for the year ended 31 December 2016 (continued)

26. Risk management (continued)

Market risk management (continued)

ii) Currency risk (continued)

	Net spot position AED'000	**Forward position AED'000**	**Total 2016 AED'000**	Total 2015 AED'000
Euro	**15**	-	**15**	27
Sterling Pounds	**22**	-	**22**	3
Swedish Kroners	-	-	-	-
Lebanese Pounds	**1,662**	-	**1,662**	65
Kuwaiti Dinars	**47**	-	**47**	7
South African Rand	**1**	-	**1**	-
Japanese Yens	**1**	-	**1**	-
Canadian Dollars	**18**	-	**18**	4
Swiss Francs	**17**	-	**17**	14
Australian Dollars	**8**	-	**8**	6
Jordanian Dinars	**20**	-	**20**	19
Danish Kroners	-	-	-	-
Total	**1,811**	-	**1,811**	145

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

Operational risk

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

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

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

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

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

Notes to the financial statements
for the year ended 31 December 2016 (continued)

27. Contingent liabilities and commitments

	2016 AED'000	2015 AED'000
a) Contingent liabilities		
Guarantees	**1,267,721**	1,621,794
Letters of credit	**60,000**	137,240
	1,327,721	1,759,034

The outstanding unutilised facilities as of 31 December 2016 amounted to AED 1,838 million (2015: AED 1,834 million).

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

b) Contingent liabilities - maturity profile

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

	Within 3 months AED'000	From 3 to 6 months AED'000	From 6 to 12 months AED'000	Over 1 year AED'000	Total AED'000
2016					
Guarantees	**876,336**	**104,805**	**192,348**	**94,232**	**1,267,721**
Letters of credit	**51,430**	**8,570**	**-**	**-**	**60,000**
	927,766	**113,375**	**192,348**	**94,232**	**1,327,721**
2015					
Guarantees	1,030,230	208,967	169,949	212,648	1,621,794
Letters of credit	108,891	28,349	-	-	137,240
	1,139,121	237,316	169,949	212,648	1,759,034

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

Notes to the financial statements
for the year ended 31 December 2016 (continued)

28. Restatement

During the year the management recognised deferred tax assets as required by IAS 12 Income Taxes relating to prior periods.

As required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the above has been adjusted retrospectively in the financial statements. The retrospective adjustment had the following impacts on the financial statements:

- Other assets as at 1 January 2015 increased by AED 3,694 thousands;
- Retained earnings as at 1 January 2015 increased by AED 3,694 thousands;
- Net tax expense and for the year ended 31 December 2015 decreased by 6,743 thousands;
- Net profit for the year ended 31 December 31 2015 increased by 6,743 thousands;

29. Approval of financial statements

The financial statements were approved by the Board of Directors of the Head Office and authorised for issue on 29 March 2017.