NBAD

# Navigating the New Normal

Annual Review 2015

The Late Sheikh Zayed Bin Sultan Al Nahyan

*First President of the United Arab Emirates*

His Highness Sheikh Khalifa Bin Zayed Al Nahyan
*President of the United Arab Emirates and Ruler of Abu Dhabi*

His Highness Sheikh Mohamed
Bin Zayed Al Nahyan
*Crown Prince of Abu Dhabi and
Deputy Supreme Commander
of the UAE Armed Forces*

**Largest Bank in UAE**

# #1

Based on Total Assets, which grew to AED 407 billion as of 31 December 2015

**Safest Bank in Emerging Markets**

# #1

Safest Bank in the Emerging Markets and the Middle East in 2015 by Global Finance

**Best in Middle East**

# AA–

NBAD's credit ratings, AA– (or equivalent) with all three major credit rating agencies, are the highest amongst the Middle East banks

## Contents



NBAD is the leading bank in the Middle East and one of the safest banks in the world. Our roots in Abu Dhabi give us a deep understanding of the dynamics of the Arab region and its connection to the world's markets. And we aim to become the number one bank for anyone who wants to do business along the West-East corridor.

# At a Glance & Financial Highlights

NBAD is one of the oldest and largest banks in the UAE. A comprehensive financial institution, NBAD offers a range of banking services including retail, investment and Islamic banking.

## #1 in UAE

Largest bank in UAE & 3rd largest in MENA by assets

## AA-Rated

'Safest Bank in the Middle East & Emerging Markets' (Global Finance) – among the highest rated banks in the Middle East & Emerging Markets' (rated 'Aa3' by Moody's, 'AA–' by Fitch & 'AA–' by S&P)

## 17 Countries

Global network spanning 17 countries and 47 offices internationally

## 7,500+ Employees

Over 7,500 employees from more than 80 nationalities

## 33% Emiratisation

1,399 UAE nationals

## 110+ Branches

UAE network includes over 110 branches & cash offices and over 550 ATMs/CDMs

## Since 1968

Incorporated in 1968 to serve as banker to the United Arab Emirates government and the emirate of Abu Dhabi

## 70% Owned

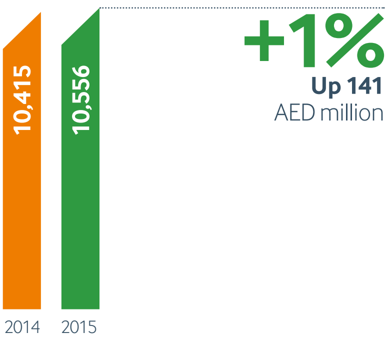
by Government of Abu Dhabi, via the Abu Dhabi Investment Council (ADIC)

## ADX Listed

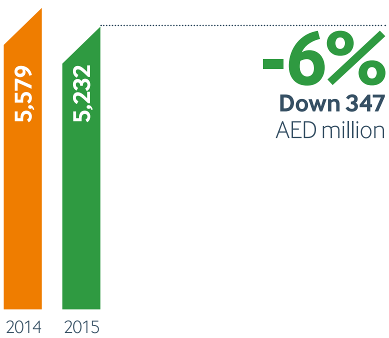
Listed on the Abu Dhabi Securities Exchange (ADX) since its inception in November 2000

The Bank delivered revenue growth of 1% to AED 10,556 million; however net profits were lower by 6% to AED 5,232 million.

## Revenues




## Net Profits




## Total Assets (AED bn)

**406.6** +8%

Loans at AED 205.9 billion, up 6% in 2015

## Customers Deposits

**30%** CASA

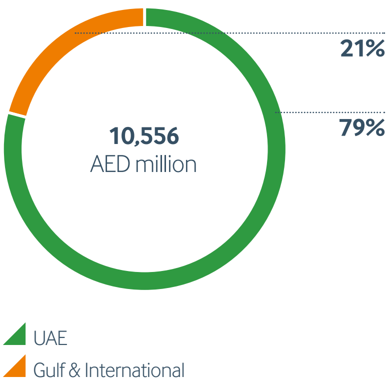
CASA deposits increased by 4%; Total customer accounts & other deposits AED 233.8 billion

## Strong Capital Ratios

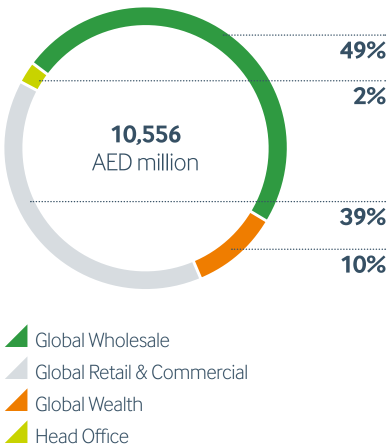
**16.7%** CAR

Tier 1 at 15.7%

## Revenue by Geography




## Revenue by Segment




## Strong International Franchise

**21%**

International segment contributed 21% to total revenues growing by 11% in 2015

# A Year in Review

Strategic actions taken throughout 2015 have positioned NBAD well for the future.

## January

### Forum discussion in London on future of Sukuk

NBAD hosts an international panel of leading Islamic finance experts in London to discuss the future of Sukuk

## February

### Human Resources Development Award

H.H. Dr. Sheikh Sultan bin Mohammed Al Qasimi, Member of the Supreme Council and Ruler of Sharjah, presented NBAD with the Human Resources Development Award in recognition of its outstanding human resources policies and development initiatives

## March

### Global Financial Markets Forum

NBAD curates two-day Forum in Abu Dhabi, which focuses on major challenges and opportunities in the world economy from the perspectives of regulators, asset managers, sovereign wealth funds, bankers and politicians

### Financing the Future of Energy Report published by NBAD

NBAD publishes Financing the Future of Energy, a report that identifies the need for innovative approaches to financing energy infrastructure. The University of Cambridge and PwC were commissioned to develop the Report, which was published in collaboration with Masdar


## April

### NBAD upgrades its channels and customer touch points

The Bank begins process of upgrading all its channels and customer touch points, including branches, website, online banking, mobile banking and ATMs


**#1**

### #1 in global league tables for international Sukuk issuance in Q1

Bloomberg and Dealogic ranked NBAD as the world's number one bank for managing issuance of international Sukuk in Q1 2015, with about $3.9 billion of deal activity

### NBAD organises roundtables to support SMEs in Oman

The high-level roundtable discussion, called 'Dynamics of Entrepreneurship', brings together leaders from public and private sectors to discuss opportunities and challenges for SMEs in Oman

## May

### NBAD forum discusses opportunities and challenges facing Egypt

Together with Egyptian government officials, business leaders and financiers, NBAD leads discussion in Cairo on how to promote long-term sustainable growth in Egypt

## September

### NBAD signs the Equator Principles

NBAD is the first UAE bank to sign the Equator Principles, an internationally-recognised benchmark in the financial industry for identifying, assessing and managing environmental and social risk in bank financed projects

EQUATOR PRINCIPLES

## October

### NBAD acquires Indian corporate loan portfolio from RBS

$900 million deal accelerates the growth of NBAD's business in India

#1

### NBAD ranked #1 for GCC bonds

Dealogic ranks NBAD as the number one bookrunner of Bonds and Sukuk in the GCC for the first 9 months of 2015

## November

### NBAD launches operations in India and hosts forum on India's infrastructure investment needs

Opening a branch in Mumbai enhances NBAD's ability to service Corporate and Financial clients across the country. NBAD brings together policy makers, senior corporate executives, bankers, investors and other market professionals in Mumbai to discuss how to meet India's infrastructure financing needs

### NBAD launches SME Academy

The NBAD SME Academy is a free, business skills academy, which is focused on helping SMEs develop fundamental skills to succeed, such as how to become bankable


40 years

### NBAD celebrates 40 years of success in Egypt

NBAD celebrates its 40th anniversary in the Egyptian market and unveils new five-year strategy focused on a modernised business model and directing foreign currencies into the Egyptian market


## December

### NBAD #1 Bookrunner of UAE Bonds, Loans and Sukuk in 2015

NBAD has raised AED73.38 billion equivalent via Bond, Sukuk and Syndicated Loan markets for UAE clients this year, more than any other domestic or international bank, according to Dealogic

# Chairman's Letter

**H.E. Nasser Ahmed Alsowaidi**
Chairman

Throughout a turbulent year for the world economy, the UAE and for banking, NBAD has maintained solid, core business performance with our strong domestic business strengthened by diversified funding from our international network. NBAD continues to be focused on building long-term client relationships, conservatively growing our business whilst maintaining a strong balance sheet and consistently ranking as one of the world's safest banks.

## Economic Review

Growth in developed economies was lower than expected in 2015 with early optimistic estimates steadily revised downward throughout the year.

US monetary policy gradually tightened this year meaning the global economy will probably continue to grow, but at a modest rate. In the Eurozone, economic performance was muted, although monetary easing and falling energy costs helped certain economies show signs of improvement compared to a few years ago.

Growth slowed in Sub-Sharan Africa, largely due to low oil and commodity prices, while China entered a period of great uncertainty as it began a transition from being an export-led economy, to becoming a consumer and services driven economy.

The future of energy dominated much of the decision-making in the Arab world in 2015 with many countries reviewing their budgets and long-term plans as a result of the price of oil. GCC oil exporting countries remain resilient in a 'lower for longer' phase in oil prices and government spending by GCC oil exporters is expected to remain quite healthy, albeit at lower levels.

The UAE, as an important trade and logistics hub, continued to contribute to regional and domestic economic development through investing in a diversified economy that promotes business, creativity and entrepreneurialism.

Banks like NBAD have a crucial role to play in this changing economic environment by advancing the UAE's position in international capital markets, maintaining liquidity in the domestic market, and supporting local business and people.

## Year in Review

In early 2015, NBAD anticipated a prolonged period of low oil prices and tighter liquidity in the market and took the necessary measures to strengthen its financial position.

In response to what is now considered the 'new normal' environment, NBAD pursued selective growth opportunities from its long-term strategy and utilised its international network to diversify sources of deposits and revenue.

**8%**

**Total Assets grew to AED 407 billion, up 8%**

**AED 10.6bn**

**Revenues grew 1% to AED 10.6 billion**

**NBAD** maintained its strong credit rating **(AA- or equivalent)** and continues to be ranked as the **safest bank in emerging markets**

**Renewed sponsorship as official bank of Formula 1 Etihad Airways Abu Dhabi Grand Prix (since 2009)**

- Revenues grew 1% to AED 10.6 billion
- Total Assets grew to AED 407 billion, up 8%
- Net Profits fell 6% to AED 5.2 billion
- Net loans and advances were AED 206 billion, up 6%
- Customer Deposits were down 4% to AED 234 billion
- Capital Ratios remained strong with Capital Adequacy Ratio of 16.7% and Tier-1 Ratio of 15.7%
- Proposed cash dividend of 40fils per share

Global Banking and Global Retail & Commercial delivered strong year-on-year growth. Throughout the year, Global Retail & Commercial invested in customer service improvements and as a result, significantly outperformed the market.

A defining strength of NBAD is our liquidity position which remained robust in 2015. In addition, the Loan-to-Deposit and Capital Adequacy Ratios remained strong – a key indicator of the health of the bank. NBAD ended the year with solid core revenue growth, achieved through a robust risk and governance culture, a focus on meeting our core clients' needs, and furthering our diversified business model.

NBAD maintained its strong credit rating (AA- or equivalent) and continues to be ranked as the safest bank in emerging markets.

## Acknowledgements

I wish to extend our most sincere appreciation and gratitude to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, President of the UAE and Ruler of Abu Dhabi; His Highness Sheikh Mohammed Bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai; Their Highnesses members of Supreme Council, Rulers of the Emirates; His Highness General Sheikh Mohamed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces and to His Highness Sheikh Mansour Bin Zayed Al Nahyan, Deputy Prime Minister and Minister of Presidential Affairs, for their continued support and interest in NBAD's activities.

On behalf of the Board of Directors, I would like to thank our management and employees for their commitment and dedication throughout 2015.

NBAD pursued selective growth opportunities from its long-term strategy and utilised its international network to diversify sources of deposits and revenue.

# Group CEO's Letter

**Alex Thursby**
Group Chief
Executive Officer

2015 was an important year for the Bank as our strategy positioned us well for the 'new normal' of low oil prices, constrained markets and tight liquidity. Growth was driven by solid core business performance in the UAE and across our international network.

In 2015, we continued to execute our long-term strategy focusing on our UAE business and our target growth markets domestically and internationally. We invested in client services, adopted more conservative lending criteria and introduced new client propositions, which enabled NBAD to report solid underlying performance for the year. We successfully accessed new sources of liquidity both regionally and internationally and our cost growth moderated throughout the year.

## Financial Overview

NBAD's core business and balance sheet remained resilient in 2015 despite the challenging macro fiscal environment. The Bank continues to have a firm footing for the year ahead with strong liquidity from our international network, a high-quality loan book and limited exposure to vulnerable sectors. I am confident that the Bank's long-term strategy has set us on a strong trajectory for growth.

The strategy we launched two years ago has resulted in the Bank continuing to grow within the context of the 'new normal' of low oil prices. We saw very strong growth in Global Transaction Banking; a 19% increase in revenue, and I was particularly pleased with the performance of Debt Origination & Distribution (DO&D) and Global Market Sales, which reported growth rates of 104% and 71%, respectively. Global Retail & Commercial delivered strong year-on-year revenue growth of 13% to AED 4.1 billion and net profit growth of 9% to AED 1.2 billion.

Within this challenging economic environment, the Bank delivered steady revenue growth of 1% to AED 10.6 billion and slight decline in Net Profits of 6% to AED 5.2 billion. Total assets grew by 8% to AED 407 billion. Critically, we have successfully maintained our strong credit rating, strong liquidity and capital positions and achieved enhanced risk diversification.

Investments which were made in 2015 included a comprehensive refurbishment of branches, analytics in new markets, new automation systems for personal loans and an upgrade of e-channels, in line with our strategy to continue building the spine. These investments, combined with a keen focus on our core business and the continued development of our presence across the West-East corridor, put the Bank in very good shape for growth in 2016.

**As always, we are maintaining our rigorous approach to risk management and cost control as we invest in core operations of the business as well as key talent. We remain confident and conservative in 2016**

## Business Highlights

In 2015, Global Wholesale Banking reported an improvement in its loan-to-deposit ratio as a result of higher deposit inflows from hubs in London and Hong Kong. This enabled the business to provide liquidity to core clients, diversify risk and deliver a strong value proposition in Asia and the MENA region. Global Market sales in 2015 rose significantly, thanks to our focus on the existing global network and close engagement in our core products and markets for our regional and international customers, while the DO&D team led more bonds, loans and Sukuk deals than ever before and doubled its revenues in 2015. Cash management products and channel proposition were rolled out with 50 mandates won from core clients.

In Global Retail & Commercial, we delivered strong lending growth and attractive returns on equity. The Bank's Dubai strategy has proved successful, with increased lending growth from this region. Retail benefitted from the refurbishment of 25 branches. The co-branded Real Madrid card has gained recognition by being named as the Best Co-Brand card at the MasterCard Global Innovation Forum. In addition, the Bank has entered in to a strategic alliance with Al Futtaim Group, the major UAE retailer and international business house, reaffirming the Bank's presence in Dubai where the Al Futtaim network is most prominent.

> Over the course of 2015, our strategy for revenue, liquidity and risk diversification reaped rewards and the Bank is on a firm footing for growth in the years ahead.

2015 was a year of transformation for our Global Wealth business. Global Private Banking focused on building strong front line capability while the product lines focused on improving efficiencies allowing us to adapt to the fast changing economic environment. Results reflected challenging market conditions, partially offset by strong performances within the Global Private Bank, which continues to benefit from the strength of NBAD's proposition to its high and ultra-high net worth clients. NBAD Securities achieved 9.5% market share, ranking as the #1 broker in the UAE (combined for both ADX & DFM). Asset Management & Custody continue to build their distribution capabilities across our chosen markets allowing them to expand their client offering and market share.

## Major Programmes & Initiatives

- Sustainable Business – NBAD officially formed its 'Sustainable Business' practice in 2015 to identify and drive funding towards renewable energy and energy efficiency projects. At Abu Dhabi's annual World Future of Energy Summit, the Bank announced a US$10 billion commitment over 10 years to finance sustainable business. NBAD also became the first UAE bank to adopt the Equator Principles, a global benchmark in the financial industry for assessing environmental and social risk in the projects financed by the Bank.
- SME Academy – The SME sector is vital to the diversification and long-term growth of the UAE economy. Launched in September 2015, NBAD's SME Academy addresses two of the most important requirements in building a business – access to capital and business skills. Since its launch, over 100 SMEs in the UAE have benefitted from essential training skills, which include corporate governance, customer service and expansion strategies.
- Emiratisation – the Bank recruited an additional 98 Emiratis during 2015. In addition, 100 UAE Nationals were recruited under a new part-time initiative and there are five UAE Nationals working overseas on secondment to NBAD's international business.
- Digital Marketing – The Bank launched a new social media strategy in 2015 with the creation of Twitter, Facebook, Instagram, YouTube and Google+ accounts, which are managed 24/7 as increasingly important channels for our customers. The Digital Marketing team commenced launching new country-specific websites for customers in India, Egypt, Oman, Jordan, the UK, Switzerland, Hong Kong and Malaysia. The Bank also launched an enhanced mobile application.
- Professional Banker – building upon the success of the programme in 2014, we saw an additional 167 employees become Professional Banker Associates in 2015, collectively completing over 18,000 hours of learning. The total number of staff on the programme is now 378. The programme is aimed at grooming the Bank's next generation of highly-talented individuals to become professional bankers, equipped with a broad range of skills, which will enable them to take on more senior leadership roles and help drive the Bank's growth for years to come.

## Summary

2015 was a year when the Bank's strategy for diversifying revenue, liquidity and risk generated rewards. The Bank maintained strong capital and liquidity, achieved growth in core divisions, and maintained a sharp focus on reducing cost-growth. The Bank's risk management and underwriting criteria have also been strengthened.

In 2016, we will continue to build shareholder value by executing our long-term growth strategy which focuses on our target growth markets both in the UAE and internationally. NBAD is in an advantageous competitive position with strong liquidity from our international network, a high-quality loan book and limited exposure to vulnerable sectors. As always, we are maintaining our rigorous approach to risk management and cost control as we invest in core operations of the business as well as key talent. We remain confident and conservative in 2016.

# CFO Statement

**James Burdett**
Group Chief
Financial Officer

During a difficult global economic climate the Bank reported double-digit growth in its strategic businesses, which was offset by a decline in market and one-time gains. NBAD's international strategy to diversify income and sources of liquidity has made the Bank resilient and prepared for long-term stable growth, ensuring it is able to continue delivering value to shareholders.

## Revenues

Net interest income (including income from Islamic financing) (NII) was AED 7.3 billion in 2015, up 4.1% on the previous year driven by lending growth. Non-interest income declined 4.4% compared to 2014. Net fees and commission for the year were lower by 9% in the same period, with income from strategically targeted trade finance (up 11%) and credit card fees (up 10%), offset by declines in brokerage and asset management fees, which declined by 44%.

Income from foreign exchange and investment was AED 1.1 billion, up 12% year-on-year, reflecting strong growth in the Bank's customer sales franchise as well as gains on the sale of investment securities. Other operating income was AED 71 million. The Bank's Return on Equity (RoE) of 12.9% in 2015 has been impacted by the market challenges faced by the Bank and is below the medium-term target of 15%.

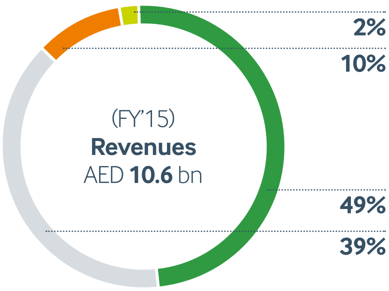
## Operating expenses

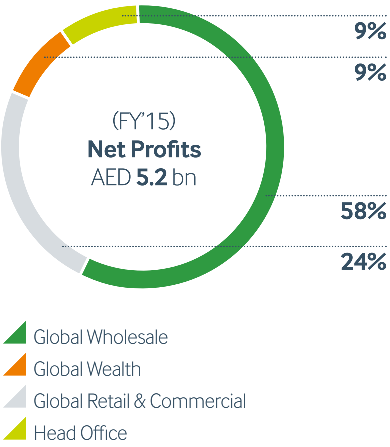
Operating expenses were up 10% compared to 2014, rising to AED 4.1 billion, primarily driven by investments in NBAD's spine, hiring the talent we need for the growth of our business, expanding client service capabilities and enhancing our IT infrastructure. The impact of these investments is evident in revenue growth in key targeted areas, including Global Wholesale flow products, Retail and Commercial and International. The cost-to-income ratio was 38.7% in 2015, up from 35.5% in 2014.

## Impairment Charges

Net impairment charges continue to reflect strong asset quality, recovery in collateral values and prudent risk management processes. Net charges in 2015 were AED 943 million, up by 8.6% compared to the previous year.

## Business Segments Performance




Cost of risk was stable, rising by only 1 bps to 44bps for the year. We expect to see a gradual increase in the cost of risk going forward over the medium term given the challenging environment and the Bank's conservative risk management strategy.

In 2015, the Bank set aside a further AED 508 million as collective provisions. Since the end of 2011, the Bank has been fully compliant with the Central Bank of UAE's minimum requirement of 1.5% for collective provisions, which became mandatory as of year-end 2014.

Non-Performing Loans (NPL) decreased by AED 328 million in 2015 representing 2.76% of the loan book. Total provisions of AED 6.1 billion in 2015 represented 105% of NPLs. The fall in total provisions in 2015 was due to recoveries, write-backs and the Bank's decision to write-off certain legacy NPLs.

### Balance sheet

- Assets achieved a record AED 407 billion at the end of 2015, up 8.1% compared to 2014.
- Net loans and advances were AED 206 billion, up 6% in 2015 as we used our balance sheet strength to continue to support clients despite the tighter liquidity environment.
- Customer accounts and other deposits were AED 234 billion, down 4% in 2015 as the decline in government deposits was partially offset by increases in core client deposits, particularly from our international operations.
- Equity, consisting of shareholders' funds of AED 36.5 billion and perpetual Tier-1 capital notes of AED 6.75 billion, grew by 14% to AED 43.2 billion. This increase was attributable to the issuance of Tier-1 capital notes along with increased retained earnings.
- Basel-II ratios, in accordance with UAE Central Bank's framework, remain strong and well above the minimum 12% and 8% (Tier-1), with a Capital Adequacy Ratio of 16.7% and a Tier-1 Ratio of 15.7%.
- The Bank's liquidity position remains robust, and the Bank is committed to supporting the UAE Central Bank in its implementation of the Basel-III liquidity ratios and will be looking to transition to these ratios at the earliest possible opportunity.

### Credit Ratings

NBAD's long-term ratings are amongst the strongest combined ratings of any global financial institution, with ratings of Aa3 from Moody's, AA- from Standard & Poor's (S&P) and AA- from Fitch. Each of these ratings were reaffirmed in 2015 with a stable outlook.

# Board of Directors

NBAD has a Board of Directors with significant and diverse experiences and myriad areas of expertise, enabling them to provide strong guidance to the bank.

**H.E. Nasser Ahmed Alsowaidi**
Chairman

**Sheikh Mohammed Bin Saif Bin Mohammed Al Nahyan**
Member

**H.E. Sultan Nasser Alsuwaidi**
Deputy Chairman*

**Board member until 12 January 2016:**

**H.E. Dr. Al Taher Musabah Al Kindi Al Marar**
Deputy Chairman

**H.E. Dr. Mohammed Omar Abdulla**
Member

**Mr. Michael H. Tomalin**
Member

* New Board member effective 12 January 2016

Read more on Board of Directors' profiles on
**www.nbad.com – About NBAD**

**Sheikh Ahmed Mohammed Sultan Al Dhaheri**
Member

**H.E. Sultan Bin Rashed Al Dhaheri**
Member

**Mr. Hashim Fawwaz Al Kudsi**
Member

**Mr. Khalifa Sultan Al Suwaidi**
Member

**H.E. Hareb Masood AlDarmaki**
Member*

**Mr. David Beau**
Member

**Mr. Matar Hamdan Al Ameri**
Member

**Ms. Mariam Saeed Ghobash**
Member*

# Executive Management

NBAD has a seasoned team of executives who work to ensure the Bank retains its status as the region's premier banking institution.

**Alex Thursby**
Group Chief
Executive Officer

**Abdulla M. S. AbdulRaheem**
Deputy Group Chief
Executive Officer

**Samer Abdelhaq**
Senior Managing Director & Group General Counsel – Legal & Compliance Division

**Mahmood Al Aradi**
Senior Managing Director
& Co-Head of Global Wholesale Banking

**Khalaf Al Dhaheri**
Senior Managing Director
& Group Chief Operating Officer

Read more on Management profiles on
**www.nbad.com – About NBAD**

**James Burdett**
Group Chief Financial Officer

**Rudiger Von Wedel**
Senior Managing Director of Global Wealth and CEO – Europe & Americas

**Qamber Al Mulla**
Senior Managing Director & CEO of Gulf & International

**Abdulla Al Otaiba**
Senior Managing Director & Group Head of Global Retail & Commercial Banking

**Abhijit Choudhury**
Senior Managing Director & Group Chief Risk Officer

**Malcolm Walker**
Senior Managing Director & Group Chief Audit Officer

**Saif Al Shehhi**
Senior Managing Director – UAE Government Group & VVIP Clients

**Mark Yassin**
Senior Managing Director & Co-Head of Global Wholesale Banking

# Strategy

Our Mission & Values are the critical ingredients of a "one NBAD" customer value proposition.

## Vision

To be recognised as the World's Best Arab Bank

## Mission

Be core to our chosen customers, helping them grow by providing exceptional products and services across our West-East corridor and providing an environment to attract and develop exceptional and diverse talent

## Values

Put our customers at the forefront and "do the right things the right way"

Value our people and foster great teamwork

Respect our heritage and be loyal to our stakeholders

Empower our people and hold each other accountable for performance and behaviour

## Our four pillars

**1**

### Home Market

Build the largest, safest and best performing bank first in UAE, and over time, in GCC and other countries throughout the West-East corridor

**2**

### Wholesale and Wealth Network Markets

Deepen our Wholesale and Wealth network across the new West-East corridor & further integrate our existing European & North American platforms into this network

**3**

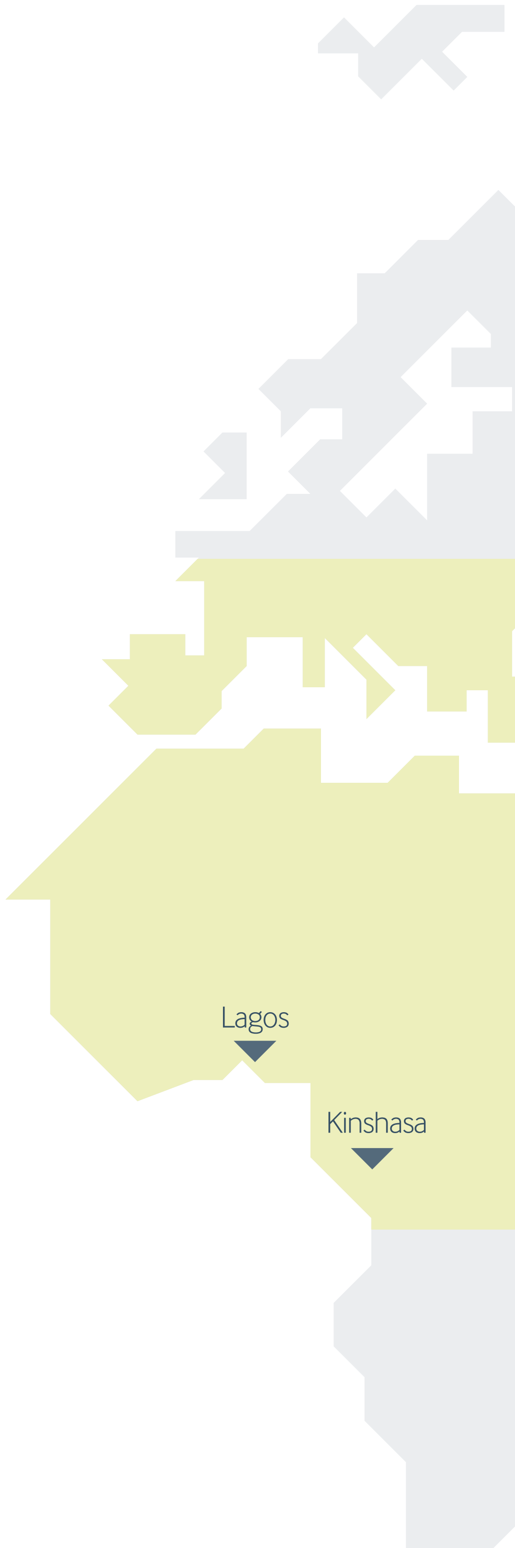
### New Franchise Markets

Build five international bank franchises in the largest and fastest growing economies in the West-East corridor

**4**

### Building the Spine

Supported by a world class spine (Operations & Technology, Risk, Finance, Legal, Compliance) combining best-in-class customer service with leading cost efficiency



## The **West-East corridor** is witnessing high growth and will have a higher concentration of megacities over the next 10-20 years.

**Our primary drivers are trade and investment flows across the West-East corridor:**

- We want to bank customers from within the corridor
- We want to bank customers located outside the corridor who trade and invest inside the corridor
- We want to support our chosen UAE customers in London, Paris, Switzerland and Washington


(1) Cities with 10 million or more inhabitants

SOURCE: United Nations, World Urbanization Prospects 2007; McKinsey Global Institute China Model; McKinsey Global Institute analysis

# Global Wholesale

**Mark Yassin**
Senior Managing Director
& Co-Head of Global Wholesale Banking

Global Wholesale Banking (comprising Global Banking, Global Markets and Client Relationships) was impacted by the challenging operating environment through higher market volatility, tighter liquidity conditions and margin compression. Despite the decline in revenues by 5% during 2015 to AED 5.1 billion, the Wholesale business delivered growth in its strategic focus areas of Global Transaction Banking (+19%), Debt Origination & Distribution (+104%) and Global Market Sales (+71%). The Bank achieved strong lending growth in support of core clients. Liquidity was offset by outflows of government deposits, which were successfully replaced by leveraging its international network and tapping liquidity from diverse sources.

Cost growth was 12% compared to 2014 at AED 1.3 billion as the Bank invested in strengthening the 'spine', hiring key talent and also strengthening its cash management and trade finance business. Net impairment charges were up 55%, mainly because of collective provisioning, which affected the profits of the business negatively by 17% year-on-year at AED 3 billion.

## Global Banking

The Global Banking business, which provides financing solutions, financial advisory and transaction banking, places its clients at the heart of its operations. The Global Banking team also advises on mergers and acquisitions, project finance, equity and debt capital markets and balance sheet structuring.

The business also provides financing for organisations across multiple industry sectors, including major infrastructure development, real estate, energy, aviation, manufacturing and machinery and construction.

## 2015 Highlights

The proportion of Global Banking's client revenues generated from non-relationship products grew by 52% in 2014 to 57% in 2015. Revenue growth was strong in its strategic focus areas of Global Transaction Banking (up by 19%) as well as Debt Origination & Distribution (up by 104%).

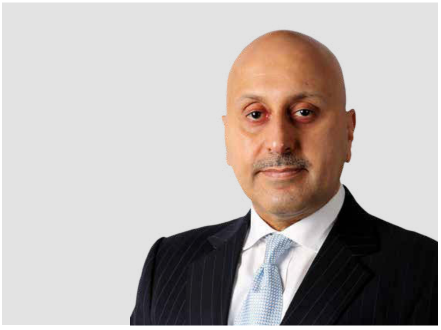
- We won our first supply chain financing and regional cash management mandate from a leading UAE corporate
- 50 cash management mandates were signed from core clients in 2015
- Named 'Best Treasury Bank in the UAE' by Global Finance
- Global Banking focused on growing the fee income side in 2015, with an increase in debt syndication and Sukuk
- NBAD ended 2015 as the No. 2 bookrunner of GCC bonds and MENA loans, as well as No. 1 bookrunner of GCC Sukuk (excluding local currency issuances) in the Bloomberg league tables. The team won 52 industry awards across bonds, loans and Sukuk in 2015
- We purchased the offshore Indian loan portfolio of the Royal Bank of Scotland (RBS) for $900 million – the Bank will continue to focus on India and is the first UAE lender to be granted a licence in 34 years
- We focused significantly on the Egypt market throughout the year and grew our revenues by 170% over 2014
- We consolidated our specialised financing units into a single unit (Global Project and Structured Finance) and organised it by the industry sectors to enhance our overall client offering further

No. 1 bookrunner of **GCC Sukuk**

**#1**

Won 52 **industry awards** across **bonds, loans** and **Sukuk** in 2015

**52**



**Mahmood Al Aradi**
Senior Managing Director
& Co-Head of Global Wholesale Banking

### Revenue growth across strategic businesses

**Global Transaction Banking**

**19%** up

**Debt Organisation & Distribution**

**104%** up

**Global Market Sales**

**71%** up

## Global Markets

NBAD's Global Markets business provides NBAD and its clients with access to global markets in multi-products. Despite the 'new normal' of low oil and commodity prices in 2015, the business has continued to be recognised as one of the foremost financial market destinations in the region. The prevailing issues within the global economy provided us with an opportunity in 2015 to leverage our network across the West-East corridor, accessing financial markets all over the world.

The geographical growth of the Bank has allowed us to gain a competitive edge, selling FX pricing and credit right across the West-East corridor. Sales in 2015 rose significantly, thanks to our focus on the existing global network and the successful delivery of our value proposition in Asia, the Middle East and Africa.

## 2015 Highlights

- Owing to the international hub strategy, we have attained a greater diversity of risk and reduced liabilities in the Middle East
- Proven its adaptability within the current challenging macro-economic environment, leveraging its diversification of liquidity through the Bank's strength of balance sheet, credit rating and international footprint
- Enhanced customer offerings across Asia, Europe and the Americas, leading to significant deposit raising. International offices have greatly contributed to supporting our funding requirements globally
- Established NBAD's reputation as the "reference bank" for market access in the West-East corridor. Our Global Markets' value proposition allowed close engagement in our core products and markets for our regional and international customers
- Maintained its market-leading position in the MENA region, providing diverse hedging, liquidity, and investment solutions to Corporate, Institutional, Commercial, and Government customers
- Managed to build its FX, Rates and Credit franchise globally, with an expanded presence in the United Kingdom, Hong Kong, Malaysia and India

> Anticipating a liquidity squeeze in the GCC, we focused on utilising our international network to diversify sources of funding.

# Global Wholesale

(continued)

**Rola Abu Manneh**
Senior Managing Director
& Head of Client Relationships

## Client Relationships

The priority for Client Relationships in 2015 was to execute the strategy of focusing on core clients, a process that was bolstered by the appointment of a number of new bankers during the year. These core clients are from the UAE and across the world; they comprise large companies, financial institutions and governments. With specialisation in a number of industrial and commercial sectors, we can offer our clients expert advice in each of the diversified industry sectors we service – energy, real estate and family conglomerates, financial, aviation and retail.

We believe in long-term commitment, engaging with our clients during the good times as well as the tough. This focus on long-terms ensures that we provide solutions and cater to client needs across their business life-cycles. For the near term, we play a proactive role in understanding the immediate needs of our clients in working capital, trade, FX and cash flow optimisations. Hence, we approach each client with bespoke solutions, resulting in us being partners of choice for many of our clients.

The UAE and the region continues to be our area of strength, while we seek opportunities globally. Despite the headwinds, we have a firm belief that the regional growth story remains intact and we remain active strategic partners for our clients in the region. During 2015, our teams played a key role in supporting our clients to raise funds through debt capital markets. We paved the banking and financial path for clients seeking global growth. We demonstrated leadership in creating synergies between NBAD's retail franchise and clients that focus on retail customers. In parallel, we remained active in providing regional solutions to our international clients.

## 2015 Highlights

The Division continued to build upon its client-centric model in 2015 by deepening relationships with the core client base. Highlights include:

- Following on from the findings of 2014's pilot programme, the independent customer satisfaction and benchmarking study conducted by Greenwich Associates was carried out in August 2015. Since 2014, the Bank has implemented a strategic client-calling programme, resulting in significant improvement in our responsiveness to meet client needs. Positive results of this programme have been borne out in the results of the 2015 survey
- Continued the transition from a product-centric to a client-centric model with the objective of earning the right to be a trusted adviser to our clients

**Ranked No. 2 bookrunner in GCC bonds & MENA loans in Bloomberg league tables**

**#2**

**NBAD implemented a strategic client-calling programme, resulting in significant improvement in the Bank's responsiveness to meet client needs**

## Aviation Sukuks

NBAD acted as Sole Global Co-ordinator for a USD 500 million issuance by Garuda Indonesia, the national airline of Indonesia. Garuda's ground-breaking issuance achieved multiple firsts including:

- First non-sovereign issuer from Indonesia to tap the USD Sukuk market
- First aviation Sukuk from Asia Pacific
- First unsecured USD benchmark Sukuk in global debt capital markets by an aviation issuer in Asia
- First unrated issuer in Asia Pacific to raise USD 500 million in global Sukuk market
- First in Asia Pacific with Sukuk Wakala structure utilising Rights to Travel

## Multi-Geography/ Multi-Product Relationships

Within one year, NBAD established a new international (UK, Egypt and UAE) and multi-product relationship with Hikma Pharmaceuticals, the MENA-based, multinational pharmaceutical company. The flagship deal being the first corporate bond issuance outside GCC for NBAD, where NBAD was mandated as Joint Lead Manager and Joint Bookrunner

## Oil Projects

NBAD has successfully supported Fujairah Oil Terminal , a joint venture between Sinopec group (Chinese state-owned petroleum and petrochemical major) and Concord Energy (a large energy trader from Singapore), by virtue of:

- Project finance transaction on which NBAD was one of the Lead Banks
- Coordinating the corresponding interest rate hedge
- Advising Concord Energy on its new 1.1 million cubic metre crude oil terminal project in Fujairah

> We believe in long-term commitment, engaging with our clients during the good times as well as the tough.

# Global Retail and Commercial

**Abdulla Al Otaiba**
Senior Managing Director & Group Head of Global Retail & Commercial Banking

The Global Retail & Commercial (GRC) business has continued to invest in customer service. Our customer experience strategy and emphasis on delivering excellent, innovative products at competitive rates has seen faster-than-market growth in loans, credit cards and merchant-acquiring business. Significant progress was also made by focusing on trade finance business, delivering support for the SME sector, driving overseas growth – mainly from Oman and Jordan – and launching new technology initiatives, such as mobile banking and Chip & PIN cards.

## 2015 Performance

GRC delivered strong revenue and profit growth in 2015. Revenues grew by 13.3% rising to AED 4,121 million compared to 2014. The business's loan book significantly outpaced the market average, indicating that the Bank's Dubai strategy of increasing presence and performance in the Dubai market is reaping rewards. The Dubai strategy also resulted in the signing of strategic partnerships with two of Dubai's largest privately-owned companies. Investments were made in branch refurbishments, digital applications and newly-defined customer propositions for Elite Customers. There were a number of key initiatives in 2015 including:

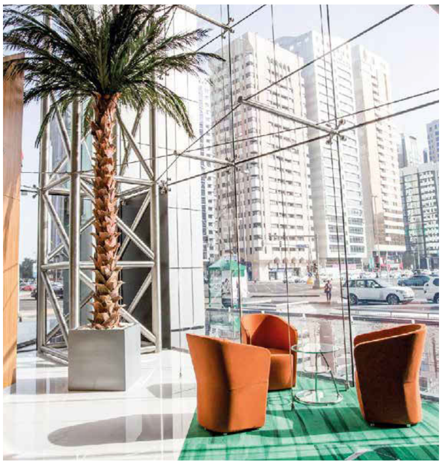
- 25 branches were refurbished, providing a vibrant, fresh and welcoming customer experience. In addition, the branch network expanded with the addition of two new branches
- New 'Service Ambassadors' have been introduced in each branch, whose sole responsibility is to enhance the customer in-branch experience
- The NBAD SME Academy was launched in 2015, providing SMEs with skills-building workshops, covering areas including financial management, capacity building and corporate governance. The initiative illustrates the Bank's commitment to nurturing the entrepreneurial spirit of the UAE and the Gulf region
- Sponsored the SME Business Awards (Star Academy Awards)
- A new mobile application for retail customers was launched, in line with the Bank's customer-focused strategy
- A new internet payment application was revised and launched in 2015
- Embarked upon a new co-branding initiative with the major UAE retailer, Al-Futtaim Group and a major airline in the region
- The co-branded Real Madrid card has gained recognition by being named as the Best Co-Brand card at the MasterCard Global Innovation Forum

## Awards

- Banker Middle East Product Awards in 2015: "Best Corporate Account", "Best SME Foreign Exchange Service" and "Best SME Card"
- Banker Middle East Industry Awards in 2015: "Best Business Bank" and "Best SME Bank"

## Plans for 2016

GRC will continue to invest in its Dubai strategy in 2016, as well as enhancing its Islamic banking offerings. There will also be a move towards shared services, which will provide efficiency savings and enhance the customer experience. The business will also look at expanding its Commercial operations further across the West-East corridor in locations including India, Hong Kong, Malaysia and London.



## Branch Refurbishment

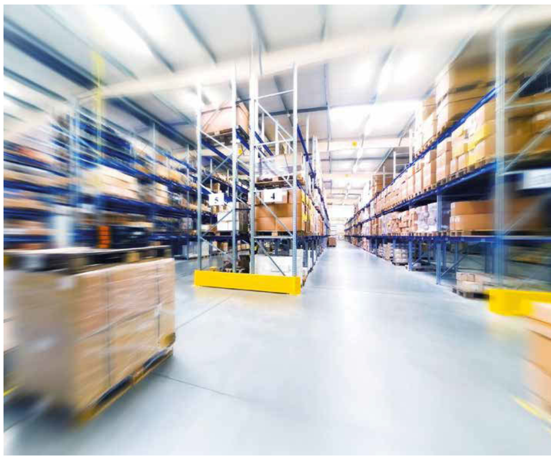
Selected NBAD branches have been renovated to provide customers with a full range of financial services, making these locations true one-stop solutions for customers' financial needs. The new design and layout of the branches is intended to improve turnaround time and to give customers maximum exposure to brand, merchandising and promotional elements. Customers also have a number of touch points throughout the branch for a unique customer experience

## Launch of Mobile banking

A new NBAD Mobile Banking app was launched in 2015. Available in both English and Arabic, it helps customers manage their finances and complete banking transactions at the touch of their fingers. As of 2015, nearly 75% of NBAD Online users are also active app users


## Launch of NBAD SME Academy

NBAD launched The SME Academy in September 2015, with an aim of helping SMEs develop the vital business skills needed to ensure the success of their ventures. The curriculum comprises skills-building workshops conducted by industry leaders such Moody's Analytics, Hawkamah, ACCA and PwC. The Academy targets to reach out to more than 500 SMEs in 2016



## Milestone Commercial Cash deal

NBAD successfully closed the Commercial Cash Mandate for one of the leading logistics, delivery and transportation providers in the UAE. In addition to being the client's core collecting bank, NBAD provided a well-rounded solution for their transaction banking requirements and migrated them onto our online payments and payroll platform – (iBanking), paying 2,000 of their staff monthly wages through our systems


> Global Retail and Commercial will continue to invest in its Dubai strategy in 2016, as well as enhancing its Islamic banking offerings.

# Global Wealth

**Rudiger von Wedel**
Senior Managing Director of Global Wealth

NBAD Global Wealth comprises Global Private Banking, Asset Management, Brokerage (NBAD Securities) and Custody businesses. We provide our high net-worth individual, ultra-high net-worth individual and Institutional clients with a range of onshore and offshore investment services from our locations in the UAE, Switzerland, United Kingdom, France and Egypt. We act as a trusted adviser for Arab investors, locally and internationally, and provide regional expertise to international clients looking to invest in the MENA region.

Client centricity is at the heart of what we do and we continue to build our capabilities around our clients' needs and our commitment to safety. Throughout 2015, we strengthened our coverage of key clients, delivered through our integrated business model.

## 2015 Performance

The 'new normal' environment and lower market volumes have acted as a significant headwind to our Global Wealth business, particularly within NBAD Securities and Asset Management. Global Wealth revenues fell by 4.5% compared to 2014 to AED 1.05 billion, with net profits down by 16% to AED 503 million.

Global Private Bank revenues grew by 6% despite the negative markets. Whilst the division was impacted by market volatility, growth was achieved through our focus on core clients, international expansion and enhanced distribution channels. Highlights from the year include:

- Strong asset gathering into advisory and discretionary mandates during the year
- Global Private Banking significantly outperformed its peers, recognised by achieving the best Private Bank in the UAE the fourth year in a row
- NBAD Securities (NBADS) closed the year 2015 as the No. 1 broker in the combined ADX and DFM markets in terms of traded value
- The Securities and Commodities Authorities approved NBAD as the UAE's first securities Lending and Borrowing agent

## Awards

- Best Private Bank in the UAE 2015 by PWM, The Banker and Wealth Briefing
- Best New Fund (NBAD Shariah MENA Dividend Leader Fund) & Best UAE Fund (NBAD UAE Growth Fund) by MENA Fund Manager
- Best Fixed-Income Fund (NBAD MENA Bond Fund) by Banker Middle East UAE Product Awards 2015
- Best Brokerage & Research House in UAE 2015 by "International Finance Magazine" (IFM)

## Plans for 2016

The Global Wealth business will continue to build on its client service proposition across the franchise by deepening relationships and focusing on its core business. We will continue to widen the breadth of our investment products and benefit from our ability to manage clients locally and across our international hubs. We will continue to optimise our business by focusing our resources on high-growth areas, such as the Private Bank.

**Global Private Bank revenues grew by 6% despite the negative markets**

**6%**

**NBAD was recognised as Best Private Bank in the UAE 2015 by PWM, The Banker**

## #1 Securities Broker

NBAD Securities (NBADS) closed the year 2015 as the No. 1 broker in the combined ADX and DFM markets in terms of traded value, exceeding AED 40 billion. While overall UAE markets traded values have dropped by more than 60% compared to 2014, NBADS managed to maintain its UAE market share of about 9.5%, due to a strategy of diversification and customised research services. NBADS was named the best brokerage house in UAE for the third year running and the best research company in the UAE by IFM magazine

## Enhanced our Swiss Proposition

Our Swiss Private Banking operation continued its successful growth story. Its discretionary assets under management (AUM) grew by 50%, aided by an increasing number of clients giving discretionary mandates on the back of strong performance. For clients preferring more active, hands-on control, the launch of the direct access desk for active FX and equity traders saw a rapid take-up. Launch of the dedicated international booking desk further enhanced the high-end service offering, enabling clients to hold their assets securely in their Swiss accounts whilst maintaining a relationship manager from their local NBAD Private Bank office

> The Global Wealth division will continue to build on its client service proposition across the franchise by deepening relationships and focusing on its core business.

# Our People

## We offer a clarity of purpose and sense of direction that is very attractive to employees.

**Abdulla M. S. AbdulRaheem**
Deputy Group Chief Executive Officer and Acting Head – Human Resources Group

One of the Bank's defining characteristics is its attitude towards its people. They are the human capital at the heart of the Bank – our most valuable asset. For this reason, developing the talent, motivation and skillsets of our staff is central to the Bank's ability to remain competitive as an employer and in delivering the very highest standards of service to our clients and customers.

The Bank has always been a strong supporter of the UAE's Emiratisation Programme and, in 2015, the total number of Emiratis rose to 1,399, including 125 trainees under the Watani Initiative. The Bank's Emiratisation ratio was 33% of the UAE workforce at the end of 2015. The Bank's Watani Initiative sponsored 26 'AFAQ' UAE nationals to complete their Master's Degree in Finance and Management and International Business from Zayed University in 2015. The Mustaqbali & Tomouh programmes also continued in to 2015. A total of 99 full-time students were sponsored in 2015 (93 Mustaqbali and 6 Tomouh) to complete their higher education degrees from local and overseas universities.

The HR department at the Bank was restructured in 2015, moving the on-boarding process to the Operations Department, so that the HR team can deliver a stronger focus on career and skills development right across the business. This is a reflection of the Bank's commitment to developing a learning culture; investing in talent, setting objectives and recognising outstanding performance.

### 2015 initiatives included:
### Global Leadership Forum

One of the Bank's most successful internal events in 2015 was the Global Leadership Forum (GLF), which included EXCO and the senior leaders of the Bank. The day was aimed at exploring new ways for the team to collaborate more closely to ensure that the Bank delivers the Group Balanced Scorecard. The outcome of the event was an agreement that our one objective is to deliver One Bank to our clients and our customers.

People are the human capital at the heart of the Bank – our most valuable asset.

**Global Leadership Forum is one of the Bank's most successful internal events in 2015**

**In 2015 a new e-Learning portal was launched**



> **The Bank has always been a strong supporter of the UAE's Emiratisation Programme and, in 2015, the total number of Emiratis rose to 1,399.**

## Education

In 2015 a new e-Learning portal was launched, giving all employees the ability to read, study and learn about some of the most important issues in the banking sector. These include some of the most critical issues within the banking industry, such as money laundering and security.

## Professional Banker Programme

Launched in 2014, the Professional Banker Programme entered its second successful year in 2015, putting selected candidates on a path towards a first-class career in the banking industry. In 2015, an additional 167 staff entered the programme.

## Engaging as a Leader Programme

A new initiative for 2015 was the creation of a leadership programme aimed at teaching Managers how to engage with and communicate with staff in order to build positive employee communications and achieve greater productivity. Throughout the year, 59 sessions were held, which were attended by 733 Managers.

## Bring Your Heart to Work

The Bring Your Heart to work Programme, which supports customer excellence at all staff levels, entered its second year. A total of 2,124 employees attended a total of 12 sessions in 2015, which were held at Yas Marina Circuit.

**Launched in 2014, the Professional Banker Programme entered its second successful year in 2015**

**A new initiative for 2015 was the creation of a leadership programme aimed at managers.**

# Citizenship & Corporate Sustainability

Throughout 2015, and we believe for the foreseeable future, environmental and climate change-related issues will continue to dominate the sustainability agenda of many companies in North America and Europe. Local enterprises in Latin America, the Middle East, Africa and Asia will strive for a greater balance between environmental and social aspects.

**NBAD was awarded the CSR Label by the Dubai Chamber, for the fourth consecutive year**

**NBAD remained in the top 10 S&P Hawkamah ESG Pan Arab Index, for the fifth consecutive year**

**Best Sustainability Report 2014 at the Abu Dhabi Sustainability Group (ADSG) Leadership Awards**

NBAD is recognised as regional leader in sustainability and, together with other national and regional companies, we believe that it is imperative for us to address sustainability challenges in our own way. We need to adopt innovative models that differ from the standard approaches of Western companies and multinational corporations to ensure we focus on the issues that, whilst having global significance, are regionally relevant and can be addressed locally.

Significantly, in 2015 we launched a strategic approach to citizenship to take on what we consider to be two of the most pressing issues where we believe we can make an effective contribution.

From an environmental perspective, we are taking a leading role in new energy solutions by exploring and understanding how the financial sector can help shape a more sustainable future. We believe that Abu Dhabi has the potential to become the global centre of energy, transitioning from traditional oil and gas to renewables and energy efficiency.

In response to this, we launched our research report, Financing the Future of Energy, in March 2015. Since then, we have established a Sustainable Business practice to identify and drive funding towards renewable energy and energy efficiency projects, and in October the Bank became a signatory to the Equator Principles, the first UAE bank to do so.

Looking at the social and economic aspects of sustainability, we considered the declining capacity in the public sector to continue to be a viable employer in the long term and the urgency and growing need to develop a thriving and prosperous SME sector in the UAE. We know that job creation supports economic growth and contributes to the diversification and resilience of the economy. As part of that, we have committed to supporting the growth of the UAE SME sector because we believe that SMEs are powerful engines of wealth generation and sustainable livelihoods.


The two key challenges that SMEs face are access to capital, and having the right business skills. In September 2015 we launched the pilot programme of the SME Academy.  Since its launch, more than 100 SMEs in the UAE have benefitted from essential skills training, such as corporate governance, being bankable and basic accountancy.

Throughout 2015, we achieved a number of successes, particularly when we look at how we keep our own house in order through our sustainability performance. For the fourth consecutive year, NBAD was awarded the CSR Label by the Dubai Chamber. This award recognises the Bank's performance in CSR (Corporate Sustainable Reporting). In addition, in KPMG's survey on sustainability reporting in the UAE and Oman, NBAD was identified as one of the leaders in sustainability reporting. KPMG's report was launched globally at COP21 (United Nations conference on climate change in Paris).

When ranked against banks in the US, the UK and the Middle East, our CDP (formerly Carbon Disclosure Project) submissions from 2013-2015 places NBAD as a leader in the region. We are the only bank in the region to have transparently reported our carbon disclosure in 2014 and 2015, and we aim to improve our performance over the next three  years in order to be on par with international levels.

For the fifth consecutive year, the Bank remained in the top 10 S&P Hawkamah ESG Pan-Arab Index, which ranks and tracks the performance, transparency and disclosure of regional companies on Environmental, Social and Corporate Governance  practices as indicated by the index criteria.

**Recognised as one of the safest banks globally, and as the leading local bank, we are able to take capital from today and use it  effectively for the good of tomorrow. In this way we will ensure that we are responding to the challenges of climate change and supporting the active growth of entrepreneurship with localised, nationally focused sustainability models.**

To find out more go to
**www.nbad.com**

# Risk Management

Risk management is, and has always been, one of the Bank's most important functions.

Risk management is, and has always been, one of the Bank's most important functions. It is central to our ability to deliver on our strategic objectives, crucial in our ability to maintain our status as one of the world's safest banks and absolutely critical to delivering shareholder value.

## 2015 Risk Review

During a climate of low oil prices and slowing global GDP growth, which impacts credit quality, the Bank tightened its criteria in 2015 and took a more conservative approach to the energy, real estate, lending against shares and commodities sectors. The year also saw enhanced restructuring, recovery and more conservative underwriting standards. A number of new technologies and processes were introduced, enabling the Bank to automate and streamline risk governance further.

## Our Risk Management Objectives

At a strategic level, our risk management objectives are to:

- To be guided by our risk appetite, which is the aggregate level and types of risk the Group is willing to accept or to avoid in order to achieve its business objectives
- Identify, assess, control, report and manage all material risks to ensure that our risk profile remains within our risk appetite at all times
- Enable and empower business divisions to identify, interpret, discuss and make choices and decisions between risk and opportunities, however, at the same time establish strong and independent review and challenge structures
- Ensure that business growth plans are properly supported by effective risk infrastructure
- Continuously strive to institutionalise the belief that risk management is the responsibility of every employee within the group
- Foster a high performance culture that continually focuses on strengthening the risk capabilities of our people

## Robust Governance and Three Lines of Defence Model

Our robust risk governance structure is the foundation of our risk management framework.

- At the apex sits the Board, which has the overall responsibility for the establishment and oversight of the Group's Risk Management framework
- The Risk Management Committee of the Board (RMC) is responsible for approving the risk appetite and ensuring that the Group's risk profile remains within its risk appetite at all times. The Group Chief Risk Officer regularly presents reports to the RMC summarising developments in the risk environment, alignment of business strategy with risk appetite and performance trends in the key portfolios. The RMC oversees the management of the most significant risks through the regular review of risk exposures and related key controls
- The RMC is assisted by two Management Level Committees – the Group Risk Committee (GRC), and the Group Assets and Liability Committee (G-ALCO). The former reviews and recommends the risk appetite to the RMC and also ensures effective management of credit, market, operational risk, business continuity and reputational risk. The latter reviews and is accountable to the RMC for the Bank's balance sheet structure and quality, management of liquidity and funding plans

**NBAD has been ranked consecutively as one of the World's 50 Safest Banks by Global Banking magazine**

**NBAD's Cost of Risk and NPL Ratio are one of the lowest among its peer group**

**Developed and implemented early warning system for timely identification and remediation of problem credits**

## Our risk culture is fundamental to the delivery of our strategic objectives.

The Group follows a 'three lines of defence' model, which is central to our risk management framework.

- First line: business divisions, at the first line of defence, identify and manage risk in their day-to-day activities by ensuring that activities are within the Group's risk appetite and in compliance with all relevant internal policies and processes.
- Second line: Risk Group (comprising head office risk and risk functions embedded in business divisions), and Legal and Compliance division, as the second line of defence, establish risk controls comprising policies, frameworks, processes and analytical tools, whilst also providing oversight and independent to the First Line.
- Third line: Internal audit forms the Third Line of Defence, providing independent assurance to senior management and the Board over the design and operation of NBAD's risk management, governance and controls.

### Risk Culture

Our risk culture is fundamental to the delivery of our strategic objectives. For us, risk culture is defined by the norms for behaviour within the Bank that determine the collective ability to identify and understand, openly discuss and act on NBAD's current and future risks. Certain key elements of risk culture that are embedded across the Group include:

- Institutionalising risk appetite: in addition to setting risk appetite at the Group level, we seek to institutionalise risk appetite at business division level by way of divisional risk appetite and underwriting standards which is further cascaded to sectors and country risk limits
- Communication: we encourage information sharing and engagement between the Risk Group and business divisions, leading to enhanced risk transparency and effective communication. We promote a culture where concerns regarding potential or emerging risks are escalated to Senior Management so that they can be evaluated and appropriately addressed
- Reward and recognition: we reward and recognise people to reinforce actions that are aligned with prudent risk-taking and appropriate use of capital. We also remain mindful that our compensation practices do not encourage excessive risk-taking. Individual awards are based on compliance with NBAD's values and the achievement of financial and non-financial objectives, which are aligned to our risk appetite and global strategy

### Risk skills enhancement

Our risk skills enhancement programmes aim to foster a deep understanding of NBAD's capital and risk management frameworks across the Group.  We partner with the NBAD Academy, risk experts – both internal and external – teaching professionals and educational service providers to develop and deliver bespoke training programmes for all levels of people across the Group. Our Professional Banker programme is a step in that direction.

### Recognition and 2015 milestones

Over many years the Bank has been recognised for its disciplined approach to risk management and in 2015 the Bank implemented a number of new initiatives:

- NBAD enjoys one of the strongest combined ratings of any Middle Eastern financial institution
- Since 2009, NBAD has been ranked consecutively as one of the World's 50 Safest Banks by Global Banking magazine
- NBAD's Cost of Risk and NPL Ratio are one of the lowest among its peer group
- Developed and implemented Early warning system for timely identification and remediation of problem credits
- Introduced credit workflow efficiency resulting in improved turnaround time and built out collections capability (Retail Banking)
- Introduced scorecard automation for Personal and Auto Loans
- Roll-out of Enterprise Data Warehouse (EDW) to major international locations with substantially improved reporting capability
- Online limit integration between different platforms, allowing real time view of limits and exposures
- Centralisation of middle office for Wholesale Bilateral, Financial Markets, Commercial, ADNIF, retail mortgages and credit card; created daily Relationship Manager dashboards
- Setting up an analytics centre of excellence in Mumbai

The Bank's risk management approach has served it well over the years and we have every reason to feel positive and confident that with continued development in analytics, risk policies and framework and risk infrastructure, we will continue to play a key role in ensuring that NBAD continues to be one of the safest banks in the world.

To find out more go to
**www.nbad.com**

# Corporate Governance

NBAD is committed to doing business in an ethical and sustainable way – both in the UAE and around the world.

**NBAD Guiding Principles of Corporate Governance and Corporate Governance Framework**


> The Board of NBAD has overall responsibility for directing the Group's affairs, to create and preserve value through the Group's operations, and to consider the shareholders and other stakeholders' interests.

**The corporate governance culture of NBAD is driven by:**

- The responsibility and leadership of the Board to direct the Group's affairs and set its objectives
- The selection of productive strategies and management of risk
- The appropriate delegation and monitoring of power and accountability to management
- Acting as a sounding board and adviser to the Group Chief Executive
- Satisfying the interests of stakeholders through transparent and material disclosures
- Ensuring compliance with all regulatory obligations
- Engaging with the community

## Board of Directors

NBAD's Board of Directors consists of 11 Board Members. 6 of the 11 Directors, including the Chairman of the Board, are nominees of the Abu Dhabi Government and five Directors are elected by the minority shareholders at the shareholders' General Assembly.

All Directors are non-Executive and two of those elected by minority shareholders are considered to be independent, according to criteria set out by the Securities & Commodities Authority (SCA).

The composition of the Board satisfies the generally acceptable corporate governance practice relating to the separation of Chairman and Group Chief Executive and the majority membership of non-Executive Directors.

The Board of NBAD has overall responsibility for directing the Group's affairs, to create and preserve value through the Group's operations, and to consider the shareholders and other stakeholders' interests. It has documented its roles and responsibilities in a Board Charter and associated policies.

The Board is responsible for making delegations to the management, including the definition, scope, frequency and nature of powers. Aside from certain authorities and powers reserved by the Board for its own decision-making, the Group Chief Executive is delegated full responsibility for the management, operations and compliance of NBAD. To satisfy its oversight role, the Board has defined a clear control structure, which monitors the management activities, in addition to creating supporting controls and reporting structures both internal and external to the firm. The delegation and control structure is also subject to compliance with and oversight by regulators and third parties, including the Central Bank of the UAE and the Securities & Commodities Authority of the UAE and regulators in jurisdictions where NBAD operates.

The Board has mandated Codes of Conduct, which apply to Directors, employees and subsidiaries of NBAD. The codes encourage appropriate behaviour, define inappropriate behaviour and the process and outcomes for the identification and reporting of such behaviour.

Consistent with NBAD's approach to employing high standards for transparency and disclosure for the benefit of shareholders and other stakeholders, NBAD publishes a wide range of reports containing financial and non-financial data through the Investor Relations department, in addition to disclosures required for regulatory purposes.

NBAD has established a number of functions committed to engagement and communication with external stakeholders. These include investor relations, sustainability, Company Secretariat and corporate communications. In addition, internal transparency and disclosure is considered from operational, ethical and regulatory perspectives, ensuring that staff are aware of NBAD developments, strategies, risks and their personal responsibilities and duties, whilst protecting customer and personal data confidentiality, sensitive information and confidential commercial information.

Shareholder rights and interests include reserved powers in the UAE Commercial Companies Law and NBAD Articles of Association and are supported by the duty of the Board to act in the interest of the Company. NBAD acknowledges that there are diverse interests within the shareholder base and that the Board considers such interests when determining the objectives and strategies for the Group.

To ensure that the Board can devote the maximum time possible to strategies, risk management, financial reporting, internal controls, succession and talent nominations, these are delegated to five Board Sub-committees as follows:

1. Risk Management Committee
2. Audit Committee
3. Human Resources Committee
4. Corporate Governance and Nominations Committee
5. Strategy and Transformation Committee

Each of these committees remains an integral part of the Board and its members are Directors of the Board. The remit of these Committees is to consider topics in greater detail, to manage conflicts of interest, to satisfy regulatory requirements, give leadership, satisfy the interests of shareholders and provide management oversight to ensure the proper governance of the Group.

The Terms of References, Mandates and Charters of these Committees are reviewed on a yearly basis, to align more closely with the changing structure of the Group.


## Regulatory Compliance

NBAD is regulated by the Central Bank of the UAE and is therefore required to comply with Central Bank regulations, circulars and notices issued from time to time. In addition, NBAD is required to comply with all applicable laws and regulations of the UAE, including without limitation, the UAE Commercial Companies Law, rules and standards established by the Securities and Commodities Authority (SCA) of the UAE and the NBAD Articles of Association. It is also mandated to comply with all international regulations in all jurisdictions where the Bank operates.

Senior management has the responsibility to ensure compliance with applicable laws and regulations and report on such matters to the Board. The Board provides guidance and oversight in terms of risk appetite, significant compliance and risk strategies and dealing with compliance and risk outcomes.

## Risk and Control Framework

The Board of Directors has approved and implemented an extensive internal control system, which includes:

- Control environment and codes of conduct for the Board and employees
- Risk management
- Control functions
- Management information systems
- Monitoring security and prevention systems

The significant functions that firm the control system include internal audit, risk, legal and compliance and Company Secretariat.

NBAD has implemented a comprehensive set of policies for the prevention and detection of fraud, corruption, bribery, money laundering and other criminal and civil offences. NBAD has an over arching Whistleblowing Policy, which incorporates independent reporting channels, confidentiality and sensitivity, investigation powers, escalations reporting, re-integration of findings into the operational and control framework and regulatory co-operation.

## Recognition, Achievements, Training and Evaluation

For the fifth consecutive year, NBAD has been classified amongst the Top 10 in the S&P Hawkamah ESG Pan-Arab Index.

Performance evaluation of the NBAD Board and its committees takes place on an annual basis, forming a key component of the Bank's Corporate Governance Framework.

Latest update on financial crime, anti-money laundering and sanctions regulations, in addition to the new UAE Companies Law No (2) of 2015, were presented to the Board of Directors.

## 2015 Strategic Actions

- The Annual General Assembly was conducted on 10 March 2015 where the Board was re-elected; and
- An operating model for Corporate Governance and Compliance was developed to include regulations, policies and procedures, systems and training materials in line with the Central Bank of UAE, Securities and Commodities Authority and international best practices.

## 2016 Strategic Actions

- Training sessions and induction to the Board Members on local and International Corporate Governance best practices
- The Board Self-Assessment will be conducted out by a third party independent consultant
- To run a complete update and improvement of the Corporate Governance and Compliance Framework across the Group
- Hawkamah Award submission

To find out more go to
**www.nbad.com**

# Shareholders' Information

## Major Shareholders

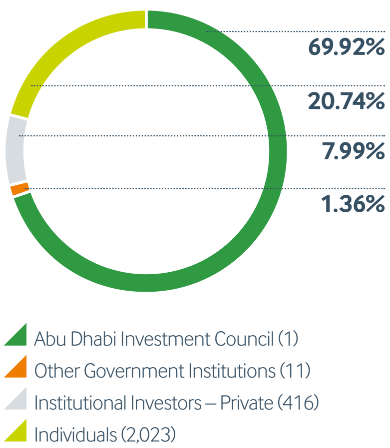
Shareholders holding more than 5% of NBAD shares as at 31 December 2015

**ADIC**
**69.92%**[1]

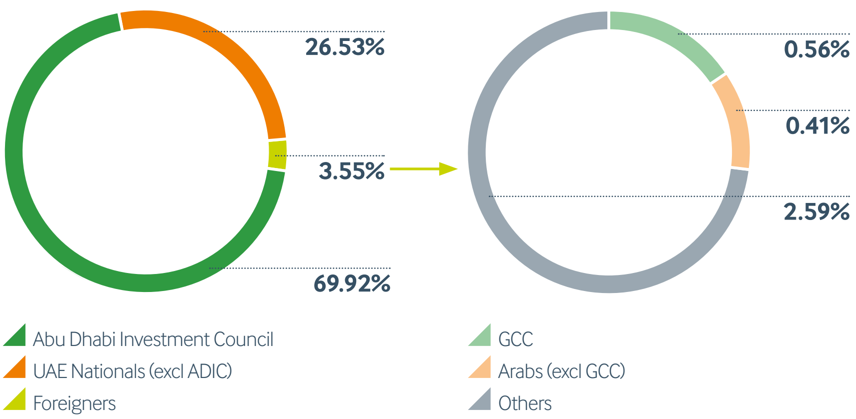
## NBAD vs ADX (indexed performance since 2005)

Source: Bloomberg, ADX


## NBAD Shareholding[1] by Category




## NBAD Shareholding[1] by Nationality




[(1)] Foreign ownership is restricted to 25% of the total shares listed on the exchange. As of 31 December 2015, foreign ownership in NBAD shares amounted to 3.55% (31 Dec 2014 – 3.35%).

| Description | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Return to shareholders: | | | | | |
| • Capital Gains[2] | 11.7% | 27.1% | 48.4% | 10.8% | -37.5% |
| • Cash Dividend Yield[3,6] | 2.7% | 3.4% | 2.9% | 2.9% | 5.0% |
| Stock Dividends (Bonus shares)[4] | 35% | 10% | 10% | 10% | 0% |
| Cash Dividend (AED/share) | 0.30 | 0.35 | 0.40 | 0.40 | 0.40 |
| Cash Dividend Payout | 23.2% | 31.4% | 36.2% | 33.9% | 39.8% |
| Market Capitalisation (AEDmn)[3] | 31,427 | 39,908 | 49,471 | 60,291 | 41,469 |
| Number of shares issued (AEDmn) | 2,870 | 3,875 | 4,306 | 4,736 | 5,210 |
| P/E Ratio (on Basic EPS) | 9.0 | 9.7 | 13.2 | 12.3 | 8.2 |
| P/B Ratio | 1.4 | 1.5 | 1.9 | 1.9 | 1.1 |
| Share Price[5]: (AED/share) | | | | | |
| • High | 6.62 | 7.81 | 11.57 | 15.68 | 12.73 |
| • Low | 5.06 | 5.79 | 7.74 | 9.14 | 7.65 |
| • Closing | 6.09 | 7.74 | 11.49 | 12.73 | 7.96 |
| • Daily Average Volume (shares) | 320,169 | 399,553 | 646,533 | 948,979 | 625,168 |
| Relative Returns (capital gains): | | | | | |
| • NBAD vs ADX return | 23.4% | 17.6% | -14.6% | 5.2% | -32.6% |
| • NBAD vs ADX Banks' return | 11.9% | 9.3% | -19.6% | -3.3% | -20.2% |

1 Based on total outstanding number of shares (Issued less treasury shares)
2 Percentage change in price during the year (closing price – opening price)
3 Based on unadjusted closing price
4 Shown as a percentage of face value
5 Shares prices adjusted for bonus shares issuances
6 Cash Dividends for 2015 are proposed and subject to approval by the shareholders at the Annual General Assembly

Sources: Bloomberg, ADX, NBAD Financials

To find out more go to
**www.nbad.com**

# Key Financials

| Income Statement – Summary | Quarterly – 2015 | | | | Annual | |
|---|---|---|---|---|---|---|
| (in AED million) | Q1 | Q2 | Q3 | Q4 | 2014 | 2015 |
| Net interest income (incl net income from Islamic financing) | 1,789 | 1,840 | 1,834 | 1,844 | 7,018 | 7,307 |
| Non-interest income | 894 | 878 | 763 | 713 | 3,397 | 3,249 |
| **Total Revenues** | **2,684** | **2,718** | **2,597** | **2,557** | **10,415** | **10,556** |
| UAE | 2,162 | 2,140 | 2,059 | 1,996 | 8,441 | 8,357 |
| Gulf & International | 521 | 578 | 538 | 561 | 1,973 | 2,199 |
| Operating expenses | (1,014) | (1,012) | (1,017) | (1,039) | (3,696) | (4,083) |
| **Operating Profits** | 1,670 | 1,706 | 1,580 | 1,518 | 6,719 | 6,473 |
| Impairment charges, net | (170) | (166) | (171) | (436) | (868) | (943) |
| Taxes | (76) | (93) | (82) | (46) | (272) | (298) |
| **Net Profit** | **1,423** | **1,446** | **1,326** | **1,036** | **5,579** | **5,232** |

| Revenues by Business | Quarterly | | | | Annual | |
|---|---|---|---|---|---|---|
| (in AED million) | Q1 | Q2 | Q3 | Q4 | 2014 | 2015 |
| Global Wholesale (GWB) | 1,358 | 1,254 | 1,277 | 1,233 | 5,388 | 5,122 |
| Global Retail & Commercial (GRC) | 949 | 1,032 | 1,020 | 1,120 | 3,637 | 4,121 |
| Global Wealth (GW) | 255 | 296 | 253 | 247 | 1,100 | 1,050 |
| Head Office (HO) | 122 | 136 | 47 | (43) | 290 | 262 |
| **Total Revenues** | **2,684** | **2,718** | **2,597** | **2,557** | **10,415** | **10,556** |

Note: During the period, the Group has changed the basis of allocation around centrally held profit & losses and other inter-segmental allocations, resulting in a restatement of comparative segmental information

| Key Ratios | Quarterly – 2015 | | | | Annual | |
|---|---|---|---|---|---|---|
| (in AED million) | Q1 | Q2 | Q3 | Q4 | 2014 | 2015 |
| Return on Equity | 15.1% | 14.6% | 12.7% | 9.7% | 15.4% | 12.9% |
| Return on Shareholders' Funds [1] | 16.5% | 16.5% | 14.3% | 10.8% | 16.8% | 14.3% |
| Cost-Income ratio | 37.8% | 37.2% | 39.2% | 40.6% | 35.5% | 38.7% |
| Net Interest Margin[2] (YTD) | 1.97% | 1.98% | 1.99% | 1.97% | 1.95% | 1.97% |
| Return on Risk-Weighted Assets | 2.23% | 2.19% | 1.96% | 1.51% | 2.39% | 1.99% |
| Tier-I ratio (YTD) | 14.3% | 15.4% | 15.6% | 15.7% | 15.0% | 15.7% |
| Capital Adequacy ratio (YTD) | 15.5% | 16.6% | 16.5% | 16.7% | 16.4% | 16.7% |

1 Excluding Tier-I capital notes and interest thereof
2 Annualised; based on daily average of performing assets
YTD = year-to-date basis

**Balance Sheet - Summary**

| (in AED million) | Dec-14 | Mar-15 | Jun-15 | Sep-15 | Dec-15 |
|---|---|---|---|---|---|
| Assets | 376.1 | 400.3 | 392.6 | 404.7 | 406.6 |
| Customer Loans | 194.3 | 200.2 | 217.9 | 212.1 | 205.9 |
| Customer Accounts & other deposits | 243.2 | 249.8 | 230.1 | 235.0 | 233.8 |
| CASA (deposits) | 68.3 | 69.6 | 71.5 | 71.0 | 71.3 |
| Equity | 38.0 | 37.6 | 41.6 | 42.0 | 43.2 |
| Contingencies (Trade & Market) | 1,223 | 1,154 | 1,306 | 1,339 | 1,291 |

– Trade contingencies are defined as LCs & LGs; Market contingencies reflect nominal value of FX contracts & derivatives
– Equity includes Tier-1 capital notes

To find out more go to
**www.nbad.com**

NBAD

# Consolidated Financial Statements

31 December 2015

# Consolidated financial statements

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KPMG Lower Gulf Limited
Abu Dhabi Branch
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Abu Dhabi
United Arab Emirates

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Website www.ae-kpmg.com

## Independent Auditor's Report

The Shareholders
National Bank of Abu Dhabi PJSC

### Report on the Consolidated Financial Statements

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

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion*

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

KPMG

## Report on Other Legal and Regulatory Requirements

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

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

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

iii) the Group has maintained proper books of account;

iv) the financial information included in the Chairman's report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;

v) investments in shares are included in note 8 and 12 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2015;

vi) note 40 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;

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

viii) note 34 to the consolidated financial statements discloses the social contributions made during the year.

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

KPMG

KPMG
27 January 2016
Munther Dajani
Registered Auditor Number: 268
Abu Dhabi, United Arab Emirates

# Consolidated statement of financial position

*As at 31 December*

| | Note | 2015 AED'000 | 2014 AED'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with central banks | 7 | 76,382,109 | 55,452,341 |
| Investments at fair value through profit or loss | 8 | 12,291,138 | 15,425,662 |
| Due from banks and financial institutions | 9 | 10,891,768 | 11,134,262 |
| Reverse repurchase agreements | 10 | 13,330,186 | 15,844,377 |
| Derivative financial instruments | 39 | 10,574,091 | 7,422,828 |
| Loans and advances | 11 | 205,913,553 | 194,279,352 |
| Non-trading investments | 12 | 63,794,151 | 67,493,122 |
| Other assets | 13 | 10,550,483 | 6,370,981 |
| Investment properties | 14 | 190,546 | 177,533 |
| Property and equipment | 15 | 2,645,782 | 2,498,254 |
| **Total assets** | | 406,563,807 | 376,098,712 |
| **Liabilities** | | | |
| Due to banks and financial institutions | 16 | 42,808,215 | 36,679,504 |
| Repurchase agreements | 17 | 30,550,652 | 13,875,917 |
| Euro commercial paper | 18 | 8,720,597 | 5,484,176 |
| Derivative financial instruments | 39 | 12,852,358 | 10,953,124 |
| Customer accounts and other deposits | 19 | 233,814,558 | 243,184,652 |
| Term borrowings | 20 | 17,740,968 | 14,998,716 |
| Other liabilities | 21 | 15,582,508 | 11,442,600 |
| | | 362,069,856 | 336,618,689 |
| Subordinated notes | 22 | 1,275,298 | 1,516,641 |
| **Total liabilities** | | 363,345,154 | 338,135,330 |
| **Equity** | | | |
| Share capital | 23 | 5,198,640 | 4,723,172 |
| Share premium | 25 | 265,245 | 245,473 |
| Statutory and special reserves | 23 | 5,209,722 | 4,736,112 |
| Other reserves | 23 | 18,628,226 | 17,387,121 |
| Tier 1 capital notes | 24 | 6,754,750 | 4,000,000 |
| Share option scheme | 25 | 190,232 | 151,427 |
| Convertible notes - equity component | 20 | 108,265 | 108,265 |
| Retained earnings | | 6,863,573 | 6,611,812 |
| **Total equity** | | 43,218,653 | 37,963,382 |
| **Total liabilities and equity** | | 406,563,807 | 376,098,712 |

| | | |
|---|---|---|
| Nasser Ahmed Khalifa Alsowaidi | Alex Thursby | James Burdett |
| *Chairman* | *Group Chief Executive* | *Group Chief Financial Officer* |

The notes 1 to 45 are an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 2 and 3.

# Consolidated statement of profit or loss

*For the year ended 31 December*

| | Note | 2015 AED'000 | 2014 AED'000 |
|---|---|---|---|
| Interest income | 26 | 8,965,129 | 8,634,612 |
| Interest expense | 27 | (2,021,044) | (1,935,649) |
| **Net interest income** | | 6,944,085 | 6,698,963 |
| Income from Islamic financing contracts | 28 | 385,625 | 336,892 |
| Depositors' share of profits | 29 | (22,632) | (17,837) |
| **Net income from Islamic financing contracts** | | 362,993 | 319,055 |
| **Net interest and Islamic financing income** | | 7,307,078 | 7,018,018 |
| Fee and commission income | | 2,994,548 | 3,002,520 |
| Fee and commission expense | | (888,306) | (691,928) |
| **Net fee and commission income** | 30 | 2,106,242 | 2,310,592 |
| Net foreign exchange gain | 31 | 817,587 | 196,085 |
| Net gain on investments and derivatives | 32 | 254,189 | 764,402 |
| Other operating income | 33 | 70,754 | 125,620 |
| | | 1,142,530 | 1,086,107 |
| **Operating income** | | 10,555,850 | 10,414,717 |
| General, administration and other operating expenses | 34 | (4,082,919) | (3,696,033) |
| **Profit before net impairment charge and taxation** | | 6,472,931 | 6,718,684 |
| Net impairment charge | 35 | (942,971) | (868,127) |
| **Profit before taxation** | | 5,529,960 | 5,850,557 |
| Overseas income tax expense | 36 | (298,143) | (271,688) |
| **Net profit for the year** | | 5,231,817 | 5,578,869 |
| **Basic earnings per share (AED)** | 42 | 0.97 | 1.04 |
| **Diluted earnings per share (AED)** | 42 | 0.95 | 1.02 |

The notes 1 to 45 are an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 2 and 3.

# Consolidated statement of other comprehensive income

*For the year ended 31 December*

| | Note | 2015 AED'000 | 2014 AED'000 |
|---|---|---|---|
| **Net profit for the year** | | **5,231,817** | 5,578,869 |
| ***Other comprehensive income*** | | | |
| *Items that are or may subsequently be reclassified to consolidated statement of profit or loss* | | | |
| Exchange difference on translation of foreign operations | | **(20,736)** | (22,730) |
| Cash flow hedges: | | | |
| Effective portion of cash flow hedges | 23 | **(38,237)** | (42,584) |
| Fair value reserve: | | | |
| Net change in fair value during the year | 23 | **17,013** | 380,315 |
| Net cumulative amount transferred to profit or loss | 23 | **(635,645)** | (835,852) |
| *Items that will not subsequently be reclassified to consolidated statement of profit or loss* | | | |
| Re-measurement of defined benefit obligations | | **(5,033)** | (7,707) |
| Other comprehensive income for the year | | **(682,638)** | (528,558) |
| **Total comprehensive income for the year** | | **4,549,179** | 5,050,311 |

The notes 1 to 45 are an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 2 and 3.

# Consolidated statement of changes in equity

*For the year ended 31 December*

| | Share capital AED'000 | Share Premium AED'000 | Statutory reserve AED'000 | Special reserve AED'000 | General reserve AED'000 | Tier 1 capital notes AED'000 | Share option scheme AED'000 | Fair value reserve AED'000 | Foreign currency translation reserve AED'000 | Convertible notes - equity component AED'000 | Retained earnings AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2014** | **4,280,470** | **143,608** | **2,152,778** | **2,152,778** | **15,202,544** | **4,000,000** | **107,682** | **823,053** | **(89,413)** | **108,265** | **5,789,626** | **34,671,391** |
| Total comprehensive income for the year | - | - | - | - | - | - | - | (498,121) | (22,730) | - | 5,571,162 | **5,050,311** |
| ***Transactions with owners of the Group*** | | | | | | | | | | | | |
| Zakat | - | - | - | - | - | - | - | - | - | - | (18,077) | **(18,077)** |
| Share options exercised | 14,490 | 101,865 | - | - | - | - | - | - | - | - | - | **116,355** |
| Treasury shares adjustment | (2,344) | - | - | - | 2,344 | - | - | - | - | - | - | **-** |
| Bonus shares issued *(note 23)* | 430,556 | - | - | - | (430,556) | - | - | - | - | | | **-** |
| Dividends paid for 2014 *(note 23)* | - | - | - | - | - | - | - | - | - | - | (1,712,848) | **(1,712,848)** |
| Transfer to general reserve *(note 23)* | - | - | - | - | 2,400,000 | - | - | - | - | - | (2,400,000) | **-** |
| Options granted to staff *(note 25)* | - | - | - | - | - | - | 43,745 | - | - | - | - | **43,745** |
| Payment on Tier 1 capital notes *(note 24)* | - | - | - | - | - | - | - | - | - | - | (187,495) | **(187,495)** |
| Transfer to statutory / special reserve *(note 23)* | - | - | 215,278 | 215,278 | - | - | - | - | - | - | (430,556) | **-** |
| **Balance at 31 December 2014** | **4,723,172** | **245,473** | **2,368,056** | **2,368,056** | **17,174,332** | **4,000,000** | **151,427** | **324,932** | **(112,143)** | **108,265** | **6,611,812** | **37,963,382** |
| Total comprehensive income for the year | - | - | - | - | - | - | - | (656,869) | (20,736) | - | 5,226,784 | **4,549,179** |
| ***Transactions with owners of the Group*** | | | | | | | | | | | | |
| Zakat | - | - | - | - | - | - | - | - | - | - | (10,255) | **(10,255)** |
| Share options exercised | 2,976 | 19,772 | - | - | - | - | - | - | - | - | - | **22,748** |
| Treasury shares adjustment | (1,119) | - | - | - | 1,119 | - | - | - | - | - | - | **-** |
| Bonus shares issued *(note 23)* | 473,611 | - | - | - | (473,611) | - | - | - | - | | - | **-** |
| Dividends paid for 2014 *(note 23)* | - | - | - | - | - | - | - | - | - | - | (1,889,971) | **(1,889,971)** |
| Transfer to general reserve *(note 23)* | - | - | - | - | 2,400,000 | - | - | - | - | - | (2,400,000) | **-** |
| Options granted to staff *(note 25)* | - | - | - | - | - | - | 38,805 | - | - | - | - | **38,805** |
| Issuance of Tier 1 capital notes (note 24) | - | - | - | - | - | 2,754,750 | - | - | - | - | - | **2,754,750** |
| Costs on issue of Tier 1 capital notes | - | - | - | - | (8,798) | - | - | - | - | - | - | **(8,798)** |
| Payment on Tier 1 capital notes *(note 24)* | - | - | - | - | - | - | - | - | - | - | (201,187) | **(201,187)** |
| Transfer to statutory / special reserve *(note 23)* | - | - | 236,805 | 236,805 | - | - | - | - | - | - | (473,610) | **-** |
| **Balance at 31 December 2015** | **5,198,640** | **265,245** | **2,604,861** | **2,604,861** | **19,093,042** | **6,754,750** | **190,232** | **(331,937)** | **(132,879)** | **108,265** | **6,863,573** | **43,218,653** |

The notes 1 to 45 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 2 and 3.

# Consolidated statement of cash flows

*For the year ended 31 December*

| | Note | 2015 AED'000 | 2014 AED'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | | **5,529,960** | 5,850,557 |
| *Adjustments for:* | | | |
| Depreciation | 34 | **230,959** | 223,024 |
| Accreted interest | | **82,756** | 52,762 |
| Gain on sale of non-trading investments | 32 | **(635,645)** | (835,852) |
| Loss on buy back of subordinated notes | 22 | **148** | - |
| Gain on sale of investment properties | 33 | **-** | (56,353) |
| Net impairment charges | 35 | **1,363,412** | 1,348,655 |
| Foreign currency translation adjustment | | **(462,750)** | (394,009) |
| Share option scheme | | **38,805** | 43,745 |
| | | **6,147,645** | 6,232,529 |
| Change in investments at fair value through profit or loss | | **3,134,513** | (12,779,769) |
| Change in due from central banks, banks and financial institutions | | **124,732** | 6,215,625 |
| Change in reverse repurchase agreements | | **2,514,191** | 3,087,822 |
| Change in loans and advances | | **(13,004,150)** | (11,970,294) |
| Change in other assets | | **(4,168,689)** | (1,436,820) |
| Change in due to banks and financial institutions | | **6,128,711** | 919,122 |
| Change in repurchase agreements | | **16,674,735** | 12,523,796 |
| Change in Customer accounts and other deposits | | **(9,373,701)** | 32,084,777 |
| Change in derivative financial instruments | | **(810,147)** | 2,377,937 |
| Change in other liabilities | | **4,111,163** | 3,636,828 |
| | | **11,479,003** | 40,891,553 |
| Overseas income tax paid, net of recoveries | | **(295,499)** | (252,399) |
| **Net cash from operating activities** | | **11,183,504** | 40,639,154 |
| **Cash flows from investing activities** | | | |
| Purchase of non-trading investments | | **(51,186,794)** | (75,911,467) |
| Proceeds from sale / maturity of non-trading investments | | **54,902,778** | 59,644,718 |
| Proceeds from sale of investment properties | | **-** | 165,785 |
| Purchase of property and equipment, net of disposals | | **(395,800)** | (279,210) |
| **Net cash from / (used in) investing activities** | | **3,320,184** | (16,380,174) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares under share option scheme | 25 | **22,748** | 116,355 |
| Net movement of Euro commercial paper | | **3,236,421** | (1,267,839) |
| Issue of term borrowings | | **5,798,757** | 1,330,441 |
| Repayment of term borrowings | | **(3,279,464)** | (4,896,791) |
| Net proceeds from issue of Tier 1 Capital Notes | | **2,745,952** | - |
| Buy back of subordinated notes | | **(124,938)** | - |
| Dividends paid | 23 | **(1,889,971)** | (1,712,848) |
| Payment on Tier 1 capital notes | 24 | **(201,187)** | (187,495) |
| **Net cash from / (used in) financing activities** | | **6,308,318** | (6,618,177) |
| **Net increase in cash and cash equivalents** | | **20,812,006** | 17,640,803 |
| Cash and cash equivalents at 1 January | | **54,126,926** | 36,486,123 |
| **Cash and cash equivalents at 31 December** | 37 | **74,938,932** | 54,126,926 |

The notes 1 to 45 are an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 2 and 3.

Notes to the consolidated financial statements

## 1 Legal status and principal activities

National Bank of Abu Dhabi PJSC (the "Bank") was established in Abu Dhabi in 1968 with limited liability and is registered as a Public Joint Stock Company in accordance with the United Arab Emirates Federal Law No. 8 of 1984 (as amended) relating to Commercial Companies.

Its registered office address is P. O. Box 4, Abu Dhabi, United Arab Emirates. The consolidated financial statements as at and for the year ended 31 December 2015 comprise the Bank and its subsidiaries (together referred to as the "Group"). The Group is primarily engaged in corporate, retail, private and investment banking activities, management services, Islamic banking activities; and carries out its operations through its local and overseas branches, subsidiaries and representative offices located in United Arab Emirates, Bahrain, Egypt, France, Oman, Kuwait, Brazil, Cayman Islands, Sudan, Libya, the United Kingdom, Switzerland, Hong Kong, India, Jordan, Lebanon, Malaysia, China and the United States of America.

The Group's Islamic banking activities are conducted in accordance with Islamic Sharia'a laws issued by the Sharia'a Supervisory Board.

The Bank is listed on the Abu Dhabi Securities Exchange (Ticker: NBAD). The parent company of the Bank is the Abu Dhabi Investment Council, an entity owned by the Government of the Emirate of Abu Dhabi.

These consolidated financial statements were authorised for issue by the Board of Directors on 27 January 2016.

## 2 Basis of preparation

### (a) Statement of compliance

These consolidated financial statements have been prepared on an ongoing basis in accordance with the International Financial Reporting Standards (IFRSs) (which comprises accounting standards issued by international Accounting Standards Board (IASB) as well as Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC)) and the requirements of applicable laws in the UAE.

On 1 April 2015, a new UAE Federal Law No 2 for Commercial Companies ("UAE Companies Law of 2015") was issued with effective date 1 July 2015. As per the transitional provisions of the new law, companies are to ensure compliance by 30 June 2016. The Bank is in the process of adopting the new federal law and will be fully compliant before the transitional provisions deadline.

### (b) Basis of measurement

These consolidated financial statements are prepared under the historical cost basis except for the following:

- investments at fair value through profit or loss are measured at fair value;
- derivative financial instruments are measured at fair value;
- non-trading investments classified as available-for-sale are measured at fair value;
- recognised assets and liabilities designated as hedged items in qualifying hedge relationships are adjusted for changes in fair value attributable to the risk being hedged; and
- non-financial assets acquired in settlement of loans and advances are measured at the lower of their fair value less costs to sell and the carrying amount of the loan and advances.

### (c) Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Bank's functional currency. Items included in the financial statements of each of the Bank's overseas subsidiaries and branches are measured using the currency of the primary economic environment in which they operate. Except as indicated, information presented in AED has been rounded to the nearest thousand.

## 2 Basis of preparation *(continued)*

### (d) Use of estimates and judgements

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in these consolidated financial statements are described in note 5.

## 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities except for the new standards and interpretations that became applicable and were adopted during the year.

***New standards and interpretations adopted***
During the year new standards, amendments to standards and interpretations have become effective for the period and have been applied in preparing these consolidated financial statements. These amendments are listed below:

*(i)* Annual Improvements to IFRSs 2010 - 2012 Cycle

*IFRS 2 Share-based Payment*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions.

*IFRS 3 Business Combinations*
The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39.

*IFRS 8 Operating Segments*
The amendments are applied retrospectively and clarify that an entity must disclose the judgements made by management in applying the aggregation criteria, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are 'similar'. The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities

*IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*
The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment is not applicable as the Group follows the cost model for property and equipment.

## 3 Significant accounting policies *(continued)*

***New standards and interpretations adopted****(continued)*

*IAS 24 Related Party Disclosures*
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

*(ii)* Annual Improvements to IFRSs 2011 - 2013 Cycle

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

*IFRS 3 Business Combinations*
The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that, joint arrangements, not just joint ventures, are outside the scope of IFRS 3 and this scope exception applies only to the accounting in the financial statements of the joint arrangement itself. This amendment is not relevant for the Group and its subsidiaries.

*IFRS 13 Fair Value Measurement*
The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39.

*IAS 40 Investment Property*
The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination.

*(iii)* Amendments to IAS 19 Employee Benefits: clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.

The Group does not have a material impact on adoption of these amendments.

### (a) Basis of consolidation

IFRS 10 governs the basis for consolidation where it establishes a single control model that applies to all entities including special purpose entities or structured entities. The definition of control is such that an investor controls an investee when it is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including:

(a) the investor has power over an investee;
(b) the investor has exposure to, or rights, to variable returns from its involvement with the investee; and
(c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

## 3 Significant accounting policies *(continued)*

### (a) Basis of consolidation *(continued)*

*(i) Subsidiaries*

Subsidiaries are investees that controlled by the Group. The Group controls the investee if it meets the control criteria discussed in note 3(a). The Group reassesses whether it has control if, there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases. These consolidated financial statements of the Group comprise the Bank and its subsidiaries as listed below:

| ***Legal Name*** | ***Country of incorporation*** | ***Principal activities*** | ***Holding % 2015*** |
|---|---|---|---|
| NBAD Americas N.V. (*formerly Abu Dhabi International Bank N.V.)* | Curacao | Banking | 100% |
| NBAD Securities LLC | United Arab Emirates | Brokerage | 100% |
| Abu Dhabi National Leasing LLC | United Arab Emirates | Leasing | 100% |
| Abu Dhabi National Properties PrJC | United Arab Emirates | Property Management | 100% |
| NBAD Trust Company (Jersey) Limited[1] | Channel Islands | Fund Management | 100% |
| NBAD Private Bank (Suisse) SA | Switzerland | Banking | 100% |
| Abu Dhabi National Islamic Finance Pvt.JSC | United Arab Emirates | Islamic Finance | 100% |
| Ample China Holdings Limited | Hong Kong | Leasing | 100% |
| Abu Dhabi Brokerage Egypt | Egypt | Brokerage | 96% |
| National Bank of Abu Dhabi Malaysia Berhad | Malaysia | Banking | 100% |
| NBAD Investment Management (DIFC) Limited[1] | United Arab Emirates | Fund Management | 100% |
| NBAD Employee Share Options Limited | United Arab Emirates | Shares and Securities | 100% |
| SAS 10 Magellan | France | Leasing | 100% |
| NBAD Global Multi-Strategy Fund[1] | Cayman Island | Fund Management | 100% |
| National Bank of Abu Dhabi Representações Ltda | Brazil | Representative office | 100% |
| NBAD Financial Markets (Cayman) Limited | Cayman Islands | Banking | 100% |

[1] *under liquidation*

*(ii) Structured entities*

A structured entity is established by the Group to perform a specific task. Structured entities are designed so that their activities are not governed by way of voting rights. In assessing whether the Group acts as a principal or has power over investees in which it has an interest, the Group considers factors such as the purpose and design of the investee, its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund. Whilst assessing control, the Group reviews all facts and circumstances to determine whether as a fund manager the Group is acting as agent or principal. If deemed to be a principal, the Group controls the fund and would consolidate them else as an agent the Group would account for them as investments in funds.

The Group's interest in investment funds which it manages is set out below:

| **Type of Structured Entity** | **Nature and purpose** | **Interest held by the Group** |
|---|---|---|
| Investment Funds | Generate fees from managing assets on behalf of third-party investors | Investments in units issued by the fund amounting to AED 154,472 thousand *(31 December 2014: AED 579,924 thousand)* |

## 3 Significant accounting policies *(continued)*

### (a) Basis of consolidation *(continued)*

*(iii) Joint Arrangements and Investments in Associates*

An Associate is an investee over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Investment in associates are accounted under the equity method of accounting.

A joint arrangement is an arrangement of between the Group and other parties where the Group along with one or more parties has joint control by virtue of a contractual agreement. Joint arrangement may be a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to and record their respective share of the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement and thus are accounted under the equity method of accounting.

*(iv) Loss of control*

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in consolidated statement of profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value when control is lost.

*(v) Transactions eliminated on consolidation*

The carrying amount of the Bank's investment in each subsidiary and the equity of each subsidiary is eliminated on consolidation. All significant intra-group balances, and unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### (b) Financial assets and liabilities

*(i) Recognition*

The Group initially recognises loans and advances, Customer accounts and other deposits, debt securities and subordinated notes on the date that they are originated. All other financial assets and liabilities are initially recognised on the consolidated statement of financial position when, the Group becomes a party to the contractual provisions of the instrument. These are initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

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

*(ii) Classification*

*(a) Fair value through profit or loss*

*(i) Designation at fair value through profit or loss*

The Group designates financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

*(ii) Held for trading*

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

Fair value through profit or loss assets are not reclassified subsequent to their initial recognition.

## 3 Significant accounting policies *(continued)*

### (b) Financial assets and liabilities *(continued)*

*(ii) Classification (continued)*

*(b) Loans and receivables*

Loans and receivables includes cash and balances with central banks, due from bank and financial institutions, finance lease receivables, reverse repurchase agreements and loans and advances. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

*(c) Held-to-maturity*

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity.

*(d) Available-for-sale*

The Group has non-derivative financial assets designated as available-for-sale when these are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available for sale assets are intended to be held for an indefinite period of time and may be sold in future to manage liquidity requirements or in response to market fluctuation in interest rates or pricing of the financial assets.

*(e) Financial liabilities*

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

*(iii) De-recognition*

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

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

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such transactions, the transferred assets are not derecognised from the consolidated statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include repurchase transactions.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

*(iv) Offsetting*

As per IAS 32, financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

## 3 Significant accounting policies *(continued)*

### (b) Financial assets and liabilities *(continued)*

*(v) Amortised cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the "effective interest rate / method" of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

*(vi) Fair value measurement*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in the consolidated statement of profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position or paid to transfer a net short position for a particular risk exposure.

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

## 3 Significant accounting policies *(continued)*

### (b) Financial assets and liabilities *(continued)*

*(vii) Identification and measurement of impairment*

An assessment is made at each reporting date and periodically during the year to determine whether there is any objective evidence that financial assets not carried at fair value through profit or loss, are impaired. Financial assets are impaired when objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or an advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment at both specific and collective levels. All individually significant assets are assessed for specific impairment. All individually significant assets found not to be specifically impaired are required to be collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

In assessing collective impairment the Group uses the higher of 1.5% of credit risk weighted asset computed as per Central Bank of UAE guidelines and a statistical modelling which incorporates historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the original effective interest rate. Impairment losses are recognised in the consolidated statement of profit or loss and reflected in an allowance account against such financial assets. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition costs and current fair values out of other comprehensive income to the consolidated statement of profit or loss. When a subsequent event causes the amount of impairment loss on available-for-sale debt security to decrease, the impairment loss is reversed through the consolidated statement of profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity investment is recognised in other comprehensive income.

Impairment losses on an unquoted equity instruments that are carried at cost because their fair value cannot be reliably measured, are measured as the difference between the carrying amount of the financial assets and the present values of estimated future cash flows discounted at the current market rate of return for similar financial assets. Such impairment losses shall not be reversed.

## 3 Significant accounting policies *(continued)*

### (c) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash, balances with central banks and due from banks and financial institutions with original maturities of less than three months, which are subject to insignificant risk of changes in fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are non-derivative financial assets stated at amortised cost in the consolidated statement of financial position.

### (d) Investments at fair value through profit or loss

These are financial assets classified as held for trading or designated as such upon initial recognition.

Held for trading financial assets includes debt securities, treasury bills, equity securities, short positions in securities and funds. They have been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. In addition, derivatives that are not effective accounting hedging instruments are carried at fair value through profit or loss.

Financial assets designated at fair value through profit or loss applies to groups of financial assets that are managed, and their performances are evaluated, on a fair value basis in accordance with a documented risk management or investment strategy.

These financial assets are initially recognised and subsequently measured at fair value with transaction costs taken directly to the consolidated statement of profit or loss. All related realised and unrealised gains or losses are included in net gain on investments.

### (e) Due from banks and financial institutions

These are non-derivative financial assets that are stated at amortised cost, less any allowance for impairment.

### (f) Reverse repurchase agreements

Assets purchased with a simultaneous commitment to resell at a specified future date are not recognised. The amount paid to the counterparty under these agreements is shown as reverse repurchase agreements in the consolidated statement of financial position. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement and charged to the consolidated statement of profit or loss using the effective interest rate method.

### (g) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and advances include loans and advances originated by the Bank which are not classified as held for trading or designated at fair value. Loans and advances are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the loans are sold or written off. These are initially measured at fair value (being the transaction price at inception) plus incremental direct transaction costs and subsequently measured at amortised cost using the effective interest rate method, adjusted for effective fair value hedges for the risk being hedged, net of interest suspended and provisions for impairment.

## 3 Significant accounting policies *(continued)*

### (g) Loans and advances *(continued)*

Loans and advances include direct finance provided to customers such as overdrafts, credit cards, term loans, finance lease receivables and commercial bills.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances. In determining whether an arrangement is a lease, the Group ascertains the substance of the arrangement and assesses whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the assets.

### (h) Islamic financing and investing contracts

The Bank engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Ijara, Murabaha, Mudaraba and Wakala. These are accounted in accordance with IAS 39 – Financial instrument: Recognition and Measurement.

*(i) Definitions*

*Ijara*
Ijara consists of Ijara muntahia bitamleek.

Ijara muntahia bitamleek is an agreement whereby the Group (the lessor) conveys to the customer (the lessee), in return for a specific rent, the right to use a specific asset for a specific period of time, against payment of fixed periodical and variable rental. Under this agreement, the Group purchases or constructs the asset and rents it to the customer. The contract specifies the leasing party and the amount and timing of rental payments and responsibilities of both parties during the term of the lease. The customer provides the Group with an undertaking to settle the rental amount as per the agreed schedule.

The Group retains the ownership of the assets throughout the entire lease term. At the end of the lease term, the Group sells the leased asset to the customer at a nominal value based on a sale undertaking by the Group.

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

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

*Wakala*
An agreement whereby the Group provides a certain sum of money to an agent (Wakkil) who invests it in Sharia's compliant transactions according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested).

## 3 Significant accounting policies *(continued)*

### (h) Islamic financing and investing contracts *(continued)*

*(ii) Revenue recognition*

*Ijara*
Income from Ijara is recognised on a declining-value basis, until such time a reasonable doubt exists with regard to its collectability.

*Murabaha*
Income from Murabaha is recognised on a declining-value basis, until such time a reasonable doubt exists with regard to its collectability.

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

*Wakala*
Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

### (i) Non-trading investments

Included in non-trading investments are available-for-sale assets which are initially recognised at fair value plus incremental transaction costs directly attributable to the acquisition.

After initial recognition, these investments are re-measured at fair value. For investments which are not part of an effective hedge relationship, unrealised gains or losses are recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income, is included in the consolidated statement of profit or loss for the year. For investments which are part of an effective fair value hedge relationship, any unrealised gain or loss arising from a change in fair value is recognised directly in the consolidated statement of profit or loss to the extent of the changes in fair value being hedged.

Interest income is recognised on available-for-sale debt securities using the effective interest rate, calculated over the asset's expected life. Premiums and/or discounts arising on the purchase of debt investment securities are included in the calculation of their effective interest rates. Dividends on equity instruments are recognised in the statement of profit or loss when the right to receive payment has been established.

For the purpose of recognising foreign exchange gains and losses, an available-for-sale financial asset is treated as if it were carried at amortised cost in the foreign currency. Accordingly, for such a financial asset, exchange differences are recognised in the consolidated statement of profit or loss.

For unquoted equity investments where fair value cannot be reliably measured, these are carried at cost less provision for impairment in value. Upon de-recognition, the gain or loss on sale is recognised in the consolidated statement of profit or loss for the year.

Included in non-trading investments are held-to-maturity assets which are non-derivative assets with fixed or determinable payments and fixed maturity and that the Group has the positive intent and ability to hold them till maturity. These are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

## 3 Significant accounting policies *(continued)*

### (i) Non-trading investments *(continued)*

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

### (j) Investment properties

*(i) Recognition and measurement*

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at cost as per the cost model under IAS 40- Investment property. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When the use of a property changes such that it is reclassified as property and equipment, its original cost and the current carrying amount at the date of reclassification continue to be the cost and carrying amount of the asset for measurement and disclosures.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Any income or expenses on the investment properties are recognised in the consolidated statement of profit or loss in other operating income or other operating expense respectively.

*(ii) Depreciation*

Depreciation is recognised in the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of investment properties. The estimated useful lives of investment properties for the current period are as follows:

| | |
|---|---|
| Buildings and villas | 20 to 50 years |

Depreciation methods, useful lives and residual values are reassessed at every reporting date.

*(iii) Impairment*

The carrying amounts are reviewed at each reporting date for indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in the consolidated statement of profit or loss to the extent that carrying values do not exceed the recoverable amounts.

## 3 Significant accounting policies *(continued)*

### (k) Property and equipment

*(i) Recognition and measurement*

All items of property and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Capital projects in progress are initially recorded at cost and regularly tested for impairment and upon completion are transferred to the appropriate category of property and equipment and thereafter depreciated.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within other operating income in the consolidated statement of profit or loss.

Subsequent expenditures are only capitalised when it is probable that the future economic benefits of such expenditures will flow to the Group. On-going expenses are charged to consolidated statement of profit or loss as incurred.

*(ii) Depreciation*

Depreciation is recognised in the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of all property and equipment. Freehold land and capital work in progress are not depreciated.

The estimated useful lives of assets for the current and comparative period are as follows:

| | |
|---|---|
| Buildings and villas | 20 to 50 years |
| Office furniture and equipment | 1 to 5 years |
| Alterations to premises | 10 years |
| Safes | 10 to 20 years |
| Computer systems and equipment | 3 to 7 years |
| Vehicles | 3 years |

Depreciation methods, useful lives and residual values are reassessed at every reporting date.

*(iii) Capital work in progress*

Capital work in progress assets are assets in the course of construction for production, supply or administrative purposes, are carried at cost, less any recognised impairment loss. Cost includes all direct cost attributable to design and construction of the property capitalised in accordance with Group's accounting policy. When the assets are ready for the intended use, the capital work in progress is transferred to the appropriate property and equipment category and is depreciated in accordance with the Group's policies.

*(iv) Impairment*

The carrying amounts are reviewed at each reporting date for indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in the consolidated statement of profit or loss to the extent that carrying values do not exceed the recoverable amounts.

## 3 Significant accounting policies *(continued)*

### (l) Collateral pending sale

Real estate and other collaterals may be acquired as the result of settlement of certain loans and advances and are recorded as assets held for sale and reported in "Other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange. No depreciation is provided in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in the consolidated statement of profit or loss. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the consolidated statement of profit or loss. The Group's collateral disposal policy is in line with the respective regulatory requirement of the regions in which the Group operates.

### (m) Due to banks and financial institutions, Customer accounts and other deposits and euro commercial paper

Due to banks and financial institutions, customer deposits and euro commercial paper are financial liabilities and are initially recognised at their fair value minus the transaction costs and subsequently measured at their amortised cost using the effective interest rate method.

### (n) Repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date are not derecognised. The liability to the counterparty for amounts received under these agreements is shown as repurchase agreements in the consolidated statement of financial position. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreement and charged to the consolidated statement of profit or loss using the effective interest rate method.

### (o) Term borrowings and subordinated notes

Term borrowings and subordinated notes include convertible notes that can be converted into share capital at the option of the holder, where the number of shares issued do not vary with changes in their fair value, are accounted for as compound financial instruments. The equity component of the convertible notes is calculated as the excess of issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option.

Term borrowings and subordinated notes without conversion option are financial liabilities and are initially recognised at their fair value minus the transaction costs and subsequently measured at their amortised cost using the effective interest rate method and adjusted to the extent of fair value changes for the risks being hedged.

### (p) Share option scheme

On the grant date fair value of options granted to staff is estimated and the cost is recognised as staff cost, with a corresponding increase in equity, over the period required for the staff to become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the number of share options for which the related service conditions are expected to be met; as such the amount ultimately recognised as an expense is based on the number of share options that do meet the related service and non-market performance conditions at the vesting date. These shares may contribute to the calculation of dilutive EPS once they are deemed as potential ordinary shares.

## 3 Significant accounting policies *(continued)*

### (q) Interest

Interest income and expense are recognised in the consolidated statement of profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the consolidated statement of profit or loss include:

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

### (r) Depositors' share of profit

Depositors' share of profit is amount accrued as expense on the funds accepted from banks and customers in the form of wakala and mudaraba deposits and recognised as expenses in the consolidated statement of profit or loss. The amounts are calculated in accordance with agreed terms and conditions of the wakala deposits and Sharia'a principles.

### (s) Fee and commission

The Group earns fee and commission income from a diverse range of services provided to its customers. The basis of accounting treatment of fees and commission depends on the purposes for which the fees are collected and accordingly the revenue is recognised in consolidated statement of profit or loss. Fee and commission income is accounted for as follows:

- income earned from the provision of services is recognised as revenue as the services are provided;
- income earned on the execution of a significant act is recognised as revenue when the act is completed;
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in "Interest income".

Fee and commission expense relates mainly to transaction and service fees which are expensed as the services are received.

### (t) Zakat

Zakat represents islamic business zakat payable by the Group on behalf of its shareholders to comply with the principles of Sharia'a and is approved by the Sharia'a Supervisory Board. The Group's appointed Zakat Committee is mandated to recommend zakat distribution.

## 3 Significant accounting policies *(continued)*

### (u) Net gain on investments and derivatives

Net gain on investments and derivatives comprises realised and unrealised gains and losses on investments at fair value through profit or loss and derivatives, realised gains and losses on non-trading investments and dividend income.

Net gain or loss on investment at fair value through profit or loss and derivatives includes net trading income and net income from investments designated at fair value. Net trading income comprises of all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading.

Non-trading investment includes available for sale and held to maturity instruments.

Gains and losses arising from changes in fair value of available for sale assets are recognised in the statement of other comprehensive income and recorded in fair value reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets which are recognised directly in the consolidated statement of profit or loss. Where the investment is sold or realised, the cumulative gain or loss previously recognised in equity under fair value reserve is reclassified to the consolidated statement of profit or loss.

Held to maturity investments that are not close to their maturity are not ordinarily sold. However when they are sold or realised, the gain or loss is recognised in the consolidated statement of profit or loss.

Dividend income is recognised when the right to receive payment is established.

### (v) Foreign currency

*(i) Foreign currency transactions*

Transactions in foreign currencies are translated into the respective functional currencies of the Group entities at spot exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rates at the reporting date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognised in consolidated statement of profit or loss.

*(ii) Foreign operations*

The activities of subsidiaries and branches based outside the UAE are not deemed an integral part of the head office operations, as they are financially and operationally independent of the head office. The assets and liabilities of the subsidiaries and overseas branches are translated into UAE Dirhams at rates of exchange at the reporting date. Income and expense items are translated at average rates, as appropriate. Exchange differences (including those on transactions which hedge such investments) arising from retranslating the opening net assets, are taken directly to foreign currency translation adjustment account in other comprehensive income.

## 3 Significant accounting policies *(continued)*

### (w) Overseas income tax expense

Income tax expense is provided for in accordance with fiscal regulations of the respective countries in which the Group operates and is recognised in the consolidated statement of profit or loss. Income tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

### (x) Derivative financial instruments and hedging

Derivatives are initially recognised, and subsequently measured at fair value with transaction costs taken directly to the consolidated statement of profit or loss. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative or using valuation techniques, mainly discounted cash flow models.

The method of recognising the resulting fair value gains or losses depends on whether the derivative is held for trading, or is designated as a hedging instrument and, if so, the nature of the risk being hedged. All gains and losses from changes in fair value of derivatives held for trading are recognised in the consolidated statement of profit or loss. When derivatives are designated as hedges, the Group classifies them as either: (i) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (ii) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; (iii) hedge of net investment which are accounted similarly to a cash flow hedge. Hedge accounting is applied to derivatives designated as hedging instruments in a fair value or cash flow, provided the criteria are met.

*Embedded derivatives*

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristic and risks of the embedded derivative are not closely related to the economic characteristics and risk of the host contract. Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship, and are presented separately from host contract in the consolidated statement of financial position.

## 3 Significant accounting policies *(continued)*

### (x) Derivative financial instruments and hedging *(continued)*

*Hedge accounting*
It is the Group's policy to document, at the inception of a hedge, the relationship between hedging instruments and hedged items, as well as risk management objective and strategy. The policy also requires documentation of the assessment, at inception and on an on-going basis, of the effectiveness of the hedge.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an on-going basis, as to whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. The Group makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

*Fair value hedge*
In relation to fair value hedges, any gain or loss from re-measuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the consolidated statement of profit or loss together with the changes in the fair value of the hedged item that are attributable to the hedged risk. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any adjustment up to that period to the hedged item for which effective interest rate method was used is amortised to the consolidated statement of profit or loss as a part of the recalculated effective interest rate of the then hedged item over its remaining life.

*Cash flow hedge*
In relation to effective cash flow hedges, the gain or loss on the hedging instrument is recognised initially in other comprehensive income and transferred to the consolidated statement of profit or loss in the period in which the hedged transaction impacts the consolidated statement of profit or loss. Gains or losses, if any, relating to the ineffective portion, are recognised immediately in the consolidated statement of profit or loss. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the consolidated statement of profit or loss.

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

*Other derivatives*
All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting or are not designated as such are recognised immediately in the consolidated statement of profit or loss as a component of net gain on investments and derivatives or net foreign exchange gain.

### (y) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows, at a pre-tax rate, that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

## 3 Significant accounting policies *(continued)*

### (z) Employees' end of service benefit

*Defined contribution plan*

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

Pension and national insurance contributions for eligible employees are made by the Bank to Pensions and Benefits Fund in accordance with the applicable laws of country where such contributions are made.

*Defined benefit plan*

A defined benefit plan is a post - employment benefit plan other than a defined contribution plan. The liability recognised in the statement of financial position in respect of defined benefit gratuity plans is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised past - service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high - quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. Net interest expense and other expenses related to defined benefit plans are recognised in Staff cost in consolidated statement of profit or loss. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately to profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

### (aa) Directors' remuneration

Pursuant to Article 118 of the Commercial Companies Law No. 8 of 1984 and in accordance with the Bank's Articles of Association, Directors' shall be entitled for remuneration which shall not exceed 10 % of the net profits after deducting depreciation, reserves and distribution of dividends not less than 5% of capital to shareholders.

### (ab) Fiduciary activities

Assets held in a fiduciary capacity are not treated as assets of the Group as they are only held in trust where the Group acts as a custodian on customers' behalf. The Group has no liability or obligations towards the customer on these assets held in trust . Accordingly, these assets are not included in these consolidated financial statements.

### (ac) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to staff.

## 3 Significant accounting policies *(continued)*

### (ad) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Certain financial guarantee contracts in the nature of credit default guarantees are not held for proprietary trading purposes and are treated as insurance contracts and accounted for under IFRS 4.

For other financial guarantee contracts, these are initially recognised at their fair value (which is the premium received on issuance). The received premium is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

### (ae) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Executive, being the chief operating decision maker, to make decisions about resources to be allocated to the segment and to assess its performance for which discrete financial information is available. Segment results that are reported to the Group Chief Executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

### (af) Lease payments

Payments made under operating leases are recognised in the consolidated statement of profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

### (ag) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations have been issued that are applicable to the Group but are not yet effective for the year ended 31 December 2015, and have not been applied in preparing these consolidated financial statements:

IFRS 15 *Revenue from contracts with customer:* issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. It replaces existing all revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC Customer loyalty Programmes.

IFRS 15 is effective for annual period beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing potential impact of this standard on its consolidated financial statements.

## 3 Significant accounting policies *(continued)*

### (ag) New standards and interpretations not yet adopted *(continued)*

IAS 16 / 38 — IAS 16 and IAS 38 clarifies that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

IFRS 9 — IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

IFRS 9 is effective for annual period beginning on or after 1 January 2018. However, early application of IFRS 9 is permitted.

The Group has started the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

IAS 27 — IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

<u>Annual Improvements 2012-2014 Cycle</u>

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

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

## 3 Significant accounting policies *(continued)*

### (ag) New standards and interpretations not yet adopted *(continued)*

IFRS 7 The amendment clarifies that in a servicing contract an entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts must be done retrospectively. However, the required disclosures are required when the entity first applies the amendments.

In addition, the amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

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

IAS 34 The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report. The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

IAS 1 The amendments to IAS 1 Presentation of Financial Statements clarify existing IAS 1 requirements. The amendments clarify:

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and OCI.

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

## 4 Financial risk management

### Introduction and overview

The Group is exposed to a variety of risks inherent in carrying out its business activities. Principal risks include credit, market (traded and non-traded interest rate and foreign currency related risks), liquidity and funding, capital, operational, and business continuity. The Group has institutionalized a risk management framework which seeks to effectively manage these risks.

This note presents information about the Group's exposure to each of the above risks, along with an overview of relevant frameworks, policies and processes for measuring and managing these risks.

***Risk management framework***

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework and they are assisted by two board committees (Risk Management Committee and Audit Committee), and two management committees (Group Risk Committee ("GRC") and Group Assets and Liabilities Committee ("G-ALCO")).

- The Risk Management Committee (RMC), comprising of members from the Board, is responsible for recommending and setting the Group's risk strategy and policy guidelines, and subsequently monitoring adherence. RMC takes credit decisions above management's discretionary powers, defines risk limits within which the Group's management operates and also monitors the overall risks for the Group.

- The Audit Committee, a board level committee, exercises oversight to monitor compliance with regulatory guidelines and the Bank's internal policies and procedures.

The management committees are responsible for implementing the risk management framework. The major functions of the two management committees are given below:

- The GRC is accountable to the Board RMC in respect of all Risk Management facets within the Group. The primary function of the committee is to ensure that the Bank's policies and procedures incorporate sound risk management practices and that the same are implemented. It also reviews, and recommends to the Board, the risk appetite, risk limits, risk aspects of business strategy and planning, and approves risk policies & analytical models to ensure effective risk management.

- The G-ALCO is the driving force and key decision maker behind the structure and quality of the balance sheet. The G-ALCO is directly accountable to the Board RMC for ensuring that the risks within the Group Asset and Liability position are prudently managed by way of strong Bank policy and procedures and an appropriate risk framework. The G-ALCO must be constantly aware of and actively manage these risks and their potential impact on the Banks business and strategic objectives.

The Group manages risk using three lines of defence comprising of business units, control units and Internal Audit. Business units, as the first line of defence, identify and manage risk in their day-to-day activities by ensuring that activities are within the Group's risk appetite and are in compliance with all relevant internal policies and processes. Risk Group (comprising head office risk and risk functions embedded in business divisions) and Legal & Compliance division, as the second line of defence, establishes risk controls comprising of policies and processes while also providing oversight and independent challenge to the first line of defence. The Group Chief Risk Officer ("GCRO") has a direct reporting line to Board RMC to ensure the independence of Risk Group from business. Internal audit, as the third line of defence, provides assurance to management and the Board of the effectiveness of risk management practices employed by the first two lines of defence. The Group Chief Audit Officer has a direct reporting line to the Board Audit Committee.

## 4 Financial risk management *(continued)*

### (a) Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's loans and advances, due from banks and financial institutions, reverse repurchase agreements and non-trading debt investments, derivative financial instruments and certain other assets.

For risk management purposes, credit risk arising on trading investments is managed independently, and reported as a component of market risk exposure.

**Management of credit risk**

The Group uses an internal risk rating system to assess the credit quality of corporate borrowers and counterparties. Each corporate borrower is assigned a rating, including classified accounts. The risk rating system has 11 grades, further segregated into 24 notches. Grades 1-8 are performing and Grades 9 -11 are non – performing. Non-performing grades are classified based on the below criteria:

| Grade | Classification | Criteria | |
|---|---|---|---|
| | | Corporate loans | Retail loans |
| 9 | Sub-standard loans | Arrears 90 days or more and shows some loss due to adverse factors that hinder repayment | Arrears 90 days or more |
| 10 | Doubtful loans | Based on available information, full recovery seems doubtful, leading to a loss on portion of these loans | Arrears 120 days or more |
| 11 | Loss loans | Probability of no recovery; after all available courses of action are exhausted | Arrears 180 days or more |

The Performing loan portfolio of the Group based on the internal credit ratings is as follows:

| Rating grade | Performing loans and advances | |
|---|---|---|
| | **2015** | 2014 |
| | **AED'000** | AED'000 |
| 1 – 4 | **132,733,360** | 126,477,638 |
| 5 – 6 | **26,664,666** | 23,930,098 |
| 7 | **19,143,544** | 24,611,025 |
| 8 | **3,865,084** | 1,465,622 |
| Retail programme lending | **23,785,229** | 18,302,587 |
| | **206,191,883** | 194,786,970 |

In addition, the Group manages credit risk by obtaining collateral where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. Credit risk in respect of derivative financial instruments is limited to those with positive fair values.

Credit risk arising from other financial instruments is managed by assigning limits, diversification of investment activities, limiting concentration of exposure to industry sectors, geographical locations and counterparties.

## 4 Financial risk management *(continued)*

### (a) Credit risk *(continued)*

**Impairment:**

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, interest suspended and impairment losses, if any. The carrying amount of financial assets represents the maximum credit exposure.

| | Due from banks and financial institutions | | Loans and advances | | Non-trading investments | |
|---|---|---|---|---|---|---|
| | **2015 AED'000** | 2014 AED'000 | **2015 AED'000** | 2014 AED'000 | **2015 AED'000** | 2014 AED'000 |
| **Individually impaired** | | | | | | |
| Substandard | **-** | - | **1,750,262** | 2,271,333 | **-** | - |
| Doubtful | **718** | 718 | **2,347,374** | 1,649,271 | **3,342** | 3,342 |
| Loss | **-** | - | **2,785,672** | 3,364,751 | **-** | - |
| Gross amount | **718** | 718 | **6,883,308** | 7,285,355 | **3,342** | 3,342 |
| Interest suspended | **-** | - | **(1,036,665)** | (1,124,889) | **-** | - |
| Specific allowance for impairment | **(718)** | (718) | **(2,087,568)** | (3,122,770) | **-** | - |
| Carrying amount | **-** | - | **3,759,075** | 3,037,696 | **3,342** | 3,342 |
| **Past due but not impaired** | | | | | | |
| *Past due comprises:* | | | | | | |
| Less than 30 days | **-** | - | **342,240** | 153,436 | **-** | - |
| 31 – 60 days | **-** | - | **608,016** | 151,313 | **-** | - |
| 61 – 90 days | **-** | - | **272,687** | 177,448 | **-** | - |
| More than 90 days | **-** | - | **603,693** | 1,161,766 | **-** | - |
| Carrying amount | **-** | - | **1,826,636** | 1,643,963 | **-** | - |
| **Neither past due nor impaired** | **10,891,768** | 11,134,262 | **204,365,247** | 193,143,007 | **63,790,809** | 67,489,780 |
| **Collective allowance for impairment** | **-** | - | **(4,037,405)** | (3,545,314) | **-** | - |
| **Carrying amount** | **10,891,768** | 11,134,262 | **205,913,553** | 194,279,352 | **63,794,151** | 67,493,122 |

Non trading investment includes investment in equity instruments amounting to AED 36.2 million *(2014: AED 35.9 million)* which does not carry credit risk .

The category of neither past due nor impaired includes renegotiated loans amounting to AED 2,673 million *(2014: AED 1,302 million).*

## 4 Financial risk management *(continued)*

### (a) Credit risk *(continued)*

*Impaired loans and advances and non-trading investments*

Impaired loans and advances and non-trading investments are financial assets for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the agreements.

*Past due but not impaired*

Past due but not impaired are accounts where either contractual principal or interest are past due and when the accounts show weakness in the borrower's financial position and creditworthiness, and requires more than normal attention. Such weakness is specifically monitored to ensure that the quality of the asset does not further deteriorate. On this class of asset the Group believes that specific impairment is not appropriate at the current condition.

*Loans with renegotiated terms*

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made material concessions that it would not otherwise consider. Once a loan is restructured, it remains in this category for a minimum period of twelve months, in order to establish satisfactory track record of performance under the restructuring agreement. The Bank determines the twelve-month period to commence from the date of signing of the agreement for restructuring. On this class of asset the Group believes that specific impairment may not be required. In the last twelve months, the Group has renegotiated the following exposures:

| | **2015**<br>**AED'000** | 2014<br>AED'000 |
|---|---|---|
| Renegotiated loans | **2,673,243** | 1,301,787 |

*Movement of renegotiated loans during the year*

| | **2015**<br>**AED'000** | 2014<br>AED'000 |
|---|---|---|
| Balance at the beginning of the year | **1,301,787** | 1,925,914 |
| Upgraded to neither past due nor impaired during the year | **(586,987)** | (1,672,761) |
| Downgraded to individually impaired or past due but not impaired during the year | **(526,770)** | (3,946) |
| Additions during the year | **2,485,213** | 1,052,580 |
| Balance at the end of the year | **2,673,243** | 1,301,787 |

## 4 Financial risk management *(continued)*

### (a) Credit risk *(continued)*

*Allowances for impairment*
The Group establishes an allowance for impairment losses on assets carried at amortised cost 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 loss allowance. In assessing the collective loss allowance, the Group uses the higher of 1.5% of credit risk weighted assets computed as per the central bank guidelines or incurred but not identified model, established for groups of homogeneous assets with similar risk characteristics that are indicative of the debtor's ability to pay amounts due according to the contractual terms on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Individually assessed loans are required to be classified as impaired as soon as there is objective evidence that an impairment loss has been incurred. Objective evidence of impairment includes observable data such as when contractual payment of principal or interest is overdue and there is known difficulties in the cash flows of counterparties, credit rating downgrades or original terms of the contractual repayment are unable to be met.

*Write-off policy*
The Group writes off a loan or investment balance (and any related allowances for impairment losses) when it determines that the loans or investments are uncollectible. This is determined after all possible efforts of collecting the amounts have been exhausted.

*Collateral*
The Group holds various types of collateral against loans and advances and reverse repurchase agreement in the form of mortgage interests over property, other securities, cash deposits and guarantees. The Group accepts sovereign guarantees and guarantees from well reputed local or international banks, well established local or multinational large corporate and high net-worth private individuals. When calculating provisions, discount factors as defined by the Central Bank of the UAE are applied to market value of the collateral. Collateral generally is not held against due from banks and financial institutions, and no such collateral was held at 31 December 2015 or 2014.

An estimate of the collateral coverage against non-performing loans and advances (including Islamic financing) is shown below:

| | **2015** | 2014 |
|---|---|---|
| | **AED'000** | AED'000 |
| **Collateral value cover** | | |
| 0 – 50% | **2,227,378** | 2,996,388 |
| 50 – 100% | **1,164,453** | 1,585,044 |
| Above 100% | **3,491,477** | 2,703,923 |
| **Total Gross non-performing loans** | **6,883,308** | 7,285,355 |

During the year 2015 and 2014, the Group repossessed an insignificant amount of collateral that was held as security against loans and advances.

The Group monitors concentrations of credit risk by industry sector, counterparty and geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

## 4 Financial risk management *(continued)*

### (a) Credit risk *(continued)*

*Concentrations by industry sector*

| | Loans and advances | | Investments | | Reverse repurchase agreements | | Undrawn loan Commitments | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| | **AED'000** | AED'000 | **AED'000** | AED'000 | **AED'000** | AED'000 | **AED'000** | AED'000 |
| *Concentration by industry sector:* | | | | | | | | |
| Agriculture | **121,016** | 177,690 | **-** | - | **-** | - | **3,025** | 243,878 |
| Energy | **16,715,572** | 16,458,515 | **11,369,131** | 11,453,093 | **-** | - | **4,895,118** | 3,695,326 |
| Manufacturing | **18,676,518** | 14,008,892 | **187,700** | 296,994 | **-** | - | **4,126,633** | 3,691,127 |
| Construction | **10,275,513** | 10,185,285 | **276,635** | 447,736 | **-** | - | **3,552,609** | 1,854,454 |
| Real estate | **37,729,525** | 35,291,197 | **55,237** | 11,425 | **-** | - | **5,197,494** | 4,740,885 |
| Trading | **10,797,566** | 9,078,453 | **69,644** | 5,925 | **-** | - | **2,149,929** | 1,322,361 |
| Transport | **16,467,741** | 15,677,618 | **3,592,124** | 2,733,929 | **-** | - | **4,422,957** | 1,176,451 |
| Banks | **23,337,915** | 24,108,739 | **26,276,979** | 26,292,582 | **12,278,944** | 15,097,818 | **510,794** | 84,478 |
| Other financial institutions | **17,402,161** | 14,454,564 | **11,283,337** | 11,898,976 | **1,051,242** | 746,559 | **3,330,402** | 2,449,395 |
| Services | **5,768,988** | 6,875,163 | **94,728** | 67,910 | **-** | - | **888,396** | 2,336,002 |
| Government | **20,319,828** | 23,435,214 | **20,940,249** | 27,632,632 | **-** | - | **84,850** | 17,200 |
| Supranational | **-** | - | **1,939,525** | 2,077,582 | **-** | - | **-** | - |
| Personal loans for consumption | **25,961,457** | 22,822,425 | **-** | - | **-** | - | **237,613** | 152,427 |
| Personal loans others | **9,407,613** | 9,402,258 | **-** | - | **-** | - | **388,371** | 166,621 |
| Others | **93,778** | 96,312 | **-** | - | **-** | - | **2,147** | 169,459 |
| | **213,075,191** | 202,072,325 | **76,085,289** | 82,918,784 | **13,330,186** | 15,844,377 | **29,790,338** | 22,100,064 |

Investments include both investments at fair value through profit or loss and non-trading investments.
The above numbers are presented on a gross basis and are not adjusted for provisions or interest in suspense if any.

Notes to the consolidated financial statements

## 4 Financial risk management *(continued)*

### (a) Credit risk *(continued)*

*Concentration by location:*

| | UAE AED'000 | Europe AED'000 | Arab countries AED'000 | Americas AED'000 | Asia AED'000 | Others AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|
| *As at 31 Dec 2015* | | | | | | | |
| Cash and balances with central banks | **56,088,919** | **8,676,576** | **4,916,552** | **6,686,811** | **13,251** | **-** | **76,382,109** |
| Investments at fair value through profit or loss | **4,259,257** | **3,604,090** | **2,206,610** | **1,022,383** | **1,175,800** | **22,998** | **12,291,138** |
| Due from banks and financial institutions | **132,456** | **9,195,874** | **1,038,278** | **172,239** | **339,510** | **13,411** | **10,891,768** |
| Reverse repurchase agreements | **2,492,191** | **3,086,686** | **7,732,044** | **19,265** | **-** | **-** | **13,330,186** |
| Derivative financial instruments | **2,564,811** | **5,448,967** | **2,299,616** | **66,084** | **139,955** | **54,658** | **10,574,091** |
| Loans and advances | **123,326,698** | **36,091,915** | **22,290,748** | **13,366,544** | **15,767,657** | **2,231,629** | **213,075,191** |
| Non trading investments | **16,000,404** | **17,284,440** | **9,292,509** | **7,721,670** | **12,130,287** | **1,364,841** | **63,794,151** |
| | **204,864,736** | **83,388,548** | **49,776,357** | **29,054,996** | **29,566,460** | **3,687,537** | **400,338,634** |
| *As at 31 Dec 2014* | | | | | | | |
| Cash and balances with central banks | 25,923,632 | 1,940,356 | 6,901,337 | 20,682,075 | 4,941 | - | 55,452,341 |
| Investments at fair value through profit or loss | 4,503,547 | 3,935,090 | 2,614,687 | 1,954,294 | 1,453,448 | 964,596 | 15,425,662 |
| Due from banks and financial institutions | 1,890,669 | 7,261,253 | 1,018,633 | 149,202 | 796,729 | 17,776 | 11,134,262 |
| Reverse repurchase agreements | 1,653,409 | 3,619,180 | 10,563,621 | - | 8,167 | - | 15,844,377 |
| Derivative financial instruments | 2,332,646 | 3,949,324 | 1,037,800 | 61,654 | 17,147 | 24,257 | 7,422,828 |
| Loans and advances | 117,589,832 | 37,545,083 | 17,478,795 | 10,978,644 | 17,123,565 | 1,356,406 | 202,072,325 |
| Non trading investments | 17,160,578 | 14,482,857 | 12,504,983 | 14,475,736 | 8,509,619 | 359,349 | 67,493,122 |
| | 171,054,313 | 72,733,143 | 52,119,856 | 48,301,605 | 27,913,616 | 2,722,384 | 374,844,917 |

Concentration by location for investments is measured based on the location of the issuer of the security. Concentration by location for all others is measured based on the residential status of the borrower. The above numbers are presented on a gross basis and are not adjusted for provisions or interest in suspense if any.

## 4 Financial risk management *(continued)*

### (a) Credit risk *(continued)*

*Classification of trading securities and non-trading investments as per their external ratings:*

| | Non-trading investments | | Investments at fair value through profit or loss | |
|---|---|---|---|---|
| | **2015 AED'000** | 2014 AED'000 | **2015 AED'000** | 2014 AED'000 |
| AAA | **8,737,990** | 16,882,953 | **215,396** | 43,645 |
| AA to A | **43,655,663** | 41,206,783 | **7,603,105** | 11,067,470 |
| BBB to B | **10,037,106** | 6,669,819 | **2,475,005** | 2,202,910 |
| Unrated | **1,363,392** | 2,733,567 | **1,997,632** | 2,111,637 |
| | **63,794,151** | 67,493,122 | **12,291,138** | 15,425,662 |

Unrated investments primarily consist of investments in Government related entities and investments in equities and funds. Investments at fair value through profit or loss are neither past due nor impaired.

*Classification of trading securities and non-trading investments as per their counterparties:*

| | Non-trading investments | | Investments at fair value through profit or loss | |
|---|---|---|---|---|
| | **2015 AED'000** | 2014 AED'000 | **2015 AED'000** | 2014 AED'000 |
| Government sector | **20,024,093** | 26,255,217 | **916,156** | 1,377,415 |
| Supranational | **370,400** | 237,073 | **1,569,128** | 1,840,510 |
| Public sector | **18,308,431** | 18,833,102 | **2,820,260** | 2,015,112 |
| Banking sector | **21,276,123** | 18,303,585 | **5,000,856** | 7,988,997 |
| Corporate / private sector | **3,815,104** | 3,864,145 | **1,984,738** | 2,203,628 |
| | **63,794,151** | 67,493,122 | **12,291,138** | 15,425,662 |

*Settlement risk*
The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed. Any delay in settlement is rare and monitored.

*Derivative related credit risk*
Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favourable to the Group. The positive market value is also referred to as the "replacement cost" since it is an estimate of what it would cost to replace transactions at prevailing market rates if a counterparty defaults. The majority of the Group's derivative contracts are entered into with other banks and financial institutions.

## 4 Financial risk management *(continued)*

### (b) Liquidity risk

Liquidity risk arises from cash flows generated by assets and liabilities, including derivatives and other off-balance sheet commitments, not being matched in currency, size, and term, thereby creating financing needs which potentially cannot be met without incurring substantially higher costs or at any cost at all.

Liquidity risk is defined as the risk that the Group is unable to meet its financial obligations as and when they fall due or that it can only do so at an excessive cost.

*Management of liquidity risk*
The Group has defined the liquidity risk appetite at a level so as to ensure that the Group has a controlled liquidity risk position with adequate cash or cash-equivalents to be able to meet its financial obligations, in all foreseeable circumstances and without incurring substantial additional costs, for a rolling period of three months.

The liquidity risk appetite is also defined at a level to ensure continued compliance with current and proposed liquidity regulation from both domestic and international regulators, and aligned to support the Group's external credit rating objectives.

Liquidity limits are defined at the Group level and are cascaded down throughout the organisation to ensure that the Group complies with the defined Group Liquidity Risk appetite. International limits are cascaded to ensure compliance with any additional local regulatory requirements on liquidity management.

At Group level 10 Liquidity metrics have been defined which need to be consistently adhered to. These include Central Bank of the UAE Regulatory requirements as well as Basel III liquidity ratios.

All liquidity policies and procedures are subject to review and approval by G-ALCO.

*Exposure to liquidity risk*
The contractual asset and liability maturity mismatch report without considering the Group's retention history is detailed below.

Notes to the consolidated financial statements

## 4 Financial risk management *(continued)*

### (b) Liquidity risk *(continued)*

The maturity profile of the assets and liabilities at 31 December 2015 was as follows:

| | Total AED'000 | Up to 3 months AED'000 | 3 months to 1 year AED'000 | 1 to 3 years AED'000 | 3 to 5 years AED'000 | Over 5 years AED'000 | Unspecified maturity AED'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with central banks | **76,382,109** | 75,844,493 | 537,616 | - | - | - | - |
| Investments at fair value through profit or loss | **12,291,138** | 1,760,823 | 3,607,247 | 3,272,508 | 622,175 | 3,028,385 | - |
| Due from banks and financial institutions | **10,891,768** | 10,632,741 | 258,309 | 718 | - | - | - |
| Reverse repurchase agreements | **13,330,186** | 10,671,882 | 2,658,304 | - | - | - | - |
| Derivative financial instruments | **10,574,091** | 972,618 | 1,382,894 | 2,828,035 | 1,508,624 | 3,881,920 | - |
| Loans and advances | **205,913,553** | 42,993,900 | 19,996,303 | 37,620,046 | 46,069,522 | 59,233,782 | - |
| Non-trading investments | **63,794,151** | 4,488,104 | 2,484,621 | 8,313,096 | 16,076,948 | 32,431,382 | - |
| Other assets | **10,550,483** | 7,912,863 | 2,637,620 | - | - | - | - |
| Investment properties | **190,546** | - | - | - | - | - | 190,546 |
| Property and equipment | **2,645,782** | - | - | - | - | - | 2,645,782 |
| | **406,563,807** | **155,277,424** | **33,562,914** | **52,034,403** | **64,277,269** | **98,575,469** | **2,836,328** |
| **Liabilities and equity** | | | | | | | |
| Due to banks and financial institutions | **42,808,215** | 35,932,138 | 6,657,402 | 18,873 | 199,802 | - | - |
| Repurchase agreements | **30,550,652** | 27,963,532 | 2,587,120 | - | - | - | - |
| Euro commercial paper | **8,720,597** | 7,125,622 | 1,594,975 | - | - | - | - |
| Derivative financial instruments | **12,852,358** | 1,270,786 | 1,161,440 | 2,856,894 | 2,199,441 | 5,363,797 | - |
| Customer accounts and other deposits | **233,814,558** | 209,805,846 | 19,503,593 | 3,490,452 | 634,750 | 379,917 | - |
| Term borrowings | **17,740,968** | - | - | 6,960,540 | 7,605,842 | 3,174,586 | - |
| Other liabilities | **15,582,508** | 11,686,881 | 3,895,627 | - | - | - | - |
| Subordinated notes | **1,275,298** | 914,205 | - | - | - | 361,093 | - |
| Equity | **43,218,653** | - | - | - | - | - | 43,218,653 |
| | **406,563,807** | **294,699,010** | **35,400,157** | **13,326,759** | **10,639,835** | **9,279,393** | **43,218,653** |
| Undrawn commitments to extend credit | **29,790,338** | 2,661,071 | 6,740,535 | 10,013,062 | 6,255,392 | 4,120,278 | - |
| Financial guarantees | **995,631** | 202,015 | 57,217 | 562,400 | 173,999 | - | |

## 4 Financial risk management *(continued)*

### (b) Liquidity risk *(continued)*

The maturity profile of the assets and liabilities at 31 December 2014 was as follows:

| | Total AED'000 | Up to 3 months AED'000 | 3 months to 1 year AED'000 | 1 to 3 years AED'000 | 3 to 5 years AED'000 | Over 5 years AED'000 | Unspecified maturity AED'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with central banks | **55,452,341** | 51,914,495 | 3,537,846 | - | - | - | - |
| Investments at fair value through profit or loss | **15,425,662** | 2,546,859 | 3,643,831 | 6,097,025 | 572,182 | 2,565,765 | - |
| Due from banks and financial institutions | **11,134,262** | 10,475,464 | 658,798 | - | - | - | - |
| Reverse repurchase agreements | **15,844,377** | 14,525,319 | 1,319,058 | - | - | - | - |
| Derivative financial instruments | **7,422,828** | 1,546,297 | 941,943 | 1,393,080 | 1,099,799 | 2,441,709 | - |
| Loans and advances | **194,279,352** | 44,544,174 | 18,756,573 | 27,686,168 | 44,319,741 | 58,972,696 | - |
| Non-trading investments | **67,493,122** | 2,893,227 | 4,871,748 | 15,720,286 | 9,713,627 | 34,294,234 | - |
| Other assets | **6,370,981** | 4,778,236 | 1,592,745 | - | - | - | - |
| Investment properties | **177,533** | - | - | - | - | - | 177,533 |
| Property and equipment | **2,498,254** | - | - | - | - | - | 2,498,254 |
| | **376,098,712** | **133,224,071** | **35,322,542** | **50,896,559** | **55,705,349** | **98,274,404** | **2,675,787** |
| **Liabilities and equity** | | | | | | | |
| Due to banks and financial institutions | **36,679,504** | 35,865,125 | 796,028 | 18,351 | - | - | - |
| Repurchase agreements | **13,875,917** | 13,875,917 | - | - | - | - | - |
| Euro commercial paper | **5,484,176** | 3,540,073 | 1,944,103 | - | - | - | - |
| Derivative financial instruments | **10,953,124** | 1,455,819 | 1,154,224 | 1,124,491 | 1,622,594 | 5,595,996 | - |
| Customer accounts and other deposits | **243,184,652** | 229,147,733 | 11,634,192 | 1,400,368 | 785,906 | 216,453 | - |
| Term borrowings | **14,998,716** | 2,768,851 | 502,628 | 3,192,007 | 6,745,751 | 1,789,479 | - |
| Other liabilities | **11,442,600** | 8,581,950 | 2,860,650 | - | - | - | - |
| Subordinated notes | **1,516,641** | - | - | 1,037,047 | - | 479,594 | - |
| Equity | **37,963,382** | - | - | - | - | - | 37,963,382 |
| | **376,098,712** | **295,235,468** | **18,891,825** | **6,772,264** | **9,154,251** | **8,081,522** | **37,963,382** |
| Undrawn commitments to extend credit | **22,100,064** | 3,203,400 | 4,245,812 | 5,272,667 | 5,145,619 | 4,232,566 | - |
| Financial guarantees | **1,031,799** | 462,484 | 73,460 | 257,110 | 238,745 | - | - |

## 4 Financial risk management *(continued)*

### (b) Liquidity risk *(continued)*

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

| Liabilities | Total AED'000 | Gross nominal cash flows AED'000 | Up to 3 months AED'000 | 3 months to 1 year AED'000 | 1 to 3 years AED'000 | 3 to 5 years AED'000 | Over 5 years AED'000 |
|---|---|---|---|---|---|---|---|
| **As at 31 December 2015** | | | | | | | |
| Due to banks and financial institutions | **42,808,215** | 42,882,288 | 35,955,521 | 6,707,215 | 19,650 | 199,902 | - |
| Repurchase agreements | **30,550,652** | 30,604,006 | 28,006,870 | 2,597,136 | - | - | - |
| Euro commercial paper | **8,720,597** | 8,767,152 | 7,165,217 | 1,601,935 | - | - | - |
| Customer accounts and other deposits | **233,814,558** | 234,765,736 | 209,960,176 | 19,750,772 | 3,879,092 | 704,023 | 471,673 |
| Term borrowings | **17,740,968** | 22,960,492 | 191,481 | 270,771 | 7,729,179 | 8,012,497 | 6,756,564 |
| Subordinated notes | **1,275,298** | 1,589,004 | 917,341 | 20,540 | 40,469 | 40,691 | 569,963 |
| | **334,910,288** | **341,568,678** | **282,196,606** | **30,948,369** | **11,668,390** | **8,957,113** | **7,798,200** |
| Undrawn commitments to extend credit | **29,790,338** | 29,790,338 | 26,466,068 | 579,571 | 1,925,198 | 385,782 | 433,719 |
| Financial guarantees | **995,631** | 995,631 | 995,631 | - | - | - | - |
| **As at 31 December 2014** | | | | | | | |
| Due to banks and financial institutions | **36,679,504** | 36,694,823 | 35,876,995 | 799,385 | 18,443 | - | - |
| Repurchase agreements | **13,875,917** | 13,879,251 | 13,879,251 | - | - | - | - |
| Euro commercial paper | **5,484,176** | 5,490,308 | 3,541,736 | 1,948,572 | - | - | - |
| Customer accounts and other deposits | **243,184,652** | 244,135,771 | 229,315,983 | 11,869,634 | 1,712,236 | 943,853 | 294,065 |
| Term borrowings | **14,998,716** | 17,342,734 | 2,971,099 | 767,846 | 3,889,148 | 7,295,977 | 2,418,664 |
| Subordinated notes | **1,516,641** | 1,902,825 | 2,428 | 33,218 | 1,093,225 | 49,780 | 724,174 |
| | **315,739,606** | **319,445,712** | **285,587,492** | **15,418,655** | **6,713,052** | **8,289,610** | **3,436,903** |
| Undrawn commitments to extend credit | **22,100,064** | 22,100,064 | 19,906,564 | 1,432,581 | 459,905 | 301,014 | - |
| Financial guarantees | **1,031,799** | 1,031,799 | 1,031,799 | - | - | - | - |

## 4 Financial risk management *(continued)*

### (c) Market risk

Market risk is the risk that the Group's income and / or value of a financial instrument will fluctuate because of changes in market factors such as interest rates, credit spreads, foreign exchange rates and market prices of equity and commodity.

**Management of market risk**
The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are held by the Wholesale - Global Markets Division, together with financial assets and financial liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in the Group Risk Committee (GRC) and Group Asset & Liability Committee (G-ALCO), which sets limits for each type of risk in aggregate and for specific portfolios. Risk Group is responsible for the development of detailed risk management policies (subject to review and approval by the GRC).

**Exposure to market risks – trading portfolios**
The principal analytical tool used to measure and control market risk exposure within the Group's trading portfolios which comprise of investments at fair value through profit or loss and trading derivatives is Value at Risk ("VaR"). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model uses historical simulation based on a 99% confidence level and assumes a 1-day holding period. Using market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

The Group uses VaR limits for foreign exchange, interest rate and credit spread. The overall structure of VaR limits is subject to review and approval by the GRC. VaR limits are allocated to trading portfolios.

VaR is driven by actual historical observations and hence, it is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation the VaR is further supplemented with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. Moreover the trading activity at Group and desk level is subject to Management Action Triggers ("MAT") that are limits on maximum losses that trigger actions from management. The VaR is as follows:

| | As at | | Average | | Minimum | | Maximum | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| | **AED'000** | AED'000 | **AED'000** | AED'000 | **AED'000** | AED'000 | **AED'000** | AED'000 |
| VaR – Trading Book | **16,984** | 8,315 | **12,220** | 12,115 | **7,023** | 5,332 | **24,505** | 25,123 |
| Foreign exchange | **15,131** | 1,809 | **9,220** | 2,388 | **46** | 247 | **22,525** | 7,174 |
| Interest Rate | **6,549** | 7,560 | **6,663** | 9,749 | **5,294** | 4,656 | **11,011** | 18,856 |
| Credit | **3,869** | 4,191 | **3,618** | 5,346 | **1,910** | 1,430 | **5,346** | 14,719 |
| Diversification benefit | **(8,565)** | (5,245) | **(7,281)** | (5,368) | **(227)** | (1,001) | **(14,377)** | (15,626) |

Equity and commodity risks are not currently captured in the VaR model. These are under regular monitoring by the Risk Group through a set of market risk sensitivities, notional limits, and management action triggers.

## 4 Financial risk management *(continued)*

### (c) Market risk *(continued)*

**Exposure to market risk – banking portfolios**

Exposure to Market Risk in the banking portfolios which comprise of non-trading investments, reverse repurchase agreements and certain derivative instruments which are designated as hedging instruments arises primarily from the investment portfolios, interest rate gaps in the banking book, and the Group's overall FX positions.

The principal analytical tool used to measure and control the investment risk exposure within the Group is Value at Risk ("VaR"). The VaR model is the same as the one used for the trading portfolios. The Group uses VaR limits for controlling the overall investment risk, including foreign exchange, interest rate and credit spread. The overall structure of VaR limits is subject to review and approval by the GRC. VaR limits are allocated to different Investment portfolios. The investment risk VaR was as follows:

| | As at | | Average | | Minimum | | Maximum | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| | **AED'000** | AED'000 | **AED'000** | AED'000 | **AED'000** | AED'000 | **AED'000** | AED'000 |
| VaR – Banking Book | **97,072** | 81,943 | **84,105** | 89,735 | **59,546** | 72,958 | **103,427** | 117,435 |
| Foreign exchange | **14,591** | 1,455 | **8,219** | 2,812 | **1,579** | 1,058 | **21,576** | 6,953 |
| Interest Rate | **29,071** | 27,779 | **21,639** | 18,540 | **13,209** | 10,896 | **30,885** | 41,853 |
| Credit | **95,737** | 82,012 | **84,952** | 93,639 | **57,904** | 79,998 | **99,775** | 118,004 |
| Diversification benefit | **(42,327)** | (29,303) | **(30,705)** | (25,256) | **(13,146)** | (18,994) | **(48,809)** | (49,375) |

**Interest rate risk**

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities. Overall interest rate risk positions are managed by using derivative instruments to manage overall position arising from the Group's interest bearing financial instruments. The use of derivatives to manage interest rate risk is described in note 39.

The substantial portion of the Group's assets and liabilities are re-priced within one year. Accordingly there is a limited exposure to interest rate risk.

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The Group assumes a fluctuation in interest rates of 50 basis points *(2014: 50 basis points)* and estimates the following impact on the net profit for the year and equity at that date:

| | **Net profit for the year** | | **Equity** | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | 2014 |
| | **AED'000** | AED'000 | **AED'000** | AED'000 |
| Fluctuation in yield | **341,366** | 215,762 | **325,071** | 79,434 |

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 303,986 million *(2014: AED 278,229 million)* interest bearing assets and AED 251,024 million *(2014: AED 247,779 million)* interest bearing liabilities with interest re-pricing less than one year, for assessing the impact on net profit. The impact on equity includes the impact on net profit and the interest rate sensitivity on the available for sale portfolio. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

## 4 Financial risk management *(continued)*

### (c) Market risk *(continued)*

The Group's interest rate gap and sensitivity position based on contractual re-pricing arrangements at 31 December 2015 was as follows:

| | Total AED'000 | Up to 3 months AED'000 | 3 months to 1 year AED'000 | 1 to 3 years AED'000 | 3 to 5 years AED'000 | Over 5 years AED'000 | Non interest bearing AED'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with central banks | **76,382,109** | 63,825,448 | 537,615 | - | - | - | 12,019,046 |
| Investments at fair value through profit or loss | **12,291,138** | 3,188,869 | 2,985,752 | 2,469,923 | 622,175 | 1,342,499 | 1,681,920 |
| Due from banks and financial institutions | **10,891,768** | 9,699,649 | 259,027 | - | - | - | 933,092 |
| Reverse repurchase agreements | **13,330,186** | 10,671,881 | 2,658,305 | - | - | - | - |
| Derivative financial instruments | **10,574,091** | - | - | - | - | - | 10,574,091 |
| Loans and advances | **205,913,553** | 186,893,571 | 13,963,140 | 1,392,181 | 1,945,374 | 1,365,226 | 354,061 |
| Non-trading investments | **63,794,151** | 6,958,927 | 2,344,295 | 6,852,960 | 15,639,730 | 31,825,636 | 172,603 |
| Other assets | **10,550,483** | - | - | - | - | - | 10,550,483 |
| Investment properties | **190,546** | - | - | - | - | - | 190,546 |
| Property and equipment | **2,645,782** | - | - | - | - | - | 2,645,782 |
| | **406,563,807** | **281,238,345** | **22,748,134** | **10,715,064** | **18,207,279** | **34,533,361** | **39,121,624** |
| **Liabilities and equity** | | | | | | | |
| Due to banks and financial institutions | **42,808,215** | 33,537,182 | 6,657,402 | 18,873 | 199,802 | - | 2,394,956 |
| Repurchase agreements | **30,550,652** | 27,963,532 | 2,587,120 | - | - | - | - |
| Euro commercial paper | **8,720,597** | 7,125,622 | 1,594,975 | - | - | - | - |
| Derivative financial instruments | **12,852,358** | - | - | - | - | - | 12,852,358 |
| Customer accounts and other deposits | **233,814,558** | 153,391,129 | 15,876,123 | 3,444,461 | 607,537 | 376,310 | 60,118,998 |
| Term borrowings | **17,740,968** | 1,376,733 | - | 5,767,088 | 7,422,561 | 3,174,586 | - |
| Other liabilities | **15,582,508** | - | - | - | - | - | 15,582,508 |
| Subordinated notes | **1,275,298** | 914,205 | - | - | - | 361,093 | - |
| Equity | **43,218,653** | - | - | - | - | - | 43,218,653 |
| | **406,563,807** | **224,308,403** | **26,715,620** | **9,230,422** | **8,229,900** | **3,911,989** | **134,167,473** |
| On statement of financial position gap | | 56,929,942 | (3,967,486) | 1,484,642 | 9,977,379 | 30,621,372 | (95,045,849) |
| Off statement of financial position gap | | 19,620,165 | 7,412,516 | 146,045 | (1,852,733) | (24,992,293) | (333,700) |
| **Total interest rate sensitivity gap** | | **76,550,107** | **3,445,030** | **1,630,687** | **8,124,646** | **5,629,079** | **(95,379,549)** |
| **Cumulative interest rate sensitivity** | | **76,550,107** | **79,995,137** | **81,625,824** | **89,750,470** | **95,379,549** | **-** |

## 4 Financial risk management *(continued)*

### (c) Market risk *(continued)*

The Group's interest rate gap and sensitivity position based on contractual re-pricing arrangements at 31 December 2014 was as follows:

| | Total AED'000 | Up to 3 months AED'000 | 3 months to 1 year AED'000 | 1 to 3 years AED'000 | 3 to 5 years AED'000 | Over 5 years AED'000 | Non interest bearing AED'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with central banks | **55,452,341** | 37,940,584 | 3,537,846 | - | - | - | 13,973,911 |
| Investments at fair value through profit or loss | **15,425,662** | 5,320,282 | 3,544,230 | 3,500,216 | 572,182 | 939,742 | 1,549,010 |
| Due from banks and financial institutions | **11,134,262** | 10,013,326 | 659,516 | - | - | - | 461,420 |
| Reverse repurchase agreements | **15,844,377** | 14,525,319 | 1,319,058 | - | - | - | - |
| Derivative financial instruments | **7,422,828** | - | - | - | - | - | 7,422,828 |
| Loans and advances | **194,279,352** | 179,263,873 | 10,626,271 | 785,660 | 1,964,399 | 1,176,727 | 462,422 |
| Non-trading investments | **67,493,122** | 6,994,356 | 4,484,108 | 13,612,369 | 8,897,148 | 32,882,201 | 622,940 |
| Other assets | **6,370,981** | - | - | - | - | - | 6,370,981 |
| Investment properties | **177,533** | - | - | - | - | - | 177,533 |
| Property and equipment | **2,498,254** | - | - | - | - | - | 2,498,254 |
| | **376,098,712** | **254,057,740** | **24,171,029** | **17,898,245** | **11,433,729** | **34,998,670** | **33,539,299** |
| **Liabilities and equity** | | | | | | | |
| Due to banks and financial institutions | **36,679,504** | 34,087,388 | 796,028 | 18,351 | - | - | 1,777,737 |
| Repurchase agreements | **13,875,917** | 13,875,917 | - | - | - | - | - |
| Euro commercial paper | **5,484,176** | 3,540,073 | 1,944,103 | - | - | - | - |
| Derivative financial instruments | **10,953,124** | - | - | - | - | - | 10,953,124 |
| Customer accounts and other deposits | **243,184,652** | 179,848,560 | 10,415,527 | 1,391,507 | 744,030 | 162,356 | 50,622,672 |
| Term borrowings | **14,998,716** | 2,768,851 | 502,628 | 3,192,007 | 6,745,751 | 1,789,479 | - |
| Other liabilities | **11,442,600** | - | - | - | - | - | 11,442,600 |
| Subordinated notes | **1,516,641** | - | - | 1,037,047 | - | 479,594 | - |
| Equity | **37,963,382** | - | - | - | - | - | 37,963,382 |
| | **376,098,712** | **234,120,789** | **13,658,286** | **5,638,912** | **7,489,781** | **2,431,429** | **112,759,515** |
| On statement of financial position gap | | 19,936,951 | 10,512,743 | 12,259,333 | 3,943,948 | 32,567,241 | (79,220,216) |
| Off statement of financial position gap | | 26,624,636 | (4,083,326) | 4,324,836 | (759,154) | (26,106,992) | - |
| **Total interest rate sensitivity gap** | | **46,561,587** | **6,429,417** | **16,584,169** | **3,184,794** | **6,460,249** | **(79,220,216)** |
| **Cumulative interest rate sensitivity** | | **46,561,587** | **52,991,004** | **69,575,173** | **72,759,967** | **79,220,216** | **-** |

## 4 Financial Risk Management *(continued)*

### (c) Market risk *(continued)*

**Foreign exchange risk**

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the UAE Dirham. The Board of Directors has set limits on positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits. At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

| | **Net spot position (short)/long AED'000** | **Forward position (short)/long AED'000** | **Total 2015 (short)/long AED'000** | Total 2014 (short)/long AED'000 |
|---|---|---|---|---|
| **Currency** | | | | |
| US Dollar | 36,696,915 | (16,547,815) | **20,149,100** | 10,020,237 |
| UK Sterling Pound | (9,462,720) | 9,297,239 | **(165,481)** | 212,434 |
| Euro | 5,141,779 | (5,472,359) | **(330,581)** | 189,181 |
| Kuwaiti Dinar | (907,613) | 857,960 | **(49,653)** | (526,251) |
| Chinese Yuan | (1,041,858) | 1,043,328 | **1,470** | (2,750) |
| Saudi Riyal | (607,351) | (5,694,882) | **(6,302,232)** | (2,327,591) |
| Japanese Yen | 1,721,515 | (1,701,947) | **19,568** | 40,441 |
| Swiss Franc | 221,468 | (205,495) | **15,973** | 470,466 |
| Qatari Riyal | (66,289) | 1,742,903 | **1,676,614** | 1,361,069 |
| Bahraini Dinar | 220,175 | (432,717) | **(212,542)** | 79,843 |
| Egyptian Pound | (6,302) | (48,139) | **(54,441)** | 375,877 |
| Jordanian Dinar | 533,025 | (234,402) | **298,623** | 266,422 |
| Malaysian Ringgit | (585,852) | 562,711 | **(23,141)** | 133,456 |

As AED, SAR and QAR are pegged against US Dollar, the Group's risk exposure to these currencies is limited to that extent. Exposure to other foreign currencies is insignificant.

**Equity price risk**

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

### (d) Operational risk

Operational risk is defined as the risk of losses resulting from inadequate or failed processes, people & systems or from external events, this includes legal and technology risk and excludes strategic and reputation risk.

Operational risks arise across all businesses in the Group. The primary responsibility to ensure that risks are managed and monitored resides with the businesses within the Group. Group's businesses are supported by Embedded risk functions and Group Operational Risk Management as 'second line of defence' to ensure robust risk management.

Further, there are reviews conducted by Group Internal Audit as the 'third line of defence'. The results of internal audit reviews are discussed with the management of the respective divisions and summaries are submitted to the Audit Committee.

## 4 Financial Risk Management *(continued)*

### (d) Operational risk *(continued)*

The Group has an established Operational Risk framework consisting of policies and procedures to identify, assess, monitor, control, report and to manage risks and to notify, identify and rectify incidents. The Operational Risk framework also provides the interrelation with other risk categories. Where appropriate, risk is mitigated by way of insurance.

Typically, Operational Risk events are classified as:

- Internal fraud: Risk of unauthorized activity and fraud perpetrated by employees
- External fraud: Risk of fraud or breach of system security by an external party
- Employee practices & workplace safety: Risk of failures in employee relations, diversity and discrimination, and health and safety risks across the Group
- Damage to physical assets: Risk of impact to the Group due to natural disasters
- Clients, Products & Business Practices: Risk of failing in assessing client suitability, fiduciary responsibilities, improper business practices, flawed products and advisory activities.
- Business Disruption & System failures: Risk of not planning and testing business continuity and disaster recovery for systems
- Execution delivery and process management: Risk of failed transaction execution, customer intake and documentation, vendor management and monitoring and reporting.

The Board has oversight responsibilities for operational risk management across the Group. These responsibilities are delegated and exercised through the Group Risk Committee, which is the senior management forum responsible for the oversight of Operational Risk.

Key responsibilities of Group Risk Committee with regards to Operational risk include to ensure:

- Approval of the Group Operational Risk Management Framework and oversight over its implementation
- Approve large incidents as per the Operational Risk management approval matrix
- Approve the strategy and direction for Operational Risk across the group.

## 4 Financial Risk Management *(continued)*

### (e) Capital management

The Group is governed by CBUAE guidelines on regulatory capital requirements for the Group, in addition the overseas branches and subsidiaries may be directly supervised by their local regulators. The capital management process for the Group is linked to the overall business strategy to ensure that capital is adequate to the level of inherent risk in the business and within the firm's capital risk appetite The Group conducts capital planning in conjunction with the financial budgeting exercise.

The Board and top management define the long term strategic direction for the Group. This provides the framework for the development of a bottom up plan based on the projections from individual business units. The bottom up plan is an input to the annual budgeting process and is conducted at a business unit and country level. These are consolidated for each business division and finally, for the entire Group. Business units, within each division, develop forecasted balance sheet and P&L statements for the next year, by considering the following key parameters:

- the short term (one year) goals
- risk appetite & strategy
- target growth rates
- target returns

The Group's capital management policies aim to ensure that it has sufficient capital to cover the risks associated with its activities and the allocation of capital across the group The assessment of the various risks across the Group and their likely impact is carried out in conjunction with ICAAP undertaken annually. As part of the ICAAP process, GRMD identifies the various risks the Group is exposed to as part of its day-to-day operations. Next the Group sets in place policies and procedures, frameworks and methodologies, contingency plans and other processes to measure, manage and mitigate the impact of such risks. Finally the Group determines the risks which would be covered by capital.

The key objectives of the Group's capital management process are:

- Maintain sufficient capital to meet minimum capital requirement set by CBUAE as well as to ensure transition to Basel III in terms of capital ratios.
- Maintain sufficient capital to support Group's Risk Appetite and strategic objectives as per long-term strategic plan.
- Maintain adequate capital to withstand stress scenarios including increased capital requirements determined through ICAAP.
- To support the Group's credit rating.

The Group conducts a multi-year stress test exercise in which the Balance Sheet and Profit or Loss statements are determined for base case and stress scenarios. The risk factors are impacted by the assumptions made for the base and stress scenarios and the corresponding impact on the capital adequacy is determined. The Group uses macroeconomic stress tests in order to project capital need and capital levels under various unfavourable scenarios. The tests are perceived as an important tool in internal capital planning. The stress test result during 2015 shows that the Group has adequate capital in the event of adverse scenarios during the next 3-year period.

## 4 Financial risk management *(continued)*

### (e) Capital management *(continued)*

The Group's regulatory capital adequacy ratio, set by the Central Bank of the UAE at a minimum level of 12% *(2014: 12%)*, of which Tier 1 is to be 8% *(2014: 8%)* is analysed into two tiers as follows:

| | **Basel II 2015 AED'000** | Basel II 2014 AED'000 |
|---|---|---|
| **Tier 1 capital** | | |
| Ordinary share capital | **5,463,885** | 4,968,645 |
| Retained earnings | **6,788,805** | 6,611,812 |
| Statutory and special reserve | **5,209,722** | 4,736,112 |
| General reserve and share option scheme | **19,283,274** | 17,325,759 |
| Foreign currency translation reserve | **(132,879)** | (112,143) |
| Convertible notes - equity component | **-** | 108,265 |
| Tier 1 capital notes | **6,754,750** | 4,000,000 |
| Deductions from Tier 1 capital | **(269,355)** | (17,647) |
| **Total** | **43,098,202** | 37,620,803 |
| **Tier 2 capital** | | |
| Fair value reserve | **(331,937)** | 146,220 |
| Qualifying subordinated liabilities | **361,093** | 687,004 |
| Allowance for collective impairment | **2,962,209** | 2,582,619 |
| Deductions from Tier 2 capital | **(15,752)** | (17,647) |
| **Total** | **2,975,613** | 3,398,196 |
| **Total regulatory capital base** | **46,073,815** | 41,018,999 |
| *Risk weighted assets:* | | |
| Credit risk | **236,976,736** | 209,665,272 |
| Market risk | **20,397,958** | 23,611,281 |
| Operational risk | **17,883,226** | 16,936,730 |
| **Risk weighted assets** | **275,257,920** | 250,213,283 |
| **Tier 1 capital ratio** | **15.66%** | 15.04% |
| **Capital adequacy ratio** | **16.74%** | 16.39% |

The Bank and its overseas branches and subsidiaries have complied with all externally imposed capital requirements for all periods presented.

## 5 Use of estimates and judgements

In the process of applying the Group's accounting policies, IFRS require the management to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent and would result in relevant and reliable information. The management, based on guidance in IFRS and the IASB's Framework for the Preparation and Presentation of Financial Statements has made these estimates and judgements. Listed below are those estimates and judgement which could have the most significant effect on the amounts recognised in the consolidated financial statements.

*Key sources of estimation uncertainty*

### (i) Impairment charge on loans and advances and non-trading investments

Impairment losses are evaluated as described in accounting policy 3(b) (vii) and 4(a).

The Group evaluates impairment on loans and advances and non-trading investments on an ongoing basis and a comprehensive review on a quarterly basis to assess whether an impairment charge should be recognised in the consolidated statement of profit or loss. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment charge required. In estimating these cash flows, management makes judgements about counterparty's financial situation and other means of settlement and the net realisable value of any underlying collateral. Such estimates are based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such impairment charges.

### (ii) Collective impairment charge

Collective impairment charge is evaluated as described in accounting policy 3(b) (vii) and 4(a) .

In addition to specific impairment charge against individually impaired assets, the Group also maintains a collective impairment allowance against portfolios of loans and advances with similar economic characteristics which have not been specifically identified as impaired. In assessing the need for collective impairment charge, management considers concentrations, credit quality, portfolio size and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical and current economic conditions.

### (iii) Impairment charge on property and equipment and investment properties

Impairment losses are evaluated as described in accounting policy 3(j) (iii) and 3(k)(iv).

In determining the net realisable value, the Group uses the selling prices determined by external independent valuer's companies, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The selling prices are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction.

### (iv) Contingent liability arising from litigations

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

### (v) Share option scheme

The fair value of the share option scheme is determined using the Black-Scholes model. The model inputs comprise share price, exercise price, share price volatility, contractual life of the option, dividend yield and risk-free interest rate.

## 5 Use of estimates and judgements *(continued)*

*Key sources of estimation uncertainty (continued)*

### (vi) Valuation of financial instruments

The valuation techniques of financial instruments may require certain unobservable inputs to be estimated by the management. These are discussed in detail in note 6.

### (vii) Defined benefit plan

The present value of the defined benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost(income) for obligations include the discount rate. Any changes in these assumptions would impact the carrying amount of the defined benefit obligation.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of the estimated future cash flows expected to be required to settle the future obligations. In determining the appropriate discount rate, the Group considers interest rate of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have the terms to maturity approximating the terms of related benefit obligation.

Other key assumptions for defined benefit obligations are based in part on current market conditions. Additional information on these assumptions are disclosed in note 21.

*Critical accounting judgements in applying the Group's accounting policies include:*

### (a) Financial asset and liability classification

The Group's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

In classifying financial assets as "fair value through profit or loss", "held-to-maturity" or "available-for-sale", the Group has determined it meets the description as set out in accounting policy 3(b) (ii).

### (b) Qualifying hedge relationships

In designating financial instruments as qualifying hedge relationships, the Group has determined that it expects the hedge to be highly effective over the life of the hedging relationship.

### (c) Determination of fair value hierarchy of financial instruments

The Group's determination of fair value hierarchy of financial instruments is discussed in note 6.

### (d) Structured entities

For all funds managed by the Group, the investors are able to vote by simple majority to remove the Group as fund manager, and the Group's aggregate economic interest in each fund is not material. As a result, the Group has concluded that it acts as agent for the investors in these funds, and therefore has not consolidated these funds.

### (e) Operating segments

In preparation of the segment information disclosure, the management has made certain assumptions to arrive at the segment reporting. These assumptions would be reassessed by the management on a periodic basis. Operating segments are detailed in note 41.

## 6 Financial assets and liabilities

### (a) Valuation control framework

The Group has an established control framework with respect to the measurement of fair value. This framework includes a Valuation Committee that reports to the Group Risk Committee. The Group also has control functions to support this framework (Product Control, Independent Price Verification, Model Validation and Group Market Risk) that are independent of front office management. Specific controls include:

- Independence in valuation process between risk taking units and control units;
- System for valuations;
- Verification of observable pricing;
- Review and approval process for new models and changes to models;
- Analysis and investigation of significant daily valuation movements; and
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments.

The fair values of due from banks and financial institutions, reverse repurchase agreement , due to banks and financial institutions, repurchase agreements and Customer accounts and other deposits which are predominantly short term in tenure and issued at market rates, are considered to reasonably approximate their book value.

The Group estimates that the fair value of its loans and advances portfolio is not materially different from its book value since the majority of loans and advances carry floating market rates of interest and are frequently re-priced. For loans considered impaired, expected cash flows, including anticipated realisation of collateral, were discounted using an appropriate rate and considering the time to collect, the net result of which is not materially different from the carrying value.

### (b) Determination of fair values

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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable input have a significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices of similar instruments after making adjustments based on unobservable inputs that are necessary to reflect fair value of the instrument.

## 6 Financial assets and liabilities *(continued)*

### (c) Valuation techniques

All financial assets and liabilities are measured at amortised cost except for derivatives, investment at fair value through profit or loss and available-for-sale investments which are measured at fair value by reference to published price quotations in an active market or from prices quoted by counterparties or through use of valuation techniques.

Fair value of financial assets and liabilities that are traded in active market are based on quoted market price or dealer price quotations. For all other financial instruments, the Group determines fair value using valuation techniques, such as discounted cash flow models, benchmarking against similar instruments for which observable market prices exist, Black-Scholes model or other valuation models. Each valuation technique models the behaviour of underlying market factors. These market factors include interest rates, credit spreads and other inputs used in estimating discount rates, bond prices, foreign exchange rates, equity and equity index prices, volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common financial instruments, such as interest rate and currency swaps that use only observable market data. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses third party valuation models, which are developed from recognised valuation models. These valuation models require expert judgement for the selection of the most appropriate valuation model to be used including input market data and underlying assumptions for the determination of fair value.

Model inputs and parameters can be calibrated against historical data and market prices for plain vanilla instruments, published forecasts and current or recent observed transactions in similar instruments. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and expert judgement is required to select the most appropriate point in the range.

### (d) Fair Value adjustment

***Credit Valuation Adjustments***
The Group modelled the CVA adjustment in 2015 taking into account trades subject to collateral and netting agreements. The methodology for CVA calculation relies on three components: a standard loss given default assumption of 60% is used for the exposures, the probability of default of the counterparty is implied from credit spreads or credit rating, the expected positive exposure is calculated using simulation methodology or simplified add-on approach. The methodology does not account for wrong way risk.

***Model-related adjustments***
Model related adjustments are applied when either model inputs are overly simplified or the model has limitations deriving the fair value of a position. These adjustments are required to correct existing model weaknesses or deficiencies that were highlighted during the model review process.

## 6 Financial assets and liabilities *(continued)*

### (e) Fair value of financial instruments

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

| | Designated at fair value through profit or loss AED'000 | Held for trading AED'000 | Available for sale AED'000 | Held to maturity AED'000 | Loans and receivables AED'000 | Amortised cost AED'000 | Carrying amount AED'000 |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| Cash and balances with central banks | - | - | - | - | 76,382,109 | - | **76,382,109** |
| Investments at fair value through profit or loss | 11,343 | 12,279,795 | - | - | - | - | **12,291,138** |
| Due from banks and financial institutions | - | - | - | - | 10,891,768 | - | **10,891,768** |
| Reverse repurchase agreements | - | - | - | - | 13,330,186 | | **13,330,186** |
| Derivative financial instruments | 1,098,136 | 9,475,955 | - | - | - | - | **10,574,091** |
| Loans and advances | - | - | - | - | 205,913,553 | - | **205,913,553** |
| Non-trading investments | - | - | 57,002,707 | 6,791,444 | - | - | **63,794,151** |
| Other assets | - | - | - | - | 10,396,640 | - | **10,396,640** |
| | **1,109,479** | **21,755,750** | **57,002,707** | **6,791,444** | **316,914,256** | **-** | **403,573,636** |
| **Financial Liabilities** | | | | | | | |
| Due to banks and financial institutions | - | - | - | - | - | 42,808,215 | **42,808,215** |
| Repurchase agreements | - | - | - | - | - | 30,550,652 | **30,550,652** |
| Euro commercial paper | - | - | - | - | - | 8,720,597 | **8,720,597** |
| Derivative financial instruments | 3,900,635 | 8,951,723 | - | - | - | - | **12,852,358** |
| Customer accounts and other deposits | - | - | - | - | - | 233,814,558 | **233,814,558** |
| Term borrowings | - | - | - | - | - | 17,740,968 | **17,740,968** |
| Other liabilities[1] | - | 3,363,136 | - | - | - | 11,323,391 | **14,686,527** |
| Subordinated notes | - | - | - | - | - | 1,275,298 | **1,275,298** |
| | **3,900,635** | **12,314,859** | **-** | **-** | **-** | **346,233,679** | **362,449,173** |

[1] *Other liabilities that are held for trading are classified as level 1 in the fair value hierarchy.*

## 6 Financial assets and liabilities *(continued)*

### (e) Fair value of financial instruments *(continued)*

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

| | Designated at fair value through profit or loss AED'000 | Held for trading AED'000 | Available for sale AED'000 | Held to maturity AED'000 | Loans and receivables AED'000 | Amortised cost AED'000 | Carrying amount AED'000 |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| Cash and balances with central banks | - | - | - | - | 55,452,341 | - | **55,452,341** |
| Investments at fair value through profit or loss | 16,630 | 15,409,032 | - | - | - | - | **15,425,662** |
| Due from banks and financial institutions | - | - | - | - | 11,134,262 | - | **11,134,262** |
| Reverse repurchase agreements | - | - | - | - | 15,844,377 | - | **15,844,377** |
| Derivative financial instruments | 240,300 | 7,182,528 | - | - | - | - | **7,422,828** |
| Loans and advances | - | - | - | - | 194,279,352 | - | **194,279,352** |
| Non-trading investments | - | - | 61,957,514 | 5,535,608 | - | - | **67,493,122** |
| Other assets | - | - | - | - | 6,220,564 | - | **6,220,564** |
| | **256,930** | **22,591,560** | **61,957,514** | **5,535,608** | **282,930,896** | **-** | **373,272,508** |
| **Financial Liabilities** | | | | | | | |
| Due to banks and financial institutions | - | - | - | - | - | 36,679,504 | **36,679,504** |
| Repurchase agreements | - | - | - | - | - | 13,875,917 | **13,875,917** |
| Euro commercial paper | - | - | - | - | - | 5,484,176 | **5,484,176** |
| Derivative financial instruments | 4,153,336 | 6,799,788 | - | - | - | - | **10,953,124** |
| Customer accounts and other deposits | - | - | - | - | - | 243,184,652 | **243,184,652** |
| Term borrowings | - | - | - | - | - | 14,998,716 | **14,998,716** |
| Other liabilities[1] | - | 2,270,053 | - | - | - | 8,325,861 | **10,595,914** |
| Subordinated notes | - | - | - | - | - | 1,516,641 | **1,516,641** |
| | **4,153,336** | **9,069,841** | **-** | **-** | **-** | **324,065,467** | **337,288,644** |

[1] *Other liabilities that are held for trading are classified as level 1 in the fair value hierarchy.*

## 6 Financial assets and liabilities *(continued)*

### (e) Fair value of financial instruments *(continued)*

The Group's financial assets and financial liabilities that are classified as loans and receivables and at amortised cost, are categorised under Level 3 in the fair value hierarchy, as there is no active market for such assets and liabilities. The Bank considers these to have a fair value approximately equivalent to their net carrying value as majority of such financial instrument carry variable interest rates and relatively short tenor of maturity.

### (f) Financial instrument measured at fair value - hierarchy

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

| | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| **As at 31 December 2015** | | | | |
| Financial assets held for trading | **8,954,986** | **3,324,809** | **-** | **12,279,795** |
| Designated at fair value through profit and loss | **11,343** | **-** | **-** | **11,343** |
| Available-for-sale financial assets | **51,176,761** | **5,812,140** | **13,806** | **57,002,707** |
| Derivative financial instruments (Assets) | **4,982** | **10,569,109** | **-** | **10,574,091** |
| Derivative financial instruments (Liabilities) | **(73,799)** | **(12,778,559)** | **-** | **(12,852,358)** |
| | **60,074,273** | **6,927,499** | **13,806** | **67,015,578** |
| **As at 31 December 2014** | | | | |
| Financial assets held for trading | 12,506,693 | 2,902,339 | - | 15,409,032 |
| Designated at fair value through profit and loss | - | 16,630 | - | 16,630 |
| Available-for-sale financial assets | 57,290,896 | 4,652,747 | 13,871 | 61,957,514 |
| Derivative financial instruments (Assets) | 1,785 | 7,421,043 | - | 7,422,828 |
| Derivative financial instruments (Liabilities) | (6,520) | (10,946,604) | - | (10,953,124) |
| | 69,792,854 | 4,046,155 | 13,871 | 73,852,880 |

Certain available-for-sale investment securities have been disclosed under Level 3 of the fair value hierarchy as management has recorded these at cost in the absence of observable market data. Management has deemed cost to be a close approximation of their fair value.

There were no transfers between the fair value hierarchies for any financial asset or liability except for three corporate bonds amounting to AED 528 million *(2014: AED 24 million)* which were transferred from Level 1 to Level 2 due to lack of direct pricing inputs.

The following table shows a reconciliation from the beginning balances to the ending balances for instruments measured at fair value and classified as Level 3:

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| **Available-for-sale financial assets** | | |
| Balance as at 1 January | **13,871** | 13,593 |
| Purchases | **-** | - |
| Settlements and other adjustments | **(65)** | 278 |
| Balance as at 31 December | **13,806** | 13,871 |

## 7 Cash and balances with central banks

| | **2015** **AED'000** | 2014 AED'000 |
|---|---|---|
| Cash on hand | **1,537,890** | 1,488,410 |
| Central Bank of the UAE | | |
| cash reserve deposits | **12,286,267** | 11,269,355 |
| certificates of deposits | **41,055,045** | 3,500,000 |
| other balances | **1,339,930** | 9,903,969 |
| Balances with other central banks | | |
| cash reserve deposits | **1,107,314** | 2,466,507 |
| other deposits and balances | **19,055,663** | 26,824,100 |
| | **76,382,109** | 55,452,341 |

Cash reserve deposits are not available for the day to day operations of the Group.

## 8 Investments at fair value through profit or loss

| | **2015** **AED'000** | 2014 AED'000 |
|---|---|---|
| Managed portfolios | **1,339,604** | 1,354,939 |
| Debt instruments | **10,609,218** | 13,876,652 |
| Equity instruments | **342,316** | 194,071 |
| | **12,291,138** | 15,425,662 |

Equity instruments include investments designated at fair value through profit or loss amounting to AED 11,343 thousand *(2014: AED 16,630 thousand).*

## 9 Due from banks and financial institutions

| | **2015** **AED'000** | 2014 AED'000 |
|---|---|---|
| Current, call and notice deposits | **1,904,795** | 965,667 |
| Margin deposits | **7,777,902** | 7,107,875 |
| Fixed deposits | **1,209,071** | 3,034,927 |
| Wakala placements | **-** | 25,793 |
| | **10,891,768** | 11,134,262 |

## 10 Reverse repurchase agreements

The Group enters into reverse repurchase agreements in the normal course of business in which the third party transfers financial assets to the Group for short term financing. The carrying amount of financial assets at the reporting date amounted to AED 13,330 million *(2014: AED 15,844 million).*

No allowances for impairment have been recognised against reverse repurchase agreements during the year *(2014: nil).*

## 10 Reverse repurchase agreements *(continued)*

At 31 December 2015, the fair value of financial assets accepted as collateral that the Group is permitted to sell or re-pledge in the absence of default was AED 14,077 million *(2014: AED 16,564 million).*

At 31 December 2015, the fair value of financial assets accepted as collateral that have been sold or re-pledged was AED 4,662 million *(2014: AED 3,774 million)*. The Group is obliged to return equivalent securities.

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

## 11 Loans and advances

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Gross loans and advances | **213,075,191** | 202,072,325 |
| Less: interest suspended | **(1,036,665)** | (1,124,889) |
| Less: allowance for impairment | **(6,124,973)** | (6,668,084) |
| Net loans and advances | **205,913,553** | 194,279,352 |

An analysis of gross loans and advances by counterparty at the reporting date is shown below:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Government sector | **20,319,828** | 23,435,215 |
| Public sector | **44,130,248** | 41,284,684 |
| Banking sector | **23,337,915** | 24,108,739 |
| Corporate / private sector | **89,918,130** | 81,019,004 |
| Personal / retail sector | **35,369,070** | 32,224,683 |
| Gross loans and advances | **213,075,191** | 202,072,325 |

An analysis of gross loans and advances by product as at the reporting date is shown below:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Overdrafts | **12,025,168** | 14,101,326 |
| Term loans | **125,060,273** | 117,015,766 |
| Trade related loans | **24,575,687** | 24,455,002 |
| Real estate and mortgage loans | **34,255,050** | 30,957,049 |
| Personal loans | **13,793,431** | 12,165,978 |
| Credit cards | **1,716,439** | 1,811,662 |
| Vehicle financing loans | **1,649,143** | 1,565,542 |
| Gross loans and advances | **213,075,191** | 202,072,325 |

## 11 Loans and advances *(continued)*

The movement in the allowance for impairment during the year is shown below:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| At 1 January | **6,668,084** | 6,327,026 |
| Charge for the year | | |
| Collective provision | **503,282** | 574,433 |
| Specific provision | **1,476,162** | 1,152,484 |
| Recoveries | **(378,847)** | (473,901) |
| Write-backs during the year | **(685,050)** | (411,158) |
| Amounts written off | **(1,458,658)** | (500,800) |
| At 31 December | **6,124,973** | 6,668,084 |

The Group provides lending against investment in equity securities and funds. The Group is authorised to liquidate these instruments if their coverage falls below the certain agreed threshold. The carrying value of such loans is AED 7,592 million *(2014: AED 9,977 million)* and the fair value of instruments held as collateral against such loans is AED 20,225 million *(2014: AED 23,324 million)*. During the year, the Group has liquidated insignificant amount of collaterals due to fall in the coverage ratio.

### Islamic financing

Included in the above loans and advances are the following Islamic financing contracts:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Ijara | **5,534,022** | 5,807,880 |
| Murabaha | **3,667,084** | 2,880,632 |
| Mudaraba | **16,230** | 3,984 |
| Others | **12,405** | 8,591 |
| **Total Islamic financing contracts** | **9,229,741** | 8,701,087 |
| Less: allowance for impairment | **(83,699)** | (56,664) |
| Less: suspended profit | **(701)** | (720) |
| | **9,145,341** | 8,643,703 |

The movement in the allowance for impairment during the year is shown below:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| At 1 January | **56,664** | 48,390 |
| Charge for the year | | |
| Collective provision | **(7,971)** | 7,826 |
| Specific provision | **56,730** | 13,772 |
| Recoveries / write-backs during the year | **(369)** | (7,621) |
| Amounts written off and other adjustments | **(21,355)** | (5,703) |
| At 31 December | **83,699** | 56,664 |

## 11 Loans and advances *(continued)*

**Islamic financing** *(continued)*

The gross Ijara and the related present value of minimum Ijara payments are as follows:

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| ***Gross Ijara*** | | |
| Less than one year | **3,354,662** | 2,632,533 |
| Between one and five years | **2,846,133** | 3,841,470 |
| More than five years | **2,923,858** | 2,289,811 |
| | **9,124,653** | 8,763,814 |
| Less: deferred income | **(3,590,631)** | (2,955,934) |
| **Net Ijara** | **5,534,022** | 5,807,880 |

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| ***Net present value of minimum lease payments*** | | |
| Less than one year | **2,466,185** | 829,612 |
| Between one and five years | **744,191** | 3,098,557 |
| More than five years | **2,323,646** | 1,879,711 |
| | **5,534,022** | 5,807,880 |

### Investment in finance lease

Included in the above loans and advances are the following investment in finance leases:

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Gross investment in finance leases | **8,437,582** | 6,842,737 |
| Unearned finance income | **(914,338)** | (685,394) |
| **Net investment in finance leases** | **7,523,244** | 6,157,343 |
| Less: allowance for impairment | **(183,341)** | (172,167) |
| Less: interest suspended | **(38,081)** | (20,666) |
| **Investment in finance leases** | **7,301,822** | 5,964,510 |

## 11 Loans and advances *(continued)*

### Investment in finance lease *(continued)*

| | 2015 Gross investment in lease AED'000 | 2014 Gross investment in lease AED'000 | 2015 Present value of minimum lease payments AED'000 | 2014 Present value of minimum lease payments AED'000 |
|---|---|---|---|---|
| Within one year | **37,571** | 8,166 | **36,809** | 8,003 |
| One to five years | **1,239,179** | 1,245,993 | **1,166,587** | 1,184,914 |
| More than five years | **7,160,832** | 5,588,578 | **6,319,848** | 4,964,426 |
| | **8,437,582** | 6,842,737 | **7,523,244** | 6,157,343 |
| Unearned finance income | **(914,338)** | (685,394) | **-** | - |
| **Net investment in finance leases** | **7,523,244** | 6,157,343 | **7,523,244** | 6,157,343 |

The movement in allowance for impairment against finance lease receivables during the year is shown below:

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| At 1 January | **172,167** | 146,301 |
| Charge for the year | | |
| Specific provision net of write-backs | **(12,104)** | 5,262 |
| Collective provision | **23,278** | 20,604 |
| At 31 December | **183,341** | 172,167 |

## 12 Non-trading investments

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Available-for-sale investments | **57,002,707** | 61,957,514 |
| Held-to-maturity investments | **6,791,444** | 5,535,608 |
| | **63,794,151** | 67,493,122 |

## 12 Non-trading investments *(continued)*

*An analysis of available-for-sale investments by type at the reporting date is shown below:*

| | 2015 AED'000 | | | 2014 AED'000 | | |
|---|---|---|---|---|---|---|
| | **Quoted** | **Unquoted** | **Total** | Quoted | Unquoted | Total |
| Equity investments | **22,424** | **13,781** | **36,205** | 22,188 | 13,687 | 35,875 |
| Debt investments | **63,277,418** | **344,129** | **63,621,547** | 66,643,904 | 226,277 | 66,870,181 |
| Funds | **136,373** | **26** | **136,399** | 586,882 | 184 | 587,066 |
| | **63,436,215** | **357,936** | **63,794,151** | 67,252,974 | 240,148 | 67,493,122 |
| Less: | | | | | | |
| Allowance for impairment | **-** | **-** | **-** | - | - | - |
| | **63,436,215** | **357,936** | **63,794,151** | 67,252,974 | 240,148 | 67,493,122 |

Debt instruments under repurchase agreements included in quoted available-for-sale investments at 31 December 2015 amounted to AED 24,434 million *(2014 : AED 10,126 million).*

## 13 Other assets

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Interest receivable | **3,914,405** | 2,898,304 |
| Acceptances | **5,497,104** | 2,405,047 |
| Sundry debtors and other receivables | **1,108,588** | 1,049,143 |
| Deferred tax asset | **30,386** | 18,487 |
| | **10,550,483** | 6,370,981 |

The Group does not perceive any significant credit risk on interest receivable and acceptances.

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. After acceptance, the instrument becomes an unconditional liability of the bank and is therefore recognised as a financial liability in the consolidated statement of financial position. However every acceptance has a corresponding contractual right of reimbursement from the customer which is recognised as a financial asset.

## 14 Investment properties

| | Land and buildings AED'000 |
|---|---|
| **Cost** | |
| At 1 January 2014 | 143,987 |
| Additions and transfers | 228,521 |
| Deletions | (174,259) |
| **At 31 December 2014** | 198,249 |
| Additions and transfers | **30,818** |
| Deletions | **(2,195)** |
| **At 31 December 2015** | **226,872** |
| **Accumulated depreciation** | |
| At 1 January 2014 | 8,727 |
| Charge for the year | 2,015 |
| Additions and transfers | 19,501 |
| Deletions | (9,527) |
| **At 31 December 2014** | 20,716 |
| Charge for the year | **1,987** |
| Additions and transfers | **13,623** |
| Deletions | **-** |
| **At 31 December 2015** | **36,326** |
| **Carrying amounts** | |
| At 31 December 2014 | 177,533 |
| **At 31 December 2015** | **190,546** |

The Group estimates that the fair value of the investment properties approximates its carrying amounts as at the reporting date.

The fair values of the Group's investment properties are categorised under level 3 of the fair value hierarchy.

## 15 Property and equipment

| | Land, buildings and alterations AED'000 | Computer systems and equipment AED'000 | Furniture, equipment, safes and vehicles AED'000 | Capital work -in-progress AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2014 | 2,631,925 | 788,602 | 340,059 | 151,378 | 3,911,964 |
| Additions | 29,675 | 61,990 | 37,436 | 173,862 | 302,963 |
| Allocations from CWIP | 19,305 | 55,988 | 4,370 | (79,663) | - |
| Disposals, transfers and write offs[1] | (82,225) | (19,115) | (15,373) | - | (116,713) |
| **At 31 December 2014** | 2,598,680 | 887,465 | 366,492 | 245,577 | 4,098,214 |
| Additions | **17,920** | **42,029** | **13,487** | **347,636** | **421,072** |
| Allocations from CWIP | **15,500** | **150,167** | **16,063** | **(212,548)** | **(30,818)** |
| Disposals, transfers and write offs[1] | **(16,513)** | **(38,548)** | **(29,938)** | **-** | **(84,999)** |
| **At 31 December 2015** | **2,615,587** | **1,041,113** | **366,104** | **380,665** | **4,403,469** |
| **Accumulated depreciation and impairment losses** | | | | | |
| At 1 January 2014 | 732,877 | 461,850 | 243,629 | - | 1,438,356 |
| Charge for the year | 59,153 | 122,163 | 39,693 | - | 221,009 |
| Disposals, transfers and write offs[1] | (25,845) | (17,058) | (16,502) | - | (59,405) |
| **At 31 December 2014** | 766,185 | 566,955 | 266,820 | - | 1,599,960 |
| Charge for the year | **42,464** | **148,270** | **38,238** | **-** | **228,972** |
| Impairment | **4,300** | **-** | **-** | **-** | **4,300** |
| Disposals, transfers and write offs[1] | **(20,629)** | **(27,851)** | **(27,065)** | **-** | **(75,545)** |
| **At 31 December 2015** | **792,320** | **687,374** | **277,993** | **-** | **1,757,687** |
| **Carrying amounts** | | | | | |
| At 31 December 2014 | 1,832,495 | 320,510 | 99,672 | 245,577 | 2,498,254 |
| **At 31 December 2015** | **1,823,267** | **353,739** | **88,111** | **380,665** | **2,645,782** |

[1] *adjusted for foreign exchange translation impact*

## 16 Due to banks and financial institutions

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| ***Banks and financial institutions*** | | |
| Current, call and notice deposits | **2,124,348** | 1,712,526 |
| Margin | **1,189,984** | 804,430 |
| Fixed deposits | **26,963,999** | 20,427,596 |
| Wakala deposit | **-** | 350,000 |
| | **30,278,331** | 23,294,552 |
| ***Central banks*** | | |
| Current and call deposits | **338,655** | 94,176 |
| Fixed and certificate of deposits | **12,191,229** | 13,290,776 |
| | **12,529,884** | 13,384,952 |
| | **42,808,215** | 36,679,504 |

Due to banks and financial institutions are denominated in various currencies and carry a rate of interest in the range of 0% to 2.2% *(2014: 0% to 9.25%)*.

## 17 Repurchase agreements

The Group enters into repurchase agreements in the normal course of business by which it transfers recognised financial assets directly to third parties.

The carrying value that is also the fair value of financial assets collateralised at the reporting date amounted to AED 25,786 million *(2014: AED 10,129 million)* and their associated financial liabilities amounted to AED 30,551 million *(2014: AED 13,876 million)*. The net difference between the fair value of the financial assets collateralised and the carrying value of the repurchase agreement is a shortage AED 4,765 million *(2014: shortage AED 3,747 million)*. The shortage is covered by re-pledging financial assets received as collateral against reverse repurchase agreements.

## 18 Euro commercial paper

The Bank established a USD 2,000,000 thousand Euro commercial Paper Programme (the "ECP Programme") for the issuance of Euro commercial paper under an agreement dated 13 September 2006 with Citibank, N.A.

The notes outstanding as at the reporting date amounted to AED 8,720,597 thousand *(2014: AED 5,484,176 thousand)*. They are denominated in various currencies, bear interest in the range of -0.13% to 0.99% *(2014:* 0.05% to 0.90%) and have maturity periods of less than 12 months.

The Group has not had any defaults of principal, interests, or other breaches with respect to its Euro commercial paper during 2015.

## 19 Customer accounts and other deposits

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| ***By account:*** | | |
| Current accounts | **58,809,496** | 56,575,565 |
| Savings accounts | **12,449,667** | 11,709,701 |
| Margin accounts | **1,379,276** | 1,088,714 |
| Notice and time deposits | **138,649,803** | 163,051,617 |
| | **211,288,242** | 232,425,597 |
| Certificates of deposit | **22,526,316** | 10,759,055 |
| | **233,814,558** | 243,184,652 |

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| ***By counterparty:*** | | |
| Government sector | **26,172,119** | 69,576,013 |
| Public sector | **51,607,710** | 38,591,210 |
| Corporate / private sector | **67,610,865** | 61,244,186 |
| Personal / retail sector | **65,897,548** | 63,014,188 |
| | **211,288,242** | 232,425,597 |
| Certificates of deposit | **22,526,316** | 10,759,055 |
| | **233,814,558** | 243,184,652 |

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| ***By location:*** | | |
| UAE | **130,476,271** | 168,406,055 |
| Europe | **28,224,650** | 19,785,974 |
| Arab countries | **30,004,257** | 29,396,480 |
| Americas | **12,279,589** | 7,349,566 |
| Asia | **10,116,743** | 7,151,183 |
| Others | **186,732** | 336,339 |
| | **211,288,242** | 232,425,597 |
| Certificates of deposit | **22,526,316** | 10,759,055 |
| | **233,814,558** | 243,184,652 |

## 19 Customer accounts and other deposits *(continued)*

***Islamic customers' deposits***

Included in the above Customer accounts and other deposits are the following Islamic term deposits:

| | 2015<br>AED'000 | 2014<br>AED'000 |
|---|---|---|
| Wakala deposits | **2,546,852** | 3,320,410 |
| Mudaraba deposits | **385,128** | 360,627 |
| | **2,931,980** | 3,681,037 |

## 20 Term borrowings

| | 2015<br>AED'000 | 2014<br>AED'000 |
|---|---|---|
| Convertible notes | **1,766,137** | 1,728,180 |
| Other term notes | **15,974,831** | 13,270,536 |
| | **17,740,968** | 14,998,716 |

Convertible notes includes USD 500 million notes that mature in March 2018 and carry a fixed coupon that is paid semi-annually in arrears. The value of the conversion option at inception was AED 108,265 thousand and as such has been classified as a part of equity under convertible note – equity component reserve.

During the year, the Bank has issued various fixed and floating rate notes. The Bank hedges its currency and interest rate exposure on these notes. The nominal values of the notes issued during the year are stated below:

| | 2015<br>AED'000 | 2014<br>AED'000 |
|---|---|---|
| **Fixed rate** | | |
| AUD | **80,527** | 1,205,479 |
| CNH | **111,803** | - |
| EUR | **99,901** | - |
| HKD | **75,826** | - |
| USD | **4,058,665** | - |
| **Floating rate** | | |
| USD | **1,377,375** | - |
| | **5,804,097** | 1,205,479 |

The Bank has hedged the interest rate and foreign currency exposure on term borrowings. The nominal value hedges are AED 15.96 billion (2014: AED 15.16 billion) and the risks being hedged have a net positive fair value of AED 522.40 million (2014: net positive fair value of AED 22.03 million). The Group has not had any defaults of principal, interests, or other breaches with respect to its term borrowings during 2015 and 2014.

## 20 Term borrowings *(continued)*

The following term notes are outstanding at 31 December:

| | | **2015** | | | | | | 2014 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Currency** | **Interest** | **Up to 3 months AED'000** | **3 months to 1 year AED'000** | **1 to 3 years AED'000** | **3 to 5 years AED'000** | **Over 5 Years AED'000** | **Total AED'000** | Up to 3 months AED'000 | 3 months to 1 year AED'000 | 1 to 3 years AED'000 | 3 to 5 years AED'000 | Over 5 Years AED'000 | Total AED'000 |
| AUD | Fixed rate of 3.4% to 5% p.a. | **-** | **-** | **817,075** | **1,191,935** | **-** | **2,009,010** | - | - | - | 2,167,177 | - | 2,167,177 |
| CNH | Fixed rate of 4.8 % p.a. | **-** | **-** | **-** | **114,293** | **-** | **114,293** | - | - | - | - | - | - |
| EUR | Fixed rate of 0.6% p.a. | **-** | **-** | **-** | **99,887** | **-** | **99,887** | - | - | - | - | - | - |
| HKD | Fixed rate of 2.4% to 4.5% p.a. | **-** | **-** | **299,795** | **160,050** | **429,833** | **889,678** | - | - | 300,703 | 159,376 | 337,227 | 797,306 |
| JPY | Fixed rate of 2.6% p.a. | **-** | **-** | **-** | **-** | **323,385** | **323,385** | - | - | - | - | 369,707 | 369,707 |
| MXN | Fixed rate of 0.5% p.a. | **-** | **-** | **-** | **-** | **33,184** | **33,184** | - | - | - | - | 32,261 | 32,261 |
| MYR | Fixed rate of 4.8% to 4.9% p.a. | **-** | **-** | **-** | **404,616** | **-** | **404,616** | - | 502,628 | - | - | 492,505 | 995,133 |
| USD | Fixed rate of 1% to 5.1% p.a. | **-** | **-** | **4,650,218** | **5,451,779** | **2,388,184** | **12,490,181** | 2,768,851 | - | 2,891,304 | 4,419,198 | 557,779 | 10,637,132 |
| USD | 1-3 Month Libor + 37 to 68 bps p.a. | **-** | **-** | **1,193,452** | **183,282** | **-** | **1,376,734** | - | - | - | - | - | - |
| | | **-** | **-** | **6,960,540** | **7,605,842** | **3,174,586** | **17,740,968** | 2,768,851 | 502,628 | 3,192,007 | 6,745,751 | 1,789,479 | 14,998,716 |

## 21 Other liabilities

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Interest payable | **3,538,842** | 2,375,884 |
| Acceptances *(note 13)* | **3,885,572** | 1,877,159 |
| Provision employees' end of service benefits | **487,047** | 462,620 |
| Accounts payable, sundry creditors and other liabilities | **7,546,500** | 6,615,847 |
| Overseas income tax | **124,547** | 111,090 |
| | **15,582,508** | 11,442,600 |

**Employees end of Service benefits**

*Defined benefit obligations*
The Group provides for end of service benefits for its eligible employees. An actuarial valuation has been carried out as at December 31, 2015 to ascertain present value of the defined benefit obligation. A registered actuary in the UAE was appointed to evaluate the same. The present value of the defined benefit obligation, and the related current and past service cost, were measured using the Projected Unit Credit Method.

The following key assumptions (weighted average rates) were used to value the liabilities:

| | 2015 | 2014 |
|---|---|---|
| Discount rate | **4.00% per annum** | 3.25% per annum |
| Salary increase rate | **2.00% per annum** | 3.00% per annum |

Demographic assumptions for mortality, withdrawal and retirement were used in valuing the liabilities and benefits under the plan. Because of the nature of the benefit, which is a lump sum payable on exit due to any cause, a combined single decrement rate has been used.

A shift in the in the discount rate assumption by +/- 50 basis points would impact the liability by AED 9,871 thousand *(2014: AED 14,818 thousand)* and AED 10,633 thousand *(2014: AED 12,722 thousand)* respectively. Similarly, a shift in the salary increment assumption by +/- 50 basis points would impact the liability by AED 10,815 thousand *(2014: AED 12,895 thousand)* and AED 10,133 thousand *(2014: AED 12,256 thousand)* respectively.

The movement in the employees end of service obligation was as follows:

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Balance at 1 January | **462,620** | 448,018 |
| Net charge during the year | **93,789** | 90,702 |
| Paid during the year | **(69,362)** | (76,100) |
| Balance at 31 December | **487,047** | 462,620 |

## 21 Other liabilities *(continued)*

*Defined contribution plan*

The Group pays contributions for its eligible employees which are treated as defined contribution plans. The charge for the year in respect of these contributions is AED 79,970 thousand *(2014: AED 73,039 thousand)*. As at the reporting date, pension payable of AED 11,874 thousand has been classified under other liabilities *(2014: AED 12,830 thousand).*

**Overseas income tax**

The Group has provided for overseas income tax in accordance with management's estimate of the total amount payable based on tax rates enacted or substantially enacted as at the reporting date. Where appropriate the Group has made payments of tax on account in respect of these estimated liabilities.

The overseas income tax charge for the year is calculated based upon the adjusted net profit for the year. The movement in the provision was as follows:

| | 2015<br>AED'000 | 2014<br>AED'000 |
|---|---|---|
| At 1 January | **111,090** | 92,380 |
| Charge for the year | **308,956** | 271,109 |
| Overseas income tax paid, net of recoveries | **(295,499)** | (252,399) |
| At 31 December | **124,547** | 111,090 |

## 22 Subordinated notes

| | 2015<br>AED'000 | 2014<br>AED'000 |
|---|---|---|
| **Liability component** | | |
| 15 March 2006 issue | **914,205** | 1,037,047 |
| 10 December 2012 issue | **361,093** | 479,594 |
| | **1,275,298** | 1,516,641 |

## 22 Subordinated notes *(continued)*

***15 March 2006 issue:***

The Bank issued AED 2.5 billion subordinated convertible notes due on 15 March 2016 in accordance with the approval of the Extraordinary General Meeting held on 22 November 2005. The notes bear an interest rate equal to 3 month EIBOR plus 0.25% paid quarterly.

During the year, the Bank purchased back AED 125,000 thousand *(2014: AED Nil)* of 15 March 2006 issue from the market for AED 124,938 thousand *(2014: AED Nil)*. As a result, the total outstanding liability decreased by AED 124,790 thousand *(2014: AED Nil)*. Further, a loss on the extinguishment in the amount of AED 148 thousand *(2014: AED Nil)* was recognised in the consolidated statement of profit or loss.

The above mentioned notes are presented in the consolidated statement of financial position as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Proceeds from issue of convertible notes | **2,500,000** | 2,500,000 |
| Less: amount classified as equity | **(72,926)** | (72,926) |
| Carrying amount of liability component on initial recognition | **2,427,074** | 2,427,074 |
| Add: cumulative accreted interest | **26,357** | 27,846 |
| Less: converted liability component | **(1,347,973)** | (1,347,973) |
| Carrying amount of liability bought back | **(191,253)** | (69,900) |
| Carrying amount of liability component | **914,205** | 1,037,047 |

The effective interest rate as at 31 December 2015 was 3 month EIBOR plus 0.301% *(2014: 3 month EIBOR plus 0.301%)*.

***10 December 2012 issue:***

On 10 December 2012, the Bank issued MYR 500 million subordinated notes due on 9 December 2027. The notes bear an interest rate equal to 4.75% and will be paid on a semi-annual basis. The Bank has hedged the currency and interest rate exposure on these notes. The nominal value hedge is AED 427.74 million *(2014: AED 524.71 million)* and the risks being hedged has a negative fair value of AED 65.19 million *(2014: negative fair value of AED 43.22 million)*. The effective interest rate as at 31 December 2015 was 4.79% *(2014: 4.79%)*.

The Group has not had any defaults of principal, interests, or other breaches with respect to its subordinated notes during 2015 and 2014.

## 23 Capital and reserves

**Share capital**
The authorised share capital of the Bank comprise 5,210 million ordinary shares of AED 1 each *(2014: 4,736 million shares of AED 1 each)*. The issued and fully paid share capital at 31 December 2015 is comprised of 5,210 million ordinary shares of AED 1 each *(2014: 4,736 million ordinary shares of AED 1 each)*.

## 23 Capital and reserves *(continued)*

***Reconciliation of Share capital***

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| As at 1 January | **4,736,112** | 4,305,556 |
| Shares issued under Share option scheme | **-** | - |
| | **4,736,112** | 4,305,556 |
| Bonus shares issued during the period | **473,611** | 430,556 |
| | **5,209,723** | 4,736,112 |
| Treasury shares held *(note 25)* | **(11,083)** | (12,940) |
| As at 31 December | **5,198,640** | 4,723,172 |

**Statutory and special reserves**

In accordance with the Bank's Articles of Association and the requirements of the Union Law No. (10) of 1980, a minimum of 10% of the annual net profit should be transferred to both statutory and special reserve until each of these reserves equal to 50% of the paid-up share capital. The Statutory and special reserve are not available for distribution to the shareholders.

**Dividends**

The following dividends were paid by the Group during the year ended 31 December:

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Cash dividend AED 0.40 per ordinary share *(2014: 0.40 per ordinary share)* | **1,889,971** | 1,712,848 |
| 10% bonus shares *(2014: 10% bonus shares)* issued | **473,611** | 430,556 |

*Proposed dividends:*

On 27 January 2016, a cash dividend of AED 0.40 per ordinary share and nil bonus share *(2014: proposed cash dividend of AED 0.40 per ordinary share and 10% bonus shares)* was proposed by the Board of Directors in respect of 2015 which is subject to the approval of the shareholders at the Annual General Meeting.

**Other reserves**

Other reserves include the following:

*(i)* ***General reserve***

The general reserve is available for distribution to the shareholders at the recommendation of the Board of Directors. On 10 March 2015 the AGM approved the transfer of AED 2.4 billion *(31 December 2014: AED 2.4 billion)* to general reserve.

## 23 Capital and reserves *(continued)*

**Other reserves** *(continued)*

***(ii) Fair value reserve***

The fair value reserve includes the cumulative net change in the fair value of non-trading investments, until the investment is derecognised or impaired, and cash flow hedge reserve.

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| *Revaluation reserve – available-for-sale investments* | | |
| At 1 January | **331,620** | 787,157 |
| Net unrealised gains during the year | **17,013** | 380,315 |
| Net cumulative realised gains recognised in the consolidated statement of profit or loss during the year | **(635,645)** | (835,852) |
| At 31 December | **(287,012)** | 331,620 |
| *Hedging reserve – cash flow hedge* | | |
| At 1 January | **(6,688)** | 35,896 |
| Changes in fair value | **(38,237)** | (42,584) |
| At 31 December | **(44,925)** | (6,688) |
| Total at 31 December | **(331,937)** | 324,932 |

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

***(iii) Foreign currency translation reserve***

Foreign currency translation reserve represents the exchange differences arising from translation of the net investment in foreign operations.

## 24 Tier 1 capital notes

Tier 1 capital notes are perpetual, subordinated, unsecured and carry a fixed coupon during the initial period and are paid semi-annually in arrears. The Bank may elect not to pay a coupon at its own discretion. The note holder does not have a right to claim the coupon and an election by the Bank not to service coupon is not considered an event of default. In addition, there are certain circumstances under which the Bank is prohibited from making a coupon payment on a relevant coupon payment date.

If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Notes except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until two consecutive coupon payments have been paid in full. During the period, a coupon payment election was made by the Bank in the amount of AED 201.2 million *(2014: AED 187.5 million).*

## 24 Tier 1 capital notes *(continued)*

| | Currency | **2015 AED'000** | 2014 AED'000 |
|---|---|---|---|
| Government of Abu Dhabi Notes *(6 month EIBOR plus 2.3 percent per annum)* | AED | **4,000,000** | 4,000,000 |
| USD 750 million Notes *(5 year mid swap rate plus 3.35 percent per annum)* | USD | **2,754,750** | - |
| | | **6,754,750** | 4,000,000 |

On 17 June 2015, USD 750 million Tier 1 capital notes were issued by the Bank. These notes are perpetual and carry an interest rate of 5.25 percent (calculated based on the relevant 5 year mid swap rate plus 3.35 percent per annum) during the "initial period". After the initial period, at every reset date, interest would be calculated for the next reset period at the relevant Five-Year Mid Swap Rate plus a margin of 3.35 percent per annum. Interest is payable semi-annually in arrears on these notes. The "Initial Period" is the period (from and including) the Issue Date to (but excluding) the First Call Date. The "Reset Date" is the First Call Date and every fifth anniversary thereafter. These notes are callable by the Bank beginning from 17 June 2020 "First Call date" and every interest payment date thereafter.

## 25 Share option scheme

The Bank had introduced in 2008 a share based payment scheme (the "Scheme") for selected employees which would vest over three years and can be exercised within the next three years after the vesting period. The key vesting condition is that the option holder is in continued employment with the Bank until the end of vesting period. The options lapse six years after their date of grant irrespective of whether they are exercised or not.

The Group has established a subsidiary to issue shares when the vested option is exercised by the employee.. These shares are treated as treasury shares until exercised by the option holders.

As at the reporting date 2,976 thousand *(2014: 14,490 thousand)* options were exercised by the option holders resulting in an increase in the total share capital by AED 2,976 thousand *(2014: AED 14,490 thousand)* and share premium by AED 19,772 thousand *(2014: AED 101,865 thousand)*.

The numbers of share options are as follows:

| | **2015 Number of options in thousands** | 2014 Number of options in thousands |
|---|---|---|
| Outstanding at 1 January | **33,278** | 23,950 |
| Granted during the year | **18,745** | 24,505 |
| Net forfeited during the year | **(1,096)** | (634) |
| Exercised during the year | **(2,976)** | (14,490) |
| Expired during the year | **(70)** | (53) |
| Outstanding at 31 December | **47,881** | 33,278 |

The average exercise price of options exercised during 2015 was AED 7.64 *(2014: AED 8.03)*. The options outstanding as at 31 December 2015 have an exercise price per share ranging between AED 6.85 to 12 *(2014: AED 7.54 to 11.44)*.

## 25 Share option scheme *(continued)*

***Reconciliation of treasury shares held under the Scheme***

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| As at 1 January | **12,940** | 25,086 |
| Shares issued under the Scheme | **-** | - |
| | **12,940** | 25,086 |
| Options exercised by staff during the period | **(2,976)** | (14,490) |
| | **9,964** | 10,596 |
| Bonus shares issued during the period | **1,119** | 2,344 |
| As at 31 December | **11,083** | 12,940 |

## 26 Interest income

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| *Interest from* | | |
| Central banks | **199,761** | 204,813 |
| Banks and financial institutions | **128,481** | 179,446 |
| Reverse repurchase agreements | **72,130** | 102,801 |
| Investments at fair value through profit or loss | **275,002** | 234,139 |
| Non-trading investments | **1,756,584** | 1,879,110 |
| Loans and advances | **6,533,171** | 6,034,303 |
| | **8,965,129** | 8,634,612 |

## 27 Interest expense

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| *Interest to* | | |
| Banks and financial institutions | **297,803** | 177,035 |
| Repurchase agreements | **120,392** | 9,236 |
| Euro commercial paper | **28,571** | 19,505 |
| Customer accounts and other deposits | **986,732** | 1,000,909 |
| Term borrowings | **553,362** | 689,424 |
| Subordinated notes | **34,184** | 39,540 |
| | **2,021,044** | 1,935,649 |

## 28 Income from Islamic financing contracts

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Ijara | **203,725** | 223,266 |
| Murabaha | **181,900** | 106,564 |
| Mudaraba | **-** | 7,062 |
| | **385,625** | 336,892 |

## 29 Depositors' share of profits

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Wakala deposits | **16,705** | 14,355 |
| Mudaraba deposits | **5,927** | 3,482 |
| | **22,632** | 17,837 |

## 30 Net fee and commission income

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| **Fee and commission income** | | |
| Trade finance | **601,825** | 518,650 |
| Collection services | **58,548** | 76,515 |
| Brokerage income | **65,652** | 147,079 |
| Asset management and investment services | **133,047** | 187,667 |
| Investments, derivatives and risk participation | **22,137** | 146,065 |
| Retail and corporate lending | **802,168** | 801,845 |
| Cards and e-services | **1,046,546** | 852,798 |
| Accounts related services | **68,327** | 94,890 |
| Commission on transfers | **70,833** | 73,638 |
| Others | **125,465** | 103,373 |
| Total fee and commission income | **2,994,548** | 3,002,520 |
| **Fee and commission expense** | | |
| Brokerage commission | **31,247** | 35,459 |
| Handling charges | **5,977** | 6,110 |
| Credit card charges | **736,122** | 569,755 |
| Retail and corporate lending | **90,524** | 51,068 |
| Others | **24,436** | 29,536 |
| Total fee and commission expense | **888,306** | 691,928 |
| **Net fee and commission income** | **2,106,242** | 2,310,592 |

Asset management and investment service fees include fees earned by the Group on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers.

## 31 Net foreign exchange gain

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Trading and retranslation gain on foreign exchange and related derivatives[1] | **469,412** | (105,120) |
| Dealings with customers | **348,175** | 301,205 |
| | **817,587** | 196,085 |

[1] Due to effective hedging strategies, the offsetting impact of hedging instruments is reflected in the net gains from sale of non-trading investments *(note 32)*.

## 32 Net gain on investments and derivatives

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Net realised and unrealised gains on investments at fair value through profit or loss and derivatives[2] | **(384,523)** | (78,806) |
| Net gain from sale of non-trading investments | **635,645** | 835,852 |
| Dividend income | **3,067** | 7,356 |
| | **254,189** | 764,402 |

Interest income on debt instruments classified as investments at fair value through profit or loss as well as debt instruments classified as non-trading investments is presented within interest income.

[2]*Includes credit value adjustment of AED 71 million (2014: AED 72 million).*

## 33 Other operating income

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Gain on sale of investment properties | **-** | 56,353 |
| Others | **70,754** | 69,267 |
| | **70,754** | 125,620 |

## 34 General, administration and other operating expenses

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Staff costs | **2,773,739** | 2,532,726 |
| Other general and administration expenses | **1,041,688** | 907,387 |
| Depreciation | **230,959** | 223,024 |
| Donations and charity | **36,533** | 32,896 |
| | **4,082,919** | 3,696,033 |

## 35 Net impairment charge

| | 2015<br>AED'000 | 2014<br>AED'000 |
|---|---|---|
| Collective provision for loans and advances | **503,282** | 574,433 |
| Specific provision for loans and advances | **1,476,162** | 1,152,484 |
| Write back of provisions for loans and advances | **(685,050)** | (411,158) |
| Recovery of loan loss provisions | **(378,847)** | (473,901) |
| Write-off of impaired financial assets | **64,707** | 43,635 |
| Recovery of loans previously written off | **(41,594)** | (6,627) |
| (Write back) / impairment of | | |
| - other financial assets | **11** | 3,603 |
| - non financial assets | **4,300** | (14,342) |
| | **942,971** | 868,127 |

## 36 Overseas income tax expense

In addition to adjustments relating to deferred taxation, the charge for the year is calculated based upon the adjusted net profit for the year at rates of tax applicable in respective overseas locations.

The charge to the consolidated statement of profit or loss for the year was as follows:

| | 2015<br>AED'000 | 2014<br>AED'000 |
|---|---|---|
| Charge for the year | **308,956** | 271,109 |
| Adjustments relating to deferred taxation | **(10,813)** | 579 |
| | **298,143** | 271,688 |

Reconciliation of Group's tax on profit based on accounting and profit as per the tax laws is as follows:

| | 2015<br>AED'000 | 2014<br>AED'000 |
|---|---|---|
| Profit before taxation[1] | **1,144,973** | 1,016,862 |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | **277,435** | 245,925 |
| Tax effects of: | | |
| - Income not subject to tax | **(3,918)** | (6,951) |
| - Expenses not deductible for tax purpose | **13,619** | 27,888 |
| - Utilisation of previously unrecognised tax losses | **(358)** | (1,338) |
| - Effect of tax offsets not recognised as deferred tax assets | **-** | (2,804) |
| - Deductible temporary difference now recognised as deferred tax assets | **(1,792)** | (2,556) |
| - Adjustment pertaining to prior years | **6,793** | 11,524 |
| - Withholding tax net of benefits | **6,364** | - |
| Total tax charge | **298,143** | 271,688 |

[1] *Profit before taxation amount consists of only those entities that are under taxable jurisdictions.*

## 37 Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following amounts maturing within three months of the date of the acquisition / placement:

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Cash and balances with central banks | **72,190,756** | 51,166,206 |
| Due from banks and financial institutions | **2,748,176** | 2,960,720 |
| Cash and cash equivalents | **74,938,932** | 54,126,926 |

## 38 Commitments and contingencies

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| Letters of credit | **49,145,032** | 56,212,240 |
| Letters of guarantee | **67,300,403** | 64,839,308 |
| Undrawn commitments to extend credit | **29,790,338** | 22,100,064 |
| Financial guarantees | **995,631** | 1,031,799 |
| | **147,231,404** | 144,183,411 |
| Capital and operating lease commitments: | | |
| - Commitments for future capital expenditure | **43,147** | 159,799 |
| - Commitments for future operating lease payments | **205,082** | 114,117 |
| | **248,229** | 273,916 |
| **Total commitments and contingencies** | **147,479,633** | 144,457,327 |

Credit risk characteristics of these unfunded facilities closely resemble the funded facilities as described in note 4.

## 38 Commitments and contingencies *(continued)*

Letters of credit and guarantee commit the Group to make payments on behalf of customers contingent upon the production of documents or the failure of the customer to perform under the terms of the contract.

Commitments to extend credit represent contractual commitments to extend loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and may require a payment of a fee. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

Commitments for operating lease payments are payable as follows:

| | **2015 AED'000** | 2014 AED'000 |
|---|---|---|
| Less than one year | **68,316** | 37,454 |
| Between one and five year | **100,791** | 61,566 |
| More than five year | **35,975** | 15,097 |
| **Total commitments** | **205,082** | 114,117 |

Financial guarantee contracts includes credit default agreements entered with banks and financial institutions amounting to AED 496 million *(2014: AED 606 million)* which are primarily denominated in US Dollars.

*Concentration by industry*:

Financial guarantee contracts mainly pertain to the banks and financial institutions.

*Concentration by location:*

| | **Undrawn loan Commitments** | | **Financial guarantees** | |
|---|---|---|---|---|
| | **2015 AED'000** | 2014 AED'000 | **2015 AED'000** | 2014 AED'000 |
| UAE | **14,478,228** | 12,352,565 | **-** | - |
| Europe | **5,955,360** | 1,845,477 | **-** | - |
| Arab countries | **3,513,468** | 2,962,213 | **2,123** | 2,199 |
| Americas | **2,990,131** | 2,353,289 | **626,208** | 552,110 |
| Asia | **2,074,032** | 2,124,435 | **367,300** | 477,490 |
| Others | **779,119** | 462,085 | **-** | - |
| | **29,790,338** | 22,100,064 | **995,631** | 1,031,799 |

## 39 Derivative financial instruments

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. Derivatives are financial instruments that derive their value from the price of underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities and equity or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risks. Derivative financial instruments include forwards, futures, swaps and options. These transactions are primarily entered with Banks and financial institutions.

***Forwards and futures***

Currency forwards represent commitments to purchase foreign and/or domestic currencies, including non-deliverable spot transactions (i.e. the transaction is net settled). Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk for futures contracts is negligible, as they are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

***Swaps***

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross - currency interest rate swaps). No exchange of principal takes place, except for certain cross currency swaps. The Group's credit risk represents the potential loss if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

***Options***

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of risk. Options may be either exchange - traded or negotiated between the Bank and a customer over the counter (OTC).

Derivatives are measured at fair value by reference to published price quotations in an active market. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models like counterparty prices or valuation techniques such as discounted cash flows, market prices, yield curves and other reference market data.

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

## 39 Derivative financial instruments *(continued)*

**31 December 2015**

| | Positive market value | Negative market value | Notional amount | Notional amounts by term to maturity: Less than three months | From three months to one year | From one year to three years | From three years to five years | Over five years |
|---|---|---|---|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| ***Held for trading:*** | | | | | | | | |
| *Interest rate derivatives* | | | | | | | | |
| Swaps | 5,033,078 | 4,675,069 | 625,847,091 | 47,366,567 | 141,472,273 | 195,125,666 | 134,640,897 | 107,241,688 |
| Forwards & Futures | 2,389 | 1,860 | 14,308,184 | 734,600 | 11,737,084 | 1,836,500 | - | - |
| Options & Swaptions | 244,004 | 244,467 | 53,747,200 | 14,169,773 | 1,310,989 | 9,266,665 | 4,929,424 | 24,070,349 |
| *Foreign exchange derivatives* | | | | | | | | |
| Forwards | 2,237,645 | 2,333,890 | 304,043,488 | 167,162,289 | 100,855,857 | 32,446,760 | 3,578,582 | - |
| Options | 854,097 | 613,922 | 97,978,672 | 17,179,858 | 41,087,785 | 37,842,121 | 1,609,725 | 259,183 |
| *Other derivatives contracts* | 1,104,742 | 1,082,515 | 3,021,823 | 1,116,014 | 717,969 | 1,091,898 | 95,942 | - |
| | 9,475,955 | 8,951,723 | 1,098,946,458 | 247,729,101 | 297,181,957 | 277,609,610 | 144,854,570 | 131,571,220 |
| ***Held as fair value hedges:*** | | | | | | | | |
| *Interest rate derivatives* | | | | | | | | |
| Swaps | 1,095,974 | 3,752,994 | 70,867,087 | 2,955,174 | 5,244,765 | 13,212,719 | 16,695,564 | 32,758,865 |
| | 1,095,974 | 3,752,994 | 70,867,087 | 2,955,174 | 5,244,765 | 13,212,719 | 16,695,564 | 32,758,865 |
| ***Held as cash flow hedges*** | | | | | | | | |
| *Interest rate derivatives* | | | | | | | | |
| Swaps | 1,981 | 144,625 | 3,992,726 | - | - | - | 3,662,037 | 330,689 |
| Forwards | 181 | 3,016 | 450,954 | 302,983 | 147,971 | - | - | - |
| | 2,162 | 147,641 | 4,443,680 | 302,983 | 147,971 | - | 3,662,037 | 330,689 |
| **Total** | 10,574,091 | 12,852,358 | 1,174,257,225 | 250,987,258 | 302,574,693 | 290,822,329 | 165,212,171 | 164,660,774 |

## 39 Derivative financial instruments *(continued)*

| 31 December 2014 | Positive market value AED'000 | Negative market value AED'000 | Notional amount AED'000 | Notional amounts by term to maturity: Less than three months AED'000 | From three months to one year AED'000 | From one year to three years AED'000 | From three years to five years AED'000 | Over five years AED'000 |
|---|---|---|---|---|---|---|---|---|
| ***Held for trading*:** | | | | | | | | |
| *Interest rate derivatives* | | | | | | | | |
| Swaps | 4,083,652 | 3,618,413 | 492,193,642 | 46,689,605 | 122,982,587 | 124,502,492 | 112,422,485 | 85,596,473 |
| Forwards & Futures | 14,148 | 7,178 | 45,397,661 | - | 45,397,661 | - | - | - |
| Options & Swaptions | 228,215 | 235,093 | 199,324,256 | 161,251,128 | 7,568,951 | 6,996,723 | 4,417,348 | 19,090,106 |
| *Foreign exchange derivatives* | | | | | | | | |
| Forwards | 2,253,794 | 2,390,280 | 261,772,444 | 147,620,304 | 92,573,183 | 20,454,029 | 1,124,928 | - |
| Options | 231,895 | 187,576 | 43,924,361 | 7,121,106 | 15,373,524 | 19,222,732 | 1,242,976 | 964,023 |
| *Other derivatives contracts* | 370,824 | 361,248 | 2,702,980 | 594,307 | 1,079,996 | 818,752 | 209,925 | - |
| | **7,182,528** | **6,799,788** | **1,045,315,344** | **363,276,450** | **284,975,902** | **171,994,728** | **119,417,662** | **105,650,602** |
| ***Held as fair value hedges:*** | | | | | | | | |
| *Interest rate derivatives* | | | | | | | | |
| Swaps | 237,833 | 4,151,288 | 54,625,157 | 3,410,218 | 5,959,527 | 31,198,306 | 1,403,677 | 12,653,429 |
| | **237,833** | **4,151,288** | **54,625,157** | **3,410,218** | **5,959,527** | **31,198,306** | **1,403,677** | **12,653,429** |
| ***Held as cash flow hedges*** | | | | | | | | |
| *Interest rate derivatives* | | | | | | | | |
| Forwards | 2,467 | 2,048 | 2,499,033 | 2,499,033 | - | - | - | - |
| | **2,467** | **2,048** | **2,499,033** | **2,499,033** | **-** | **-** | **-** | **-** |
| **Total** | **7,422,828** | **10,953,124** | **1,102,439,534** | **369,185,701** | **290,935,429** | **203,193,034** | **120,821,339** | **118,304,031** |

## 39 Derivative financial instruments *(continued)*

The positive / negative fair value in respect of derivatives represents the gain / loss respectively, arising on fair valuation of the trading and hedging instrument. These amounts are not indicative of any current or future losses, as a similar positive / negative amount has been adjusted to the carrying value of the hedged loans and advances, non-trading investments, term borrowings and subordinated notes.

As at December 31, 2015, the Group received cash collateral of AED 1,220,418 thousand *(2014: AED 661,805 thousand)* against positive fair value of derivative assets from certain counterparties. Correspondingly, the Group placed cash collateral of AED 7,946,698 thousand *(2014: AED 7,160,295 thousand* against the negative fair value of derivative liabilities.

**Derivative related credit risk:**

This is limited to the positive fair value of instruments that are favourable to the Group. These transactions are primarily entered with banks and financial institutions.

**Derivatives held for trading**
The Group uses derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate and credit risks or initiates positions with the expectation of profiting from favourable movement in prices, rates or indices. The instruments used mainly include interest rate and currency swaps and forward contracts. The fair values of those derivatives are shown in the table above.

**Derivatives held as fair value hedge**
The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management strategy by taking offsetting positions in order to reduce its own exposure to fluctuations in exchange and interest rates. The Group uses interest rate swaps, to hedge against the changes in fair value arising from specifically identified interest bearing assets such as loans and advances, non-trading investments, term borrowings and subordinate notes. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

**Derivatives held as cash flow hedge**
The Group uses forward contracts to hedge the foreign currency risk arising from its financial instruments. The Group has substantially matched the critical terms of the derivatives to have an effective hedge relationship.

## 40 Related parties

***Identity of related parties***
Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise major shareholders, directors and key management personnel of the Group. Key management personnel comprise of those executive committee members "EXCO" of the Group who are involved in the strategic planning and decision making of the Group. The terms of these transactions with related parties are approved by the Group's management and are made on terms agreed by the Board of Directors or management.

***Parent and ultimate controlling party***
Pursuant to the provisions of Law No. 16 of 2006, Abu Dhabi Investment Council (the "Council") was established which holds 69.92% *(2014: 69.96%)* of the issued share capital of the Bank.

During the year, a coupon payment election of AED 128.9 million *(2014: AED 187.5 million)* was made by the Bank in relation to the AED 4,000 million *(2014: AED 4,000 million)* Government of Abu Dhabi Tier 1 capital notes.

## 40 Related parties *(continued)*

***Compensation of directors and key management personnel***

| | 2015 AED'000 | 2014 AED'000 |
|---|---|---|
| **Key management compensation** | | |
| Short term employment benefits | **90,356** | 79,875 |
| Post employment benefits | **2,058** | 2,010 |
| Termination benefits | **1,563** | 1,524 |
| Share based payments | **13,240** | 8,224 |
| **Directors' remuneration** | **6,689** | 7,917 |

***Terms and conditions***

Loans and deposits are granted and accepted in various currency denominations and for various time periods. Interest rates earned on such loans and advances extended to related parties during the year have ranged from -0.05% to 8.25% per annum *(2014: 0.05% to 10.75% per annum)* and interest rates incurred on Customer accounts and other deposits placed by related parties during the year have ranged from nil to 4.50% per annum *(2014: nil to 3.80% per annum)*.

Collaterals against lending to related parties range from being nil to fully secure.

| | Directors and key management AED'000 | Major shareholder AED'000 | Others AED'000 | 2015 Total AED'000 | 2014 Total AED'000 |
|---|---|---|---|---|---|
| ***Balances with related parties at the reporting date are shown below:*** | | | | | |
| Financial assets | **1,042,519** | **6,861,860** | **59,025,990** | **66,930,369** | 72,679,876 |
| Financial liabilities | **353,904** | **4,545,923** | **45,779,356** | **50,679,183** | 90,133,577 |
| Contingent liabilities | **130,131** | **5,703,758** | **17,124,831** | **22,958,720** | 43,540,431 |
| ***Transactions carried out during the year with related parties are shown below:*** | | | | | |
| Interest income | **34,548** | **502,991** | **1,611,574** | **2,149,113** | 2,197,909 |
| Interest expense | **234** | **286,730** | **155,104** | **442,068** | 421,050 |
| Fee and commission income | **2,224** | **3,116** | **80,251** | **85,591** | 75,407 |

Others comprise Government of Abu Dhabi entities.

No allowances for impairment have been recognised against loans and advances extended to related parties or contingent liabilities issued in favour of related parties during the year *(2014: AED nil)*.

## 41 Segmental information

The new operating structure adopted mid last year has been developed consisting of three key Business segments across Geographic segments that are driving the business strategy, customer value propositions, products and channel development and customer relationships in addition to supporting the delivery of the Group's financial performance. The structure is simplified and is coherent with its mission of being core to its chosen customers.

### Business segments

- ***Global Wholesale***
  Global Wholesale comprises of Global Banking and Global Markets. The business provides corporate, wholesale and investment clients with strategic advice and bespoke innovative solutions catering for their different needs. Global Banking Division offers an array of financial services ranging from relationship lending and financing, syndication, corporate finance, specialised financing, structured finance, leasing, securities services, transactional banking, merchant banking, debt capital market services and special asset advisory. Global Markets Division covers lines of business in relation to institutional and corporate coverage, risk solutions, repos management and investments, commodities, E-commerce and foreign exchange trading.

- ***Global Wealth***
  Global Wealth enfolds high net worth individuals and other clients with sophisticated investment needs. The business furnishes variety of products related to private banking, assets management including local and global funds as well as discretionary portfolios management, custody, brokerage, business development and tailored wealth solutions (such as trust & estate planning, financial planning, segregated mandates, structured lending, real estate and private equity investments).

- ***Global Retail and Commercial***
  The Global Retail and Commercial (''GRC'') targets the retail and commercial customer segments together with their associated operations and administration. The GRC is structured on the basis of the differing needs of the Group's broad customer base covering Mass, affluent, commercial and Islamic Banking.

- ***Head Office***
  The Group provides centralized human resources, information technology, finance, investor relations, risk management, corporate communications, property, legal, internal audit, compliance, procurement, treasury operations and administrative support to all of its businesses units.

## 41 Segmental information *(continued)*

### Geographic segments

The Group will be managing its various business segments through a network of branches, subsidiaries and representative offices within the three defined geographic segments which are UAE, Gulf and International.

- ***UAE***
  NBAD local network is currently available in all the seven emirates constituting the United Arab Emirates.

- ***Gulf***
  NBAD presence in the Gulf region is run through its branches in Bahrain, Kuwait and Oman; the segment is extended to include Jordan.

- ***International***
  NBAD international network is carried out via its operational presence in Brazil, China, Egypt, France, Hong Kong, India, Lebanon, Libya, Malaysia, Sudan, Switzerland, the United Kingdom and the United States of America.

The accounting policies of the reportable segments are the same as described in notes 2 and 3. Transactions between segments, and between branches within a segment, are conducted at estimated market rates or rates agreed by management. Interest is charged or credited to branches and business segments either at contracted or pool rates, both of which approximate the replacement cost of funds.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before taxation, as included in the internal management reports that are reviewed by the Group's Chief Executive. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Notes to the consolidated financial statements

## 41 Segmental information *(continued)*

| | Business Segment | | | | | Geographic Segment | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Global Wholesale AED'000 | Global Wealth AED'000 | Global Retail and Commercial AED'000 | Head Office AED'000 | Total AED'000 | UAE AED'000 | Gulf AED'000 | International AED'000 | Total AED'000 |
| *As at and for the year ended 31 December 2015* | | | | | | | | | |
| Net Interest income | 3,602,317 | 766,996 | 3,032,066 | (94,301) | **7,307,078** | 5,802,327 | 259,085 | 1,245,666 | **7,307,078** |
| Net Non-interest income | 1,519,516 | 283,241 | 1,089,280 | 356,735 | **3,248,772** | 2,554,636 | 94,031 | 600,105 | **3,248,772** |
| Operating income | 5,121,833 | 1,050,237 | 4,121,346 | 262,434 | **10,555,850** | 8,356,963 | 353,116 | 1,845,771 | **10,555,850** |
| General administration and other operating expenses | 1,337,878 | 437,391 | 2,308,472 | (822) | **4,082,919** | 3,271,097 | 168,443 | 643,379 | **4,082,919** |
| Net impairment charge | 606,145 | 33,530 | 508,825 | (205,529) | **942,971** | 799,706 | (14,485) | 157,750 | **942,971** |
| Profit before taxation | 3,177,810 | 579,316 | 1,304,049 | 468,785 | **5,529,960** | 4,286,160 | 199,158 | 1,044,642 | **5,529,960** |
| Overseas taxation | 157,154 | 76,392 | 64,413 | 184 | **298,143** | (3,000) | 17,306 | 283,837 | **298,143** |
| Net profit for the year | 3,020,656 | 502,924 | 1,239,636 | 468,601 | **5,231,817** | 4,289,160 | 181,852 | 760,805 | **5,231,817** |
| Segment total assets | 277,880,276 | 32,135,140 | 86,441,602 | 60,394,264 | **456,851,282** | 322,169,714 | 9,922,165 | 88,843,241 | **420,935,120** |
| Inter segment balances | | | | | **(50,287,475)** | | | | **(14,371,313)** |
| Total assets | | | | | **406,563,807** | | | | **406,563,807** |
| Segment total liabilities | 272,765,689 | 31,169,199 | 83,303,475 | 26,394,266 | **413,632,629** | 283,612,659 | 8,389,836 | 85,713,972 | **377,716,467** |
| Inter segment balance | | | | | **(50,287,475)** | | | | **(14,371,313)** |
| Total liability | | | | | **363,345,154** | | | | **363,345,154** |

## 41 Segmental information *(continued)*

| | Business Segment | | | | | Geographic Segment | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Global Wholesale AED'000 | Global Wealth AED'000 | Global Retail and Commercial AED'000 | Head Office AED'000 | Total AED'000 | UAE AED'000 | Gulf AED'000 | International AED'000 | Total AED'000 |
| *As at and for the year ended 31 December 2014* | | | | | | | | | |
| Net Interest income | 3,870,044 | 717,652 | 2,424,174 | 6,148 | **7,018,018** | 5,646,828 | 229,595 | 1,141,595 | **7,018,018** |
| Net Non-interest income | 1,517,930 | 382,409 | 1,212,925 | 283,435 | **3,396,699** | 2,794,632 | 79,526 | 522,541 | **3,396,699** |
| Operating income | 5,387,974 | 1,100,061 | 3,637,099 | 289,583 | **10,414,717** | 8,441,460 | 309,121 | 1,664,136 | **10,414,717** |
| General administration and other operating expenses | 1,191,965 | 395,435 | 2,079,166 | 29,467 | **3,696,033** | 2,998,503 | 139,875 | 557,655 | **3,696,033** |
| Net impairment charge | 391,738 | 24,624 | 382,494 | 69,271 | **868,127** | 660,170 | 56,958 | 150,999 | **868,127** |
| Profit before taxation | 3,804,271 | 680,002 | 1,175,439 | 190,845 | **5,850,557** | 4,782,787 | 112,288 | 955,482 | **5,850,557** |
| Overseas taxation | 149,477 | 80,025 | 42,186 | - | **271,688** | (2,598) | 13,848 | 260,438 | **271,688** |
| Net profit for the year | 3,654,794 | 599,977 | 1,133,253 | 190,845 | **5,578,869** | 4,785,385 | 98,440 | 695,044 | **5,578,869** |
| Segment total assets | 260,181,625 | 32,909,290 | 89,769,544 | 47,524,730 | **430,385,189** | 304,362,847 | 9,557,187 | 82,642,218 | **396,562,252** |
| Inter segment balances | | | | | **(54,286,477)** | | | | **(20,463,540)** |
| Total assets | | | | | **376,098,712** | | | | **376,098,712** |
| Segment total liabilities | 254,395,960 | 31,778,483 | 86,246,126 | 20,001,238 | **392,421,807** | 270,481,225 | 8,239,620 | 79,878,025 | **358,598,870** |
| Inter segment balance | | | | | **(54,286,477)** | | | | **(20,463,540)** |
| Total liability | | | | | **338,135,330** | | | | **338,135,330** |

## 42 Earnings per share

Earnings per share is calculated by dividing the net profit for the year after deduction of Tier 1 capital notes payment by the weighted average number of ordinary shares in issue during the year as set out below:

| | 2015 | 2014 |
|---|---|---|
| ***Basic earnings per share:*** | | |
| Net profit for the year (AED'000) | **5,231,817** | 5,578,869 |
| Less: payment on Tier 1capital notes (AED'000) | **(201,187)** | (187,495) |
| Net profit after payment of Tier 1 capital notes (AED'000) | **5,030,630** | 5,391,374 |
| **Weighted average number of ordinary shares:** | | |
| Ordinary shares as at 1 January of the year ('000) | **4,723,172** | 4,280,470 |
| Effect of bonus shares issued during 2015 ('000) | **472,492** | 472,492 |
| Effect of bonus shares issued during 2014 ('000) | **-** | 428,212 |
| Weighted average number of shares exercised under the share options scheme ('000) | **2,163** | 8,173 |
| Weighted average number of ordinary shares ('000) | **5,197,827** | 5,189,347 |
| **Basic earnings per share (AED)** | **0.97** | 1.04 |
| ***Diluted earnings per share:*** | | |
| Net profit after payment of Tier 1 capital notes (AED'000) | **5,030,630** | 5,391,374 |
| Add: interest on convertible notes (AED'000) | **45,541** | 44,547 |
| Net profit for the year for calculating diluted earnings per share (AED'000) | **5,076,171** | 5,435,921 |
| Weighted average number of ordinary shares ('000) | **5,197,827** | 5,189,347 |
| Effect of dilutive potential ordinary shares issued ('000) | **117,655** | 117,655 |
| Weighted average number of dilutive shares under share options scheme ('000) | **5,226** | 11,244 |
| Weighted average number of ordinary shares in issue for diluted earnings per share ('000) | **5,320,708** | 5,318,246 |
| **Diluted earnings per share (AED)** | **0.95** | 1.02 |

## 43 Fiduciary activities

The Group held assets under management in trust or in a fiduciary capacity for its customers at 31 December 2015 amounting to AED 7,285 million *(2014: AED 9,289 million)*. Furthermore, the Group provides custodian services for some of its customers.

The underlying assets held in a custodial or fiduciary capacity are excluded from these consolidated financial statements of the Group.

## 44 Special Purpose Entities

The Group has created Special Purpose Entities (SPEs) with defined objectives to carry on fund management and investment activities on behalf of customers. The equity and investments managed by the SPEs are not controlled by the Group and the Group does not obtain benefits from the SPEs' operations, apart from commissions and fee income. In addition, the Group does not provide any guarantees or assume any liabilities of these entities. Consequently, the SPEs' assets, liabilities and results of operations are not included in these consolidated financial statements of the Group. The SPEs are as follows:

| **Legal name** | **Activities** | **Country of incorporation** | **Holding 2015** |
|---|---|---|---|
| One share PLC | Investment Company | Republic of Ireland | 100% |
| NBAD Private Equity 1 | Fund Management | Cayman Island | 58% |
| NBAD (Cayman) Limited | Fund Management | Cayman Island | 100% |

## 45 Comparative figures

Certain comparative figures have been reclassified where appropriate to conform to the presentation and accounting policy changes adopted in these consolidated financial statements. These are as stated below:

During the year, the Group revisited the basis of allocation around centrally held profit & losses and other inter-segmental allocations resulting in a restatement of comparative segmental information.

NBAD

# Capital Adequacy and Risk Management Report

(Basel-II Pillar 3 Disclosures)

For the year ended 31 December 2015

*In 2015, growth in developed countries was less than expected as early optimistic growth estimates were steadily revised downward throughout the year*

*The GCC oil exporting countries appear to be better prepared for the 'lower for longer' phase in oil prices than other oil exporting nations*

*Non-oil and gas activities constituted around 68% of UAE's real GDP in 2015*

## 1. Macroeconomic environment

In 2015 overall macroeconomic environment remained challenging in the UAE as well as globally. Growth in developed economies was lower than expected, as early optimistic growth estimates were steadily revised downward throughout the year.

Although oil prices declined by almost 70 percent from their peak to end of 2015, the GCC oil exporting countries appear to be better prepared for the 'lower for longer' phase in oil prices than many other oil-exporting nations.

GCC banks' revenues are expected to remain under moderate pressure in 2016 as funding costs are likely to rise due to decline in government deposits, increased reliance on market funding. This could result in downward pressure on net interest margin.

UAE, on the back of high oil price, has been able to build substantial reserves and fiscal surplus in the past decade. The country has taken important steps in recent years to diversify away from its dependence on hydrocarbons. Non-oil and gas activities constituted around 68% of real GDP (2007 prices) in 2015 as the UAE economy grew around 3.2% in real terms, according to the International Institute of Finance (IIF). As per recent forecast from the 'Economist Intelligence', the real GDP growth for UAE is expected to average 3.6% in 2015-2019, which is below 2014 GDP growth rate of 4.6%. The UAE was the first to address the removal of energy subsidies and is positioned well to make the necessary fiscal adjustments. Overall, the country appears well prepared to embrace possible low oil price scenario in 2016.

Given the backdrop of challenging macro environment, NBAD is confident of managing this with ongoing transformation coupled with efficient risk strategies.

*NBAD is the leading Bank in Middle East and one of the Safest Banks in the world*

*Outside UAE, NBAD has 47 offices in 16 countries including its new office in India during 2015*

*NBAD's long term ratings are amongst the strongest combined ratings of any global financial institution*

## 2. Introduction and Background

National Bank of Abu Dhabi ("NBAD") is the leading Bank in the Middle East and is one of the safest banks in the world. It was incorporated in 1968 to serve as Banker to the Emirate of Abu Dhabi; however, subsequently NBAD continued to grow and extend its services to public and private sectors locally and internationally.

NBAD is listed on Abu Dhabi Securities Exchange (ADX) since November 2000. 70% of its shareholding is held by Government of Abu Dhabi via Abu Dhabi Investment Council (ADIC).

Based on 31 December 2015 statistics, NBAD had a wide network of 114 branches and cash offices, 574 ATMs/CDMs in UAE and a global network of 47 offices in 16 countries outside the UAE. During 2015, NBAD also opened its gate in India with the inauguration of its office in Mumbai. NBAD and its subsidiaries will be collectively referred as the "Group" in this document.

NBAD continues to strive towards enhancing customer experience across all business segments while ensuring customer safety and security. During 2015 NBAD renovated 25 branches, re-issued 262,000 debit cards with new 'chip & pin' security feature, and launched the Arabic version of mobile banking application.

NBAD continues to be rated AA- by Fitch & S&P and Aa3 by Moody's. NBAD's long term ratings are the strongest among global financial institutions and NBAD is ranked among the "World's 50 Safest Banks" since 2009. In addition NBAD is also ranked by Global Finance (Magazine) as the "Safest Bank in Middle East" since 2011 and "Safest Bank in Emerging Markets" since 2014.

## 3. 2015 in brief

*Bank's credit ratings and ranking of being the 'Safest Bank in the Emerging Markets' (by Global Finance), continue to reflect in the form of strong asset quality, adequate coverage, robust liquidity and capital adequacy*

*Non-performing loans decreased by AED 314 million in 2015 as compare to 2014 and NPL ratio stood at 2.76% as against 3.07% in 2014.*

2015 was a challenging year largely impacted by continuous drop in oil price and slower economic growth leading to higher market volatility, tighter liquidity conditions and margin compression.

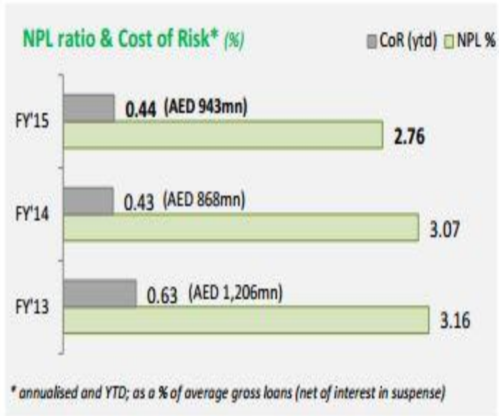
NBAD is best positioned to embrace the "new normal" environment by focusing on long-term strategic objectives, further strengthened by effective risk management.

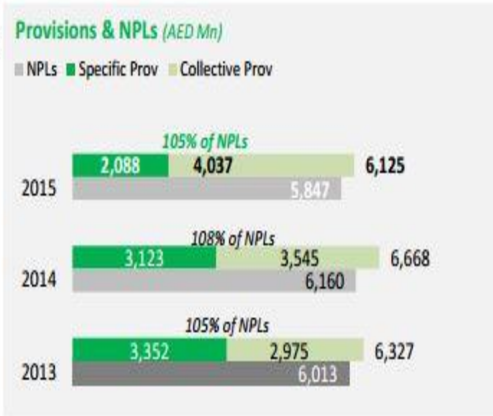
The Bank's "AA-" credit ratings and being ranked as one of the top 50 safest banks (by Global Finance), continue to reflect in the form of strong asset quality, adequate coverage, robust liquidity, and capital adequacy.

Net non-performing loans decreased by AED 314 million in FY'15 to AED 5.84 billion. As of 31 December 2015, NPL ratio stood at 2.76% of the loan book. Total provisions were AED 6.1 billion and represented 105% of non-performing loans.

Net impairment charges in FY'15 were AED 943 million, up 8.6% from FY'14, primarily due to challenging operating environment and deterioration of SME credit quality. Cost of risk (CoR) remained flat at 44bps in FY'15 compared with 43bps in FY'14. The Bank anticipates a gradual increase in the cost of risk going forward over the medium term given the challenging environment. NBAD shall continue with its conservative risk management practice and disciplined lending approach.

*Increase in impairment charges driven by challenging environment and prudent provisioning*




The Bank remains fully compliant with the Central Bank of UAE's minimum requirement of 1.5% for collective provisions.

Restructured Loans increased by AED 1.371 billion to AED 2.673 billion as of December 2015, primarily due to on account of one large successful restructuring, which is backed by strong collateral and expected cash-flows.

# 4. Basel Overview

The Group assesses its capital adequacy based on the standardised approach to capital adequacy standards of the Central Bank of UAE (CBUAE) published in November 2009. The framework is adopted from Bank for International Settlements ("BIS") Revised Framework – 'International Convergence of Capital Measurement and Capital Standards' with applicable national discretion. The framework is structured around three Pillars:

- Pillar 1: Minimum Capital Requirements;
- Pillar 2: the Supervisory Review Process and the Internal Capital Adequacy Assessment Process (ICAAP); and
- Pillar 3: Market Discipline.

## 4.1 Pillar 1 – Minimum capital requirement

Pillar 1 deals with the computation of regulatory capital ratio. It involves criteria based assessment of risk for various asset classes and calculation of risk weighted assets (RWAs) for credit, market and operational risk to estimate the required regulatory capital.

All UAE banks are subject to a minimum capital adequacy ratio of 12%, which is significantly higher than the global required minimum of 8% as stipulated under Basel II framework. Capital adequacy for the Group as at 31st December 2015 was 16.7% - well above the regulatory minimum.

The Group calculates RWA as per CBUAE guidelines for credit, market and operational risks as below.

### a) Credit Risk

The Group uses the standardised approach to calculate RWA for credit risk. It uses risk weights to convert exposures into RWA as per CBUAE guidelines for Basel II which can range between 0% for certain sovereign exposures to 150% for high risk exposures. Where applicable (mainly for unfunded) exposures are adjusted for credit conversion factor (CCF) in accordance with CBUAE guidelines.

Credit Risk Capital = Exposure x CCF x Risk Weight x 12%

The risk assessment is driven by ratings published by external credit assessment institutions approved by CBUAE.

For risk management and pricing purposes, the Bank uses internal credit rating models for its various portfolio segments.

**b) Market Risk**

The Group uses the standardised approach to calculate RWA for market risk as per CBUAE guidelines to calculate RWA for specific risk. In calculating RWA for market risk, the Group distinguishes between general and specific risk and between holdings in the trading book and holdings outside the trading book.

**c) Operational Risk**

The Group uses the basic indicator approach as per CBUAE guidelines for Basel II to calculate RWA for operational risk. The calculation is based on a single indicator i.e. operating income. RWA are calculated as 15% of the average operating income in the past three years. The RWA's are multiplied by 12% to arrive at regulatory capital requirement related to operational risk.

## 4.2 Pillar 2 – ICAAP and supervisory review process

The Group performs annual ICAAP exercise with comprehensive risk assessment and stress testing and the results are submitted to the CBUAE for supervisory review process. Key highlights of ICAAP are as below.

- Define risk appetite of the Group
- Undertake projection of key financials, risk profile, and capital position over next 3 years
- Assess and quantify, where material, the risks either not covered under Pillar 1 (e.g. concentration risk, liquidity risk etc.) or additional capital for Pillar 2 risks
- Conduct a stress test to assess the robustness and vulnerability of the business and financial model

## 4.3 Pillar 3 – Market Discipline

The Bank, on an annual basis, discloses detailed qualitative and quantitative information of its risk management and capital adequacy policies and processes in line with the CBUAE Pillar 3 guidelines.

## 4.4 Differences between Financial Statements and Basel II Reporting of Credit Risk Exposures

Credit risk exposures reported under Basel II differ in respect of the following vis-à-vis financial statements.

- As per CBUAE Basel II framework, off balance sheet exposures are converted, by applying a credit conversion factor (CCF), into direct credit exposure equivalents.

- Under the comprehensive credit risk mitigation approach under the standardised approach, eligible collaterals are considered subject to regulatory haircuts to estimate and report net exposure.

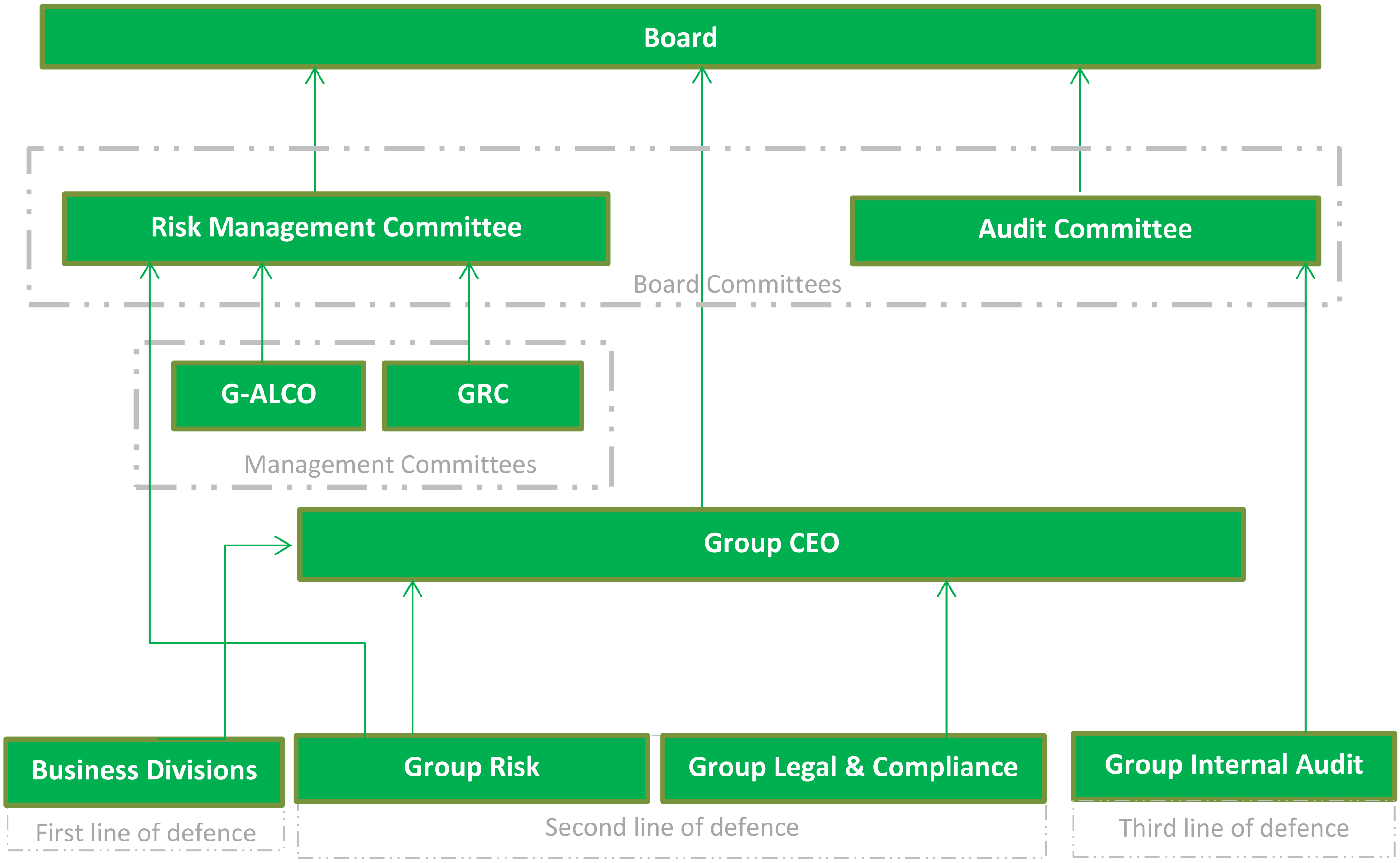
## 4.5 Basel III overview

During 2011, Basel Committee on Banking Supervision (BCBS) officially announced the final set of revised regulatory capital rules known as “Basel III”, which are being phased in globally. Although complete Basel III capital guidelines from CBUAE are still awaited, the Group periodically assesses its position vis-à-vis Basel III and is in a position to comply with the expected Basel III capital and liquidity rules.

# 5. Group Risk Governance

The Board of Directors (the “Board”) has overall responsibility for the oversight of the Group’s risk management framework and they are assisted by two board committees (Risk Management Committee and Audit Committee), and two management committees [Group Risk Committee (“GRC”) and Group Assets and Liabilities Committee (“G-ALCO”)].

The Group manages risk using three lines of defence comprising business units, control units and internal audit. Business units, as the first line of defence, identify and manage risk in their day-to-day activities by ensuring that activities are within the Group’s risk appetite and are in compliance with all relevant internal policies and processes. Risk Group (comprising head office risk and risk functions embedded in business divisions) and Legal & Compliance division, as the second line of defence, establish risk controls comprising of policies, frameworks, processes and analytical tools while also providing oversight and independent challenge to the first line. Internal audit, as the third line of defence, provides assurance to the management and the Board of the effectiveness of risk management practices employed by the first two lines of defence.




## 5.1 Board Committees

### a) Risk Management Committee

Risk Management Committee (RMC), with members from the Board, is responsible for enterprise wide risk management (ERM), including the Group's risk strategy and appetite, risk limits and subsequently monitoring adherence. RMC also approves the Group's risk policies, reviews and satisfies itself, and approves all regulatory compliance and disclosures. In addition, the Committee, through its sub-committee, takes credit decisions above management's discretionary powers or decisions involving significant credit risk.

### b) Audit Committee

The Board has established the Audit Committee to assist the Board in fulfilling its duties with regards to the oversight of (1) financial statements and financial reporting, (2) internal control, risk management and governance systems, (3) compliance with laws and regulations, whistle blowing and fraud, (4) internal audit function, (5) statutory audit, and (6) compliance with the code of conduct established by the management and the Board.

The Committee is also responsible to ensure communication between the Committee, internal auditors, statutory auditors and management of the NBAD Group.

## 5.2 Management Committees

### a) Group Risk Committee ("GRC")

The primary function of the committee is to review and recommend to the Board the risk appetite, risk limits, risk policies to ensure effective management of credit, market and operational risk, business continuity and reputational risk.

### b) Group Asset Liabilities Committee (GALCO)

The primary function of the committee is to review and remain accountable to the Board for the balance sheet management including Capital and Liquidity management. The committee manages liquidity and funding gap risk including approval of the contingency funding plan and funds transfer pricing as well as the relevant policies. It also ensures that the Group continues to hold sufficient capital for Group's sustainable growth model together with regulatory requirements.

### c) Divisional Risk Committees

In addition to the aforementioned risk committees, divisional risk committees were formed in 2015, which act under the authority of the Group Risk Committee, and assist the Group Risk Committee and the Group Chief Risk Officer (GCRO) in discharging their responsibilities by providing oversight of the execution of the Groups Risk Management Framework. Currently the Group has four divisional risk committees, viz. Global Wholesale, Global Commercial, Global Retail, and Global Wealth.

## 5.3 Group Risk

A separate Risk Group, reporting to the RMC and Group Chief Executive (G-CE), assists in carrying out the oversight responsibility of the Board. There are two main independent functions of the Risk Group.

### a) Head Office Risk

Head office risk primarily consists of credit adjudication unit and Group Integrated risk management. The functions and responsibilities of each of these units are as follows:

#### i. Credit adjudications unit

- Credit underwriting within defined authorities and recommending credits to higher approval levels
- Management of problem credits
- Oversight of embedded risk units within business units

ii. **Group Integrated Risk Management (GIRM)**

- Define risk appetite, policies, frameworks and the risk architecture of the Group as well as the overall management of portfolio credit risk, market risk, operational risk, and business continuity management
- Responsible for risk infrastructure and implementation of key risk systems
- Develop and own risk measurement methodologies, i.e. models and assumptions, stress testing framework and risk regulatory compliance

b) **Embedded Risk in Business**

- Credit risk assessment, Approval of individual credits within defined authorities and recommend credits to higher approval levels.
- Ongoing effective monitoring ensuring early identification of problematic accounts through regular reviews and identification of early alert signs.
- Monitoring market risk and implementation of Operational Risk Management ("ORM") and Business Continuity Management ("BCM") policies, frameworks and tools.

## 5.4 Risk appetite

The Group has established a risk appetite framework, which defines the amount and type of risks acceptable to the Bank while pursuing its strategic/business objectives. The Bank's current risk appetite framework primarily reflects its capacity to take risk, defined in terms of Risk Appetite Parameters (RAPs) which are circumscribed by self-imposed constraints and tolerance levels around them. These constraints are limits and triggers to avoid adverse outcomes that may lead to unexpected losses of a scale that would be detrimental to the stability of the relevant business units or of the Group as a whole.

The Group's risk appetite statement is governed by seven broad metrics:

- Credit rating
- Capital adequacy
- Risk adjusted return on capital and earnings volatility
- Credit risk, i.e. asset quality, cost of risk, and provision coverage
- Liquidity and funding risk
- Market risk
- Operational risk

These metrics are converted to measurable risk assessment parameters and tolerance levels at Group level as well as business unit level. At business unit level, along with risk parameters, the risk appetite provides specific guidance in terms of 'what is encouraged' and 'what is discouraged' as well as overarching key risk messages.

In addition to the aforementioned risk appetite, the Bank has also formulated comprehensive asset underwriting standards for its wholesale customer segments, commercial, and retail business divisions. The underwriting standard, within the premise of Group credit policy, lays down following principles:

- Borrower and transaction level lending principles
- Prohibited and restricted credits
- Covenants and key ratios
- Concentration limits
- Dos and Don’ts
- Key risk appetite thresholds

## 6. Capital Management

The Group is governed by CBUAE guidelines on regulatory capital requirements for the Group on a consolidated basis (Including all its subsidiaries and overseas branches). In addition to capital management at Group level, the overseas branches and subsidiaries are directly supervised by their local regulators for operations carried out by those specific entities.

## 6.1 Subsidiaries and significant investments

NBAD uses a Regulatory Consolidation scope in line with BIS Basel II for capital consolidation. The accounting policies related to subsidiaries and significant investments are disclosed in the annual report of the group and there is no significant difference between the basis of consolidation used for financial reporting purpose and as per regulatory requirements. The table below provides the list of the Group’s subsidiaries and significant investments as at 31 December 2015 together with the consolidation method used:

| Table 1: Subsidiaries and Significant Investments as at 31 December 2015 | | | | |
|---|---|---|---|---|
| **Name of Entity** | **Country of Incorporation** | **Ownership %** | **Description** | **Accounting Treatment** |
| **Subsidiaries:** | | | | |
| NBAD Americas N.V. (formerly Abu Dhabi International Bank N.V.) | Curacao | 100% | Banking | Fully Consolidated |
| NBAD Securities LLC | United Arab Emirates | 100% | Brokerage | Fully Consolidated |
| Abu Dhabi National Leasing LLC | United Arab Emirates | 100% | Leasing | Fully Consolidated |
| Abu Dhabi National Properties PrJC | United Arab Emirates | 100% | Property Management | Deducted from Capital |
| NBAD Trust Company (Jersey) Limited | Channel Islands | 100% | Fund Management | Fully Consolidated |
| NBAD Private Bank (Suisse) SA | Switzerland | 100% | Banking | Fully Consolidated |
| Abu Dhabi National Islamic Finance Pvt.JSC | United Arab Emirates | 100% | Islamic Finance | Fully Consolidated |
| Ample China Holdings Limited | Hong Kong | 100% | Leasing | Fully Consolidated |
| Abu Dhabi Brokerage Egypt | Egypt | 96% | Brokerage | Fully Consolidated |
| National Bank of Abu Dhabi Malaysia Berhad | Malaysia | 100% | Banking | Fully Consolidated |
| NBAD Investment Management (DIFC) Limited (under liquidation) | United Arab Emirates | 100% | Fund Management | Fully Consolidated |
| NBAD Employee Share Options Limited | United Arab Emirates | 100% | Shares & Securites | Fully Consolidated |
| SAS 10 Magellan | France | 100% | Leasing | Fully Consolidated |
| National Bank of Abu Dhabi Representações Ltda | Brazil | 100% | Representative office | Fully Consolidated |
| NBAD Financial Markets (Cayman) Limited | Cayman Island | 100% | Banking | Fully Consolidated |
| NBAD Global Multi-Strategy Fund | Cayman Island | 100% | Fund Management | Fully Consolidated |
| | | | | |
| **Significant Investments:** | | | | |
| | | | | |
| ***NBAD Special Purpose Entities*** | | | | |
| One Share PLC | Republic of Ireland | 100% | Investment Company | Not Included |
| NBAD Private Equity 1 | Cayman Island | 58% | Fund Management | Not Included |
| NBAD (Cayman) Limited | Cayman Island | 100% | Fund Management | Not Included |
| | | | | |
| ***Others*** | | | | |
| National Takaful PJSC | United Arab Emirates | 17% | Insurance | Deducted from Capital |
| Misr Iran Office & Touristic Buildings Co | Egypt | 20% | Leasing | Deducted from Capital |

## 6.2 Capital adequacy

The capital management process of the Group is linked to the overall business strategy to ensure that capital is adequate to the level of inherent risk in the business and within the firm's capital risk appetite The Group conducts capital planning in conjunction with the financial budgeting exercise.

The Board and top management define the long term strategic direction for the Group. This provides the framework for the development of a bottom up plan based on the projections from individual business units. The bottom up plan is an input to the annual budgeting process and is conducted at a business unit and country level. These are consolidated for each business division and finally, for the entire Group. Business units, within each division, develop forecasted balance sheet and P&L statements for the next year, by considering the following key parameters:

- the short term (one year) goals
- risk appetite & strategy
- target growth rates
- target returns

The Group's capital management policies aim to ensure that it has sufficient capital to cover the risks associated with its activities and the allocation of capital across the Group. The assessment of the various risks across the Group and their likely impact is carried out in conjunction with ICAAP undertaken annually. As part of the ICAAP process, the Group identifies the various risks the Group is exposed to as part of its day-to-day operations, and determines the risks which would be covered by capital.

The key objectives of the Group's capital management process are:

- Maintain sufficient capital to meet minimum capital requirement set by CBUAE as well as to ensure transition to Basel III in terms of capital ratios.
- Maintain sufficient capital to support Group's Risk Appetite and strategic objectives as per long-term strategic plan.
- Maintain adequate capital to withstand stress scenarios including increased capital requirements determined through ICAAP.
- To support the Group's credit rating.

The Group conducts a multi-year stress test exercise in which the Balance Sheet and Profit & Loss statements are determined for base case and stress scenarios. The risk factors are impacted by the assumptions made for the base and stress scenarios and the corresponding impact on the capital adequacy is determined. The Group uses macroeconomic stress tests in order to project capital need and capital levels under various unfavourable scenarios. The tests are an important tool in internal capital planning. The stress test result during 2015 shows that the Group has adequate capital in the event of adverse scenarios during the next 3-year period.

The consolidated capital structure and key ratios related to group capital as at 31 December 2015 are as follows:

**Table 2: Consolidated Capital Structure as at 31 December 2015**

| Description | Amount |
|---|---|
| | AED '000 |
| **Tier 1 Capital** | |
| 1. Paid up share capital/common stock | 5,463,885 |
| 2. Reserves | |
| a. Statutory reserve | 2,604,861 |
| b. Special reserve | 2,604,861 |
| c. General reserve | 19,150,395 |
| d. Retained Earnings | 6,788,805 |
| e. Others | - |
| 3. Minority interests in the equity of subsidiaries | - |
| 4. Innovative capital instruments | 6,754,750 |
| 5. Other capital instruments | - |
| 6. Surplus capital from insurance companies | - |
| **Sub-total** | **43,367,557** |
| Less: Deductions for regulatory calculation | (253,603) |
| Less: Deductions from Tier 1 capital | (15,752) |
| i. Tier 1 Capital - Subtotal | 43,098,202 |
| ii. Tier 2 capital | 2,991,365 |
| iii. Other deductions from capital | (15,752) |
| iv. Total eligible capital after deductions | **46,073,815** |

| Table 3: Capital Adequacy as at 31 December 2015 | | |
|---|---|---|
| **Description** | **Amount** | **Capital Ratio** |
| | **AED '000** | **%** |
| **Capital Requirements** | | |
| 1. **Credit Risk** | | |
| a. **Standardized Approach** | 28,437,208 | |
| b. **Foundation IRB** | NA | |
| c. **Advanced IRB** | NA | |
| 2. **Market Risk** | | |
| a. **Standardized Approach** | 2,447,755 | |
| b. **Models Approach** | NA | |
| 3. **Operational Risk** | | |
| a. **Basic Indicator Approach** | 2,145,987 | |
| b. **Standardized Approach** | NA | |
| c. **Advanced Measurement Approach** | NA | |
| **Total Capital requirements** | 33,030,950 | |
| **Capital Ratio** | | |
| a. **Total for Top consolidated Group** | | 16.74% |
| b. **Tier 1 ratio only for top consolidated Group** | | 15.66% |
| c. **Total for each significant bank subsidiary** | | NA |

## 7. Credit Risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and causes the Group to incur a financial loss. The credit risk that the Group faces primarily arises from wholesale, commercial, individual and retail loans and counterparty credit risk from derivative contracts entered into with clients. Other sources of credit risk include reverse repurchase agreements, debt securities including available-for-sale assets, and settlement balances with market counterparties.

The Group's credit risk management framework aims to identify, assess, measure and mitigate credit risk across the whole Group and within each business division, right from individual facilities to total portfolio. The Group controls credit risk through a set of Group-wide credit policies, supplemented by asset underwriting standards and product programs.

This section of Group's credit risk management is structured as follows:

- Measuring and monitoring of credit risk
- Credit concentration
- Credit risk mitigation and collateral valuation
- Credit risk systems

- Credit risk policies
- Default management and allowances for impairment
- Counterparty credit risk

## 7.1 Measuring and Monitoring of Credit Risk

### a) Corporate exposure – Internal Rating Model

The Group uses an internal risk rating system to assess the credit quality of borrowers and counterparties. Each counterparty is assigned a rating, including classified accounts that are either watch list or non-performing. The risk rating system has 11 grades, further segregated into 24 notches. Grades 1-7 are performing, Grade 8 is Watch-list and Grades 9 - 11 are non–performing, each with a rating description.

The Group has implemented bespoke models and scorecards using its own data and expert judgment for:

- Borrower risk rating models for Corporate, SMEs, and High Net-Worth Individuals.
- Facility risk rating models for Project Finance and Real Estate.

Model performance and usage are monitored regularly and are reported to senior management and risk committees. All models are subject to periodic in-depth reviews to ensure that they remain fit-for-use and appropriate to the underlying portfolio segment and geography.

The output of each model and scorecard is mapped to an internal rating scale. Each grade in the rating system is linked to a Probability of Default (PD) estimated using the Group default experience supplemented by data from external sources.

The internal risk rating system plays a significant role in efficient use of credit risk measurement and management including:

- Risk based pricing and determination of Risk Adjusted Return on Capital (RAROC).
- Risk based monitoring (Frequency and intensity of monitoring).
- Determining risk based delegation of powers at various sanction authority levels.
- Estimation of collective provisioning.

The distribution of performing loans and advances as at December 2015 is as below.

| Table 4: Rating Distribution of performing loan portfolio as at 31 December 2015 | |
|---|---|
| **Rating grade** | **% of total performing loans and advances** |
| **1 – 4** | 64.4% |
| **5 – 6** | 12.9% |
| **7** | 9.3% |
| **8** | 1.9% |
| **Retail program lending** | 11.5% |

The key models were recently validated in 2014 by external third party and suggested recommendations were implemented in 2015. The Group currently uses rating models based on statistical analysis but supplements them with expert judgment. As data availability (both qualitative and quantitative) improves, the rating system would tend more towards statistical models, but would retain expert judgment to ensure that models are suitable for the Bank's portfolio and in line with the Bank's policies and culture.

### b) Retail exposures – Retail scoring models

Retail lending business is governed by product programs vetted by the Risk Group and employs credit scoring technique to process small scale, large volume credit decisions. The scores are combined with management judgment to ensure effective ongoing process of approval, review and enhancement. The majority of the retail credit origination process has been automated which reduces operational risk arising out of the credit approval and monitoring process.

During 2015, application and behavioral level scorecard models have been implemented for most retail products. The application level scorecard model helps to auto-approve certain portion of applications based on pre-determined criteria. The behavioral scorecards helps to monitor existing facilities by assigning specific scores based on conduct of the account which provides a guide for the effective management of accounts by identifying high and low risk accounts based on behavioral scores.

The Group is in process to continuously improve these scorecard models and include extended pre-approved criteria to increase the population of applications which can be auto-approved with no or little manual intervention.

### c) Sovereign and Bank exposures – External ratings

For banks and sovereign exposures, the risk ratings given by leading External Credit Assessment Institutions – Moody's, Standard and Poor's and Fitch are considered. For PSEs and corporate exposures, issuer ratings are considered for internal risk assessment, if available. Sovereign and bank exposures are governed by the external credit rating agencies for the calculation of capital adequacy under Basel II Standardized approach. Wherever multiple ratings are available, mapping provided in the guidelines by the regulator is used for arriving at the required risk weighting.

### d) Credit Risk Monitoring

The group regularly monitors its credit risk in respect of all its portfolios at various levels.

At obligor level, the Group has a process of periodic review of credit based on the internal rating grades. More frequent reviews are made for the weaker credits and less frequent reviews for the superior credits. The Group conducts full reviews and renewals of all performing credits at least annually. Obligors with lower risk profile are monitored at lower frequency by business units, unless otherwise required, to evaluate the potential changes in credit worthiness and related impact on risk rating based on latest available financial and other relevant information. More frequent and focused monitoring for lower rated borrowers ensures early identification of potential impairments, if any. The monitoring frequency is as below:

| Risk Rating | Frequency |
|---|---|
| **Risk Rating between 1+ to 4** | 12 months or lower |
| **Risk Rating between 4- to 6** | 6 months or lower |
| **Risk Rating between 6- to 8** | 3 months or lower |
| **Classified Accounts** | To be monitored by Special Asset Management (SAM) teams for Wholesale and Commercial or Collection and Recovery unit for retail |

The Group also has a process of defining and reporting all the potential problem accounts. The consumer banking portfolio is monitored based on delinquency buckets, which are calculated based on the days installment or interest is past due.

All the past dues on principal and interest on loans and advances portfolios of the Group are reported periodically to the senior management. Measures to realize such past dues are initiated with stringent follow up thereafter.

Further, Watch-listed accounts are also monitored and reported to the senior management. This category comprises accounts where either contractual principal or interest is past due or when the accounts show weakness in the borrower's financial position and creditworthiness and require more than normal attention. Such weakness is specifically monitored to ensure that the quality of the asset does not further deteriorate.

The Group has a policy for monitoring of all excesses over limits. The monitoring reports are submitted to the senior management and processes are initiated to realize and regularize such excesses.

At the portfolio level, the Group monitors the existing portfolio based on the economic sectors, industry, geography, ratings and business lines. These portfolio reports are prepared periodically and the senior management is informed on the same.

**Traded credit risk:** The Group has internally designed and implemented the methodology to estimate the Potential Future Exposure (PFE) associated with FX, interest rate and commodity OTC derivatives. The PFEs are used by the Group to set the risk limit as well as to monitor counterparty exposure on a daily basis.

**Collateral management**: The Group follows a system of controls, reviews and approvals to ensure effective collateral management. This includes minimum loan to value (LTV) requirement, specific collateral requirement for lending against shares and real estate portfolio, margin calls for treasury products and ensuring legal enforceability of contracts including perfection of security interests.

## 7.2 Credit concentration Risk

Credit concentration risk refers to the level of exposure to any individual or related group of customers, specific industries or sectors, countries or geographical locations. The first level of monitoring against concentration risk is the periodic review of country and industry exposures by the Risk Management Committee and Group Risk Committee to ensure these are within Group's risk appetite and in accordance with market trends. Credit exposures to individual customers or customer groups is controlled through a risk based Discretionary Powers (DP) matrix with borrower's Risk Rating and collateral forming the inputs to the DP matrix.

### a) Single Name Concentration:

Single name concentration is monitored on an individual basis with the top exposures being reported to the GRC on a quarterly basis. The Group abides by single obligor limits set by CBUAE requiring the banks to seek CBUAE approval for any planned exposure to a single counterparty or groups of connected counterparties exceeding the limit applicable to that counterparty. In addition, the Bank has established internal single obligor limits stricter than CBUAE guidelines.

### b) Geographical Concentration:

Although the Group's operations are mainly concentrated within the UAE, it has presence in North America, South America, Europe, Middle East, Africa and Asia. This exposes the Group to legal, transfer and sovereign risk. Exposures to various geographies are monitored periodically.

The currency and geographic distribution of Gross Credit Exposures (funded and non-funded) as at 31st December 2015 is as follows:

| Table 5: Gross Credit Exposures by Currency Type as at 31 December 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Currency | Loans | Non-trading Investments | Total Funded | Commitme -nts | OTC Derivatives | Other Off-Balance Sheet | Total Non-Funded | Total |
| | | | | AED '000 | | | | |
| **Foreign Currency** | 128,396,036 | 63,632,128 | 192,028,164 | 20,526,521 | 845,357,824 | 86,878,604 | 952,762,949 | 1,144,791,113 |
| **AED** | 84,679,155 | 162,023 | 84,841,178 | 9,263,817 | 110,294,608 | 33,313,800 | 152,872,225 | 237,713,403 |
| **Total** | **213,075,191** | **63,794,151** | **276,869,342** | **29,790,338** | **955,652,432** | **120,192,404** | **1,105,635,174** | **1,382,504,516** |

| Table 6: Gross Credit Exposures by Geography as at 31 December 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Geographic Distribution | Loans | Non-trading Investments | Total Funded | Commitm -ents | OTC Derivatives | Other Off-Balance Sheet | Total Non-Funded | Total |
| | | | | AED '000 | | | | |
| **United Arab Emirates** | 123,326,698 | 16,000,404 | 139,327,102 | 14,478,228 | 178,368,546 | 72,777,114 | 265,623,888 | 404,950,990 |
| **GCC excluding UAE** | 15,899,004 | 4,047,591 | 19,946,595 | 3,114,520 | 124,131,647 | 4,923,146 | 132,169,313 | 152,115,908 |
| **Arab League (excluding GCC)** | 6,391,744 | 5,244,918 | 11,636,662 | 398,948 | 3,783,723 | 3,066,352 | 7,249,023 | 18,885,685 |
| **Asia** | 15,767,657 | 12,130,287 | 27,897,944 | 2,074,032 | 10,947,377 | 3,559,870 | 16,581,279 | 44,479,223 |
| **Africa** | 1,853,875 | - | 1,853,875 | 159,716 | 2,392,216 | 475,237 | 3,027,169 | 4,881,044 |
| **North America** | 5,061,304 | 7,721,670 | 12,782,974 | 2,990,131 | 6,035,683 | 10,148,803 | 19,174,617 | 31,957,591 |
| **South America** | 8,022,543 | - | 8,022,543 | - | 1,755,289 | 4,256,166 | 6,011,455 | 14,033,998 |
| **Caribbean** | 282,697 | - | 282,697 | - | 93,907 | - | 93,907 | 376,604 |
| **Europe** | 36,091,915 | 17,284,439 | 53,376,354 | 5,955,360 | 625,109,061 | 20,950,976 | 652,015,397 | 705,391,751 |
| **Australia** | 377,754 | 1,364,842 | 1,742,596 | 619,403 | 2,472,181 | 26,481 | 3,118,065 | 4,860,661 |
| **Others** | - | - | - | - | 562,802 | 8,259 | 571,061 | 571,061 |
| **Total** | **213,075,191** | **63,794,151** | **276,869,342** | **29,790,338** | **955,652,432** | **120,192,404** | **1,105,635,174** | **1,382,504,516** |

### c) Sector Concentration:

The Group has consciously adopted measures to diversify the exposures to various sectors. Real Estate exposures remain within the limits prescribed by CBUAE, with sufficient collateral coverage. The Group ensures portfolio diversification and employs stringent lending guidelines in conjunction with close portfolio monitoring for vulnerable portfolios prone to systematic downturns. Classification of Gross Credit Exposures (funded and non-funded) by Industry Sector as at 31 December 2015 is as follows:

**Table 7: Gross Credit Exposures by sector as at 31 December 2015**

| Industry Segment | Loans | Non-trading Investments | Total Funded | Commitm-ents | OTC Derivatives | Other Off-Balance Sheet | Total Non-Funded | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | AED '000 | | | | |
| **Agriculture, Fishing & related activities** | 121,016 | - | 121,016 | 3,025 | - | 130,545 | 133,570 | 254,586 |
| **Crude Oil, Gas, Mining & Quarrying** | 9,156,948 | 8,118,446 | 17,275,394 | 2,875,229 | 5,879,689 | 6,445,020 | 15,199,938 | 32,475,332 |
| **Manufacturing** | 18,676,518 | 92,865 | 18,769,383 | 4,126,633 | 9,859,934 | 18,757,692 | 32,744,259 | 51,513,642 |
| **Electricity & Water** | 7,558,624 | 1,794,323 | 9,352,947 | 2,019,889 | 4,587,090 | 1,338,790 | 7,945,769 | 17,298,716 |
| **Construction** | 10,275,513 | 12,523 | 10,288,036 | 3,552,609 | 4,372,540 | 14,475,864 | 22,401,013 | 32,689,049 |
| **Real Estate** | 37,729,525 | - | 37,729,525 | 5,197,494 | 6,746,765 | 57,741 | 12,002,000 | 49,731,525 |
| **Trade** | 10,797,566 | 57,762 | 10,855,328 | 2,149,929 | 4,821,801 | 5,682,454 | 12,654,184 | 23,509,512 |
| **Transport, Storage & Communication** | 16,467,741 | 2,898,327 | 19,366,068 | 4,422,957 | 7,121,482 | 3,640,035 | 15,184,474 | 34,550,542 |
| **Financial Institutions** | 40,740,076 | 30,425,412 | 71,165,488 | 3,841,196 | 894,578,443 | 23,096,783 | 921,516,422 | 992,681,910 |
| **Services** | 5,768,988 | - | 5,768,988 | 888,396 | 1,395,813 | 1,635,078 | 3,919,287 | 9,688,275 |
| **Government** | 20,319,828 | 20,394,493 | 40,714,321 | 84,850 | 14,787,797 | 43,227,801 | 58,100,448 | 98,814,769 |
| **Retail / Consumer Banking** | 35,369,070 | - | 35,369,070 | 625,984 | 267,823 | 107,578 | 1,001,385 | 36,370,455 |
| **All Others** | 93,778 | - | 93,778 | 2,147 | 1,233,255 | 1,597,023 | 2,832,425 | 2,926,203 |
| **Total** | **213,075,191** | **63,794,151** | **276,869,342** | **29,790,338** | **955,652,432** | **120,192,404** | **1,105,635,174** | **1,382,504,516** |

## d) Maturity profile:

The group monitors and manages its liquidity gaps and maturity profile of its assets and liabilities through G-ALCO. This is discussed in detail in the Liquidity risk section. The maturity profile of Bank's loans and advances as at 31 December 2015 is given below:

| Table 8: Gross Credit Exposure by residual contractual maturity as at 31 December 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Residual Contractual Maturity | Loans | Non-trading Investments | Total Funded | Commitme-nts | OTC Derivatives | Other Off-Balance Sheet | Total Non-Funded | Total |
| | | | | AED '000 | | | | |
| **Less than 3 months** | 50,155,538 | 4,488,104 | 54,643,642 | 1,594,571 | 183,205,304 | 27,613,437 | 212,413,312 | 267,056,954 |
| **3 months to one year** | 19,996,303 | 2,484,621 | 22,480,924 | 7,209,111 | 145,080,523 | 11,405,529 | 163,695,163 | 186,176,087 |
| **One to five years** | 83,689,568 | 24,390,044 | 108,079,612 | 15,653,003 | 454,533,569 | 52,814,944 | 523,001,516 | 631,081,128 |
| **Over five years** | 59,233,782 | 32,431,382 | 91,665,164 | 5,333,653 | 172,833,036 | 28,358,494 | 206,525,183 | 298,190,347 |
| **Total** | **213,075,191** | **63,794,151** | **276,869,342** | **29,790,338** | **955,652,432** | **120,192,404** | **1,105,635,174** | **1,382,504,516** |

## 7.3 Credit Risk Mitigation and Collateral Valuation

While extending credit facilities, the Group primarily relies on the borrower's ability to pay. Security is the means by which, as the last resort, the Group should be able to obtain the repayment of outstanding amount owing to it by a customer. It may take many forms, but any item of security should possess the following attributes:

- It should be of a determinable value;
- It should have a stable value;
- It should be of a value in excess of the amount it is intended to be securing so as to provide a margin of safety;
- It should be readily realizable, i.e. an asset such as a property, should be capable of being readily sold;
- It should be enforceable, preferably without needing recourse to the Courts or the involvement of other legal processes; and
- It should have an effective maturity (or validity) equal to or longer than that of the credit facility.

Security with such attributes could be described as being of good quality. Acceptable forms of collateral are defined within the Group risk framework and conservative valuation parameters are applied and frequently reviewed to reflect any changes in market conditions. Security structures and legal covenants are also subject to regular review.

Broad types of collateral taken by the Bank are cash, land and buildings (real estate), mortgages, debentures, stocks and shares, merchandise, goods etc.

### Gross Credit Risk Exposures subject to Credit Risk Mitigation (CRM)

Under the Standardised Approach of Basel II, banks may choose between two options when calculating credit risk mitigation capital relief. These are the Simple Approach which substitutes the risk weight of the collateral from that of the exposure and the Comprehensive Approach where the exposure is adjusted by the actual value ascribed to the collateral, the latter being more robust as a methodology.

The Group uses the comprehensive method, where eligible collateral is in form of financial securities (e.g. cash, high quality debt securities, equities in main index). In addition, on-balance sheet netting, guarantees by specific protection providers and credit derivatives are also allowed as Credit Risk Mitigants (CRM). The Group follows the Basel II guidelines specifying minimum operating and documentation criteria that need to be satisfied for eligibility as Basel II collateral.

Following table provides on and off-Balance Sheet exposures for the Group along with the effect of Credit Risk Mitigation in each Basel II asset class.

**Table 9: Loan Portfolio as per Standardized Approach as at 31 December 2015**

| Asset Class | On Balance Sheet | Off Balance Sheet | Credit Risk Mitigation (CRM) | | | Risk Weighted Assets |
|---|---|---|---|---|---|---|
| | Gross Outstanding | Net Exposure After Credit Conversion Factors (CCF) | Exposure Before CRM (Net of IIS and Specific provision) | CRM | After CRM | |
| | | | AED '000 | | | |
| **Claims on sovereigns** | 117,697,748 | 22,937,518 | 140,635,266 | (4,101,904) | 144,737,170 | 10,228,775 |
| **Claims on non-commercial public sector enterprises** | 10,607,581 | 979,605 | 11,587,185 | - | 11,587,185 | - |
| **Claims on multi-lateral development banks** | 371,387 | 6,598 | 377,985 | - | 377,985 | - |
| **Claims on banks** | 88,693,971 | 18,986,511 | 107,680,482 | 43,118,003 | 64,562,479 | 32,800,418 |
| **Claims on securities firms** | 13,838,386 | 5,391,857 | 19,230,244 | 10,059,540 | 9,170,704 | 5,297,475 |
| **Claims on corporates & Government Related Enterprises (GRE)** | 107,545,742 | 51,787,426 | 159,239,868 | 10,346,399 | 148,893,469 | 127,745,825 |
| **Claims included in the regulatory retail portfolio** | 23,942,151 | 466,570 | 24,394,711 | 2,529,238 | 21,865,473 | 17,345,368 |
| **Claims secured by residential property** | 6,648,729 | - | 6,648,729 | 27,192 | 6,621,537 | 3,933,532 |
| **Claims secured by commercial real estate** | 29,345,697 | - | 29,045,697 | 162,512 | 28,883,185 | 28,883,186 |
| **Past due loans** | 6,884,434 | - | 4,038,892 | 323,734 | 3,715,158 | 4,328,957 |
| **Higher-risk categories** | - | - | - | - | - | - |
| **Other assets** | 19,006,738 | 3 | 18,988,133 | - | 18,988,133 | 5,036,968 |
| **Claims on securitized assets** | 5,992,111 | - | 5,992,111 | - | 5,992,111 | 1,376,232 |
| **Credit Derivatives** | - | - | - | - | - | - |
| **Total Claims** | **430,574,675** | **100,556,088** | **527,859,303** | **62,464,714** | **465,394,589** | **236,976,736** |

The following table shows the rated[1] and unrated exposures in each Basel II asset class for the Group:

[1] Externally rated by a rating agency (e.g. S&P, Moody's or Fitch)

**Table 10: Loan Portfolio as per Standardised Approach as at 31 December 2015**

| Asset Class | Rated | Unrated | Gross Credit Exposure<br>Exposure before CRM (net of IIS and Specific Provision) | Post CRM | RWA Post CRM | Exposure subject to deduction<br>Rated | Unrated | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | AED '000 | | | | |
| Claims on sovereigns | 139,066,350 | 1,568,916 | 140,635,266 | 144,737,170 | 10,228,775 | - | - | - |
| Claims on non-commercial public sector enterprises | 11,465,185 | 122,001 | 11,587,185 | 11,587,185 | - | - | - | - |
| Claims on multi-lateral development banks | 371,387 | 6,598 | 377,985 | 377,985 | - | - | - | - |
| Claims on banks | 106,012,240 | 1,668,242 | 107,680,482 | 64,562,479 | 32,800,418 | - | - | - |
| Claims on securities firms | 18,282,027 | 948,216 | 19,230,244 | 9,170,704 | 5,297,475 | - | - | - |
| Claims on corporates & Government Related Enterprises (GRE) | 43,202,832 | 116,130,336 | 159,239,868 | 148,893,469 | 127,745,825 | - | - | - |
| Claims included in the regulatory retail portfolio | - | 24,408,721 | 24,394,711 | 21,865,473 | 17,345,368 | - | - | - |
| Claims secured by residential property | - | 6,648,729 | 6,648,729 | 6,621,537 | 3,933,532 | - | - | - |
| Claims secured by commercial real estate | - | 29,345,697 | 29,045,697 | 28,883,185 | 28,883,186 | - | - | - |
| Past due loans | 23,583 | 6,860,851 | 4,038,892 | 3,715,158 | 4,328,957 | - | - | - |
| Higher-risk categories | - | - | - | - | - | - | - | - |
| Other assets | 11,817,723 | 7,189,018 | 18,988,133 | 18,988,133 | 5,036,968 | - | 279,369 | 279,369 |
| Claims on securitized assets | 5,986,374 | 5,737 | 5,992,111 | 5,992,111 | 1,376,232 | - | 5,737 | 5,737 |
| Credit Derivatives | - | - | - | - | - | - | - | - |
| **Total Claims** | **336,227,701** | **194,903,062** | **527,859,303** | **465,394,589** | **236,976,736** | **-** | **285,106** | **285,106** |

The following table shows the effect by Basel II CRM type on Exposures:

| Table 11: Credit Risk Mitigation: Disclosures for Standardized Approach as at 31 December 2015 | | | |
|---|---|---|---|
| | **Description** | **Exposures** | **Risk Weighted Assets** |
| | | **AED '000** | |
| | **Gross Exposure prior to Credit Risk Mitigation** | **527,859,303** | **273,226,827** |
| **Less:** | Exposure covered by Netting Agreements | 5,019,879 | 2,397,115 |
| **Less:** | Exposures covered by Eligible Financial Collateral | 57,444,835 | 29,040,839 |
| **Less:** | Exposures covered by Guarantees - From | 5,565,684 | 5,509,534 |
| **Add:** | Exposures covered by Guarantees - To | 5,565,684 | 697,397 |
| **Less:** | Exposures covered by Credit Derivatives | - | - |
| | **Net Exposures after Credit Risk Mitigation** | **465,394,589** | **236,976,736** |

## 7.4 Credit Risk systems

- The Group follows an integrated approach for risk management systems. A unique obligor number is created for internal rating, credit approval process, limit management and reporting across all locations through centralized process for non-retail customers.
- The Bank uses Murex platform as limit management system across banking and treasury book and is in the process of upgrading non retail credit workflow system aimed at providing single interface to first and second line of defense.
- The Group has developed a real time limit monitoring capability within UAE to quickly calculate limits used in multiple transaction systems. More systems are being added.
- The Group uses a real time scoring engine for retail credits, which is integrated with approval workflow system. The Group is working towards integration of internal scoring engine with Al Etihad Credit Bureau to get customer data.
- The asset classification and provisioning processes are automated on the core banking platform across most locations within managed defined thresholds.
- The Group uses enterprise data warehouse (EDW) as a data source for internal reporting and analytical needs. The EDW consolidates obligor and risk data from all locations on daily basis.

## 7.5 Credit risk policies

Credit risk policies are an integral part of the Group's risk management framework. Policies govern all activities related to the credit life cycle.

The Group rolled out its revised Group Credit Policy Manual (GCPM) in 2014 which is periodically reviewed to keep it updated in line with internal and external changes. GCPM governs the credit risk activities of the Bank and is realigned to the Group's new business model and strategy. The structure of GCPM is as follows:

**Group level:** Group level credit policies are the high-level or overarching policies for all the entities within the Group, domestic as well as international. These policies cover the general credit policies and requirements such as risk appetite, credit portfolio planning, credit risk governance, credit risk rating and pricing, credit risk mitigation and remedial management.

**Business segment level:** Business segment credit policies articulate the policies specific to individual business segments within the Bank that originate or take on credit exposures. These policies govern the stages of credit approval life cycle, viz. origination, assessment and measurement, pricing, approval, commitment, credit administration and operations, monitoring, reporting and remedial management.

**Product specific Policies:** These policies govern credit products and Specialised lending categories. Product specific policies provide policies for permissible generic credit products that may be offered by one or more business segments as well as traded credit products. Programme lending in consumer banking which is covered by individual product programs serve as an extension of these policies.

Specialized lending categories cover areas such as syndicated credit, project financing, contractor financing, real estate financing, share financing and asset backed lending. These policies also cover the process and authority for introduction and approval of new credit products.

**Portfolio management policies:** These articulate the policies on credit portfolio management, monitoring and reporting, credit risk portfolio limits, and credit stress testing.

To facilitate Bank-wide usage, GCPM is rolled out on a web-based platform with advanced search functionalities to enhance ease of use.

## 7.6 Default management and allowances for impairment

### a) Default Management

The group has established policies and procedures to manage problematic loan portfolios. The Group follows CBUAE and IFRS guidelines for classification and provisioning of problem loans. International branches follow applicable local regulatory requirements or Group policies (whichever is stricter) for local reporting as per their respective jurisdictions.

The detailed policies and management of portfolios reflecting other than normal characteristics is further explained below.

**Loans with renegotiated terms**: Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made material concessions that it would not otherwise consider. Once a loan is restructured, it remains in this category for a minimum period of twelve months, in order to establish a satisfactory track record of performance under the restructuring agreement. The Bank determines the twelve-month period to commence from the date of signing of the agreement for restructuring.

**Past Due but not Impaired:** Past due but not impaired are accounts where either contractual principal or interest are past due and when the accounts show weakness in the borrower's financial position and creditworthiness, and requires more than normal attention. Such weakness is specifically monitored to ensure that the quality of the asset does not further deteriorate. On this class of asset the Group believes that specific impairment is not appropriate at the current condition.

**Classified loans:** The classification and impairment policy currently implemented by the Group classifies delinquent borrowers as Substandard, Doubtful or Loss in line with the guidelines laid down in CBUAE circular 28/2010. To ensure strict compliance, the Group has implemented an automated solution in the UAE and most of the international locations. It classifies delinquent accounts with exposures below a set threshold. The classification into Substandard, Doubtful or Loss is carried out daily for these accounts based on delinquency ('days past due'). For accounts with exposure greater than the threshold value, classification as Substandard, Doubtful or Loss is based on a thorough assessment of the account by means of a detailed credit risk assessment.

## b) Allowances for impairment

The Group establishes an allowance for impairment losses on assets carried at amortized cost in accordance with CBUAE and IFRS guidelines. The main components of this allowance are a specific loss component that relates to individually impaired exposures, and a collective loss allowance for its performing portfolio.

**Collective Provisioning:** In assessing the collective loss allowance, the Group uses the higher of 1.5% of credit risk weighted assets computed as per the central bank guidelines or expected loss model, established for groups of homogeneous assets with similar risk characteristics that are indicative of the debtor's ability to pay amounts due according to the contractual terms on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of loss experience for assets with credit risk characteristics similar to those in the group.

**Individually Impaired accounts:** Individually assessed loans are required to be classified as impaired as soon as there is objective evidence that an impairment loss has been incurred. Objective evidence of impairment includes observable data such as when contractual payment of principal or interest is overdue or there are known difficulties in the cash flows of counterparties, credit rating downgrades or when original terms of the contractual repayment are unable to be met.

Accounts once classified, are automatically provided by system based on specified criteria stated below except in certain cases where management believes that higher provision is required based on available information and recovery prospects. For international locations where systems lack automatic classification and provisioning functionality, accounts are classified and provided manually as stated above. Classified portfolios are centrally monitored by Group Risk Management Division to ensure compliance to CBUAE regulations. For international units, the Group assesses both home and host regulations and applies the stricter one.

| Classification and provisioning criteria for Wholesale Portfolio | | | |
|---|---|---|---|
| **Classification** | **Internal Grade** | **Criteria** | **Provision** |
| **Normal** | 1 - 7 | Normal banking risk, repayment as agreed | Collective provisioning |
| **Watch-list** | 8 | Some weakness in financial condition | Collective provisioning |
| **Sub-standard loans** | 9 | Arrears 90 days or greater and shows some loss due to adverse factors that hinder repayment | Specific provision - 25% of the exposure amount net of discounted value of collateral held |
| **Doubtful loans** | 10 | Based on available information, full recovery seems doubtful, leading to a loss on portion of these loans | Specific provision - 50% of the exposure amount net of discounted value of collateral held |
| **Loss loans** | 11 | Probability of no recovery after all available courses of action are exhausted | Specific provision - 100% of the exposure amount net of discounted value of collateral held |

| Classification and provisioning criteria for Retail Portfolio | | |
|---|---|---|
| **Past Due Bucket** | **Classification** | **Provisioning*** |
| **0-89 days** | Normal | Collective provision |
| **90-119 days** | Sub-standard loans | Specific provision - 25% |
| **120-179** | Doubtful loans | Specific provision - 50% |
| **180+** | Loss loans | Specific provision - 100% |

The following table provides geographical distribution of overdue loan and provisions as at 31 December 2015:

| Table 12: Geographical distribution of overdue loans as at 31 December 2015 | | | | | | |
|---|---|---|---|---|---|---|
| **Geographic Distribution** | **Overdue** | | | **Provisions** | | |
| | **Past Due but not impaired** | **Individually impaired** | **Total** | **Int. in Suspense** | **Specific** | **General** |
| | | | **AED '000** | | | |
| **United Arab Emirates** | 1,638,713 | 6,252,077 | 7,890,790 | 967,427 | 1,811,182 | 2,071,715 |
| **GCC excluding UAE** | 86,098 | 93,170 | 179,268 | 12,446 | 54,491 | 321,823 |
| **Arab League (excluding GCC)** | 99,235 | 196,251 | 295,486 | 55,234 | 121,929 | 300,212 |
| **Asia** | 910 | - | 910 | - | - | 336,298 |
| **Africa** | - | - | - | - | - | 19,595 |
| **North America** | - | 289 | 289 | 51 | - | 229,279 |
| **South America** | - | - | - | - | - | 55,730 |
| **Europe** | 1,680 | 341,521 | 343,201 | 1,507 | 99,966 | 686,046 |
| **Australia** | - | - | - | - | - | 16,552 |
| **Others** | - | - | - | - | - | 155 |
| **Total** | **1,826,636** | **6,883,308** | **8,709,944** | **1,036,665** | **2,087,568** | **4,037,405** |

The following table provides sectoral distribution of overdue loans and advances and related provisions as at 31 December 2015.

**Table 13: Sectoral distribution of loans and advances and related provisions as at 31 December 2015**

| Industry Segment | Overdue | | | Provisions | | |
|---|---|---|---|---|---|---|
| | Past Due but not impaired | Individually impaired | Total | Int. in Suspense | Specific | General |
| | | | AED '000 | | | |
| Agriculture, Fishing & related activities | - | 18 | 18 | 13 | 4 | 1,163 |
| Crude Oil, Gas, Mining & Quarrying | 5,505 | - | 5,505 | - | - | 190,437 |
| Manufacturing | 93,051 | 405,252 | 498,303 | 7,587 | 154,292 | 407,274 |
| Electricity & Water | 2,668 | 36,285 | 38,953 | 5,281 | 13,609 | 98,111 |
| Construction | 74,204 | 162,299 | 236,503 | 35,013 | 100,465 | 203,766 |
| Real Estate | 223,386 | 3,094,017 | 3,317,403 | 335,202 | 536,803 | 822,887 |
| Trade | 273,355 | 369,537 | 642,892 | 51,610 | 233,808 | 231,782 |
| Transport, Storage & Communication | 35,015 | 133,513 | 168,528 | 41,485 | 79,977 | 376,772 |
| Financial Institutions | 4,930 | 421,318 | 426,248 | 50,185 | 123,206 | 754,792 |
| Services | 252,769 | 213,879 | 466,648 | 55,946 | 137,254 | 104,694 |
| Government | - | 14,243 | 14,243 | 66 | 14,985 | 158,413 |
| Loans to Individuals for Business & Consumption Purpose | 850,011 | 2,022,188 | 2,872,199 | 453,714 | 687,710 | 685,104 |
| All Others | 11,742 | 10,759 | 22,501 | 563 | 5,455 | 2,210 |
| **Total** | **1,826,636** | **6,883,308** | **8,709,944** | **1,036,665** | **2,087,568** | **4,037,405** |

The movement in the provisions for impaired loans for the year ended 31 December 2015 is shown below:

| Table 14: Provision Movement for the year ended 31 December 2015 | | |
|---|---|---|
| | **Description** | **Amount** |
| | | **AED '000** |
| | **Opening Balance of Provisions for Loans** | 6,668,084 |
| **Add:** | Charge for the year | |
| | • Specific provision | 1,476,162 |
| | • General provision | 503,282 |
| **Less:** | Recovery of loan loss provision | (378,847) |
| **Less:** | Write-back of provision for loans | (685,050) |
| | Amounts written off and other adjustments | (1,458,658) |
| | **Closing Balance of Provisions for Loans** | **6,124,973** |

**Write-off Policy:** The Group currently has a policy to write-off historical accounts based on the time elapsed since the account was fully provided for as per the provisioning and classification policy of the Group taking into account the possibility of recovery through legal measures. Exposures are written off using one or more of the criteria defined in the Group Credit Policy Manual. However, write-off may be deferred in specific cases based on the discretion of the Management. Write-off of interest and/or principal requires approval from authorities, as defined in the credit policy of the Group, depending on the amount including any exposure previously provided for.

## 7.7 Counterparty Credit Risk ("CCR")

The policies and procedures related to management of counterparty credit risk and its governance are governed by Group Credit Policy Manual together with Counterparty Credit Risk Framework. The day to day management of the framework is performed by Wholesale Global Markets Risk Oversight, whilst the methodology is developed and maintained by Group Market Risk.

**CCR framework:** Under counterparty credit risk framework, following limit types are established and monitored:

- GPSR - Global Pre Settlement Risk Limit (PSR) for derivatives – Including FX, Interest Rate, Credit & Commodity
- Repo PSR – Single Issuer and Total Issuer limits are set and monitored

- Total Return Swap PSR for Fixed Income and Equity
- DPL - Notional Exposure monitored
- DSL - Daily Settlement Risk Limit for FX transactions

Pre Settlement Risk measures the potential exposure the bank may have to a counterparty across the portfolio of derivative trades with that counterparty. It includes current Mark to Market of the portfolio and the Potential Future Exposure (PFE) of the portfolio.

**CCR Monitoring:** CCR is monitored at various levels, which includes:

- Global Markets Risk Oversight performs the day to day management of the Counterparty Credit Risk Framework.
- Global Markets & Group Treasury Counterparty limits are monitored real-time in MUREX.
- Real-Time breach notifications are triggered if a counterparty limit or tenor is breached.
- Exposure reports are prepared and distributed daily by Middle Office.
- Delegation of limit extension and allocation authorities are detailed in the Group Credit Policy Manual.

# 8. Market Risk

Market risk for the Group is the risk that the Group's income and/or value of its financial instruments will fluctuate adversely due to changes in market factors such as interest rates, foreign exchange rates, equity, commodity and option prices.

The Group segregates market risk into two sources: trading and non-trading portfolios. Trading portfolios are held by the Wholesale – Global Markets Division, while the non-traded market risk resides primarily in the investment portfolios, interest rate gaps in the Banking Book and the Group's overall FX positions. The Group market risk management objectives are to:

- Measure and control market risk by way of robust analytical framework, and a risk appetite statement;
- Facilitate business growth within a controlled and transparent risk management framework.

## 8.1 Organization and Structure

The "Group Market Risk Policy Framework" approved by GRC provides specific guidelines on the governance, market risk appetite, limit structure and roles and responsibilities of units responsible for management of market risk. It specifies the way market risk is identified, measured, monitored, controlled and reported. As a policy, the Group takes exposure to only those financial instruments/products for which the Group has appetite and which are approved by GRC. For any new product, approval has to be obtained via the New Product Approval Committee which ensures necessary infrastructure and appetite is there to support the business.

Market Risk within the Group is managed by Group Risk, which delegates roles and responsibilities to Group Market & Liquidity Risk and the Middle Office.

### a) Group Market & Liquidity Risk

Group Market & Liquidity Risk ("GMLR") is independent of risk taking units and reports to the GCRO. GMLR oversees aggregated Market Risks from Group Treasury, Global Markets Division and overseas units. The primary responsibilities of the unit include:

- Define market risk policy for the Group and set key limits and sensitivities
- Develop quantitative methodologies and analytical tools such as Value-At-Risk("VaR"), stress tests, scenario analyses ,etc., to measure market risk
- Perform model validation and manage market data
- Implement new systems related to market risk

### b) Market Risk Oversight

Market Risk Oversight is a unit of GMLR that oversees market risk within Group Treasury, Global Markets Division and overseas units. The primary responsibilities of the unit include:

- Identify, assess, measure and monitor market risks by conducting regular and 'ad hoc' risk analyses
- Oversee the day-to-day effectiveness of the Bank's market risk management and internal controls
- Ensure market risk exposures are within approved risk limits and escalate breaches as appropriate

### c) Middle Office

The Middle Office (MO) Risk control function is responsible for trade/position monitoring, risk limit monitoring, escalation of limit breaches, risk reporting, collateral management services, and market data maintenance.

Middle Office supports the Market Risk function by monitoring market data, trades, limits and escalating breaches. Middle Office generates Market Risk reports on the Global Markets and Group Treasury portfolios on a daily basis.

## 8.2 Market Risk Appetite

The RMC reviews and approves the market risk appetite recommended by the GRC. GRC, under delegated authority from RMC, sets limit framework within the context of the approved market risk appetite. The limits are segregated between the trading book and non-trading book positions as follows:

- VaR, sensitivity and Management Action Triggers (MAT) limits have been set at both aggregate and portfolio level
- PV01, VaR and stress test is used for management of Interest Rate Risk in the Banking Book
- Foreign Exchange risk in the trading book is controlled by VaR and position limits, defined separately for pegged and floating currencies
- Equity and options price risks are controlled by MAT and sensitivity limits defined around trading positions
- Commodity risk, limited to exchange traded products, is managed via limits on term, option sensitivities, gross and net open positions

The risk positions against the limits and all major limit breaches are regularly reported to Senior Management and GRC.

## 8.3 Management of Market Risk

Market Risk at the Group is overseen as per the "Group Market Risk Policy Framework" approved by the GRC as per the defined risk appetite. The framework provides specific guidelines on roles and responsibilities of Market Risk, its Governance Structure, Market Risk appetite statement and the limit structure. It specifies the way market risk is identified, measured, monitored, controlled and reported. The limits are segregated between the trading book and non-trading book positions.

### a) Market Risk in the Trading Book

The Market Risk in the trading book is managed by monitoring and managing the following limits:

- Value at Risk (VaR)
- Level measures
- Present Value Basis Point (PV01)
- Credit Spread Sensitivity (CS01)
- FX Net Open Position (NoP)
- FX Volatility sensitivity (FX Vega)
- Interest Rate Volatility sensitivity (IR Vega)
- MAT (Management Action Triggers)

### b) Market Risk in the Non Trading Book

The Market Risk in the non-trading book is driven primarily by:

#### i. Investment risk

This is the risk generated by the Bank's investment in Securities both for revenue generation and for maintaining a "liquidity cushion" of High Quality liquid Assets (HQLA). The principal analytical tool used to measure and control the investment risk exposure within the Group is Value at Risk ("VaR"), PV01 and stress test. The VaR model is the same as the one used for the trading portfolios. The Group uses VaR limits for controlling the overall investment risk, including foreign exchange, interest rate and credit spread. The overall structure of VaR limits is subject to review by GT, approval by the G-ALCO and finally is submitted to GRC. VaR limits are allocated to different Investment portfolios.

#### ii. Foreign exchange risk:

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the UAE Dirham. The Board of Directors has set limits on positions by currency. At Group level the Bank has set NOP (net open positions) limits for the pegged and unpegged currencies. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits.

### iii. Interest rate risk

The Group Banking Book operations generate non traded market risk primarily through interest rate risk arising from the sensitivity of the value of financial instruments and the net interest margin to changes in interest rates. All units are expected to transfer Interest Rate Risk to Global Markets and Group Treasury. Interest Rate Risk in the Trading Portfolios are managed by Global Markets and within the limits approved by RMC. Interest Rate Risk generated by the Banking Book is managed by Group Treasury, within the limits approved by RMC. The Group Treasury manages this risk principally through monitoring interest sensitivities (PV01), rate gaps and by matching the re-pricing profile of assets and liabilities. The IRRBB is further detailed in section 8.6.

The above risk limits are approved by the RMC and are closely monitored by Group Risk. The risk positions against the limits and all major limit breaches are regularly reported to Senior Management and the GRC.

### 8.3.1 Other risk metrics

In addition to the above, the market risk management framework is strengthened further using two other risk metrics: Stress-testing and VaR back-testing as per the "Group Market Risk Methodology Policy" approved by the GRC:

### i. Stress-testing

Stress-testing measures the bank's financial health in stressed situations. Banks can carry out stress tests internally by their own risk management team, while supervisory authorities also conduct macro stress tests on financial institutions that they regulate.

There are two main types of stress testing namely simple sensitivity analysis and scenario analysis. Simple sensitivity analysis shows how portfolios react to a change in a single risk factor, while scenario analysis (also known as complex stress testing) identifies the reaction of portfolios in response to simultaneous move in a group of risk factors.

The current policy covers scenario analysis. Results are reported monthly to relevant senior stakeholders.

### ii. VaR Back-testing:

This is a process that measures the robustness of the implemented VaR model. To this end, the Group checks systematically the validity of the underlying valuation and risk models through comparison of the predicted and actual loss levels. When the VaR model is calibrated, the number of exceptions falling outside VaR should be in-line with the confidence level. Back-testing allows verification of the model's capability of correctly seizing, from a statistical viewpoint, the variability in the daily valuation of trading positions, covering an observation period of one year (approximately 250 estimates). Any critical situations relative to the adequacy of the VaR Model are represented by situations in which daily profits/losses based on back-testing highlight more than three occasions, in the year of observation, in which the daily loss is higher than the value at risk estimate. Back-testing is performed by taking into consideration both the actual P&L, or dirty P&L (including intraday transactions) and the theoretical, clean P&L (excluding intraday transaction and fees). The back testing framework follows both the minimum Basel requirements and internal statistical methodology to validate the model on a periodical basis.

## 8.4 Market Risk Measurement

Market Risk Measurement at the Group Level is covered by the "Group Market Risk Methodology Policy" approved by the GRC. The policy outlines the measures and models used to capture the market risk at the group level. It also describes the market risk measurement process governance along with the roles and responsibilities of each involved unit.

In particular, the policy specifies:

- The market risk sensitivities used to capture and monitor the market risk of the books.
- The Value-at-Risk ("VaR) model implemented in the bank: the methodology, the process and the coverage in terms of risk factors and the corresponding back-testing framework.
- The stress-testing process: the methodology, the process, governance and the reporting of the results.

All the risk metrics (sensitivities, VaR and stress-testing) are calculated using the official valuation models used for pricing which are reviewed as per the "Group Model Validation Policy" ratified by the GRC.

### Model Validation and Governance

Model Validation function sits under GMLR. Model validation is required for both financial instruments pricing models and models used for calculating the Market and liquidity Risk management metrics. Each model used by the Bank is:

- Developed and implemented in a way that is robust, accurate, secure and subject to appropriate controls.
- Based on mathematical, financial, economic or statistical theories that are correct and appropriately applied.
- Subject to operational controls.
- Validated and approved by an independent entity: this entity may be internal to NBAD or be qualified external resources as per the Group's policy.

## 8.5 Exposure to Market Risk

### a) Trading Portfolios

Market risk for the Group's trading portfolio arises primarily from client facilitation in wholesale markets. The principal analytical tool used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk ("VaR"). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model uses historical simulation based on a 99% confidence level and assumes a 1-day holding period. Using market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

The Group uses VaR limits for foreign exchange, interest rate and credit spread. The overall structure of VaR limits is subject to review and approval by the GRC. VaR limits are allocated to trading portfolios.

Although VaR is an important tool, it is further supplemented with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. Moreover the trading activity at Group and desk level is subject to Management Action Triggers ("MAT") that are limits on maximum losses that trigger actions from management.

Equity and Commodity risks are not currently captured in the VaR model. These are under regular monitoring by the Risk Group through a set of market risk sensitivities, notional limits, and management action triggers. Nonetheless, these are subject to regular monitoring by the Risk Group. The Trading VaR at 31 December 2015 was as follows:

| | As at | Average | Minimum | Maximum |
|---|---|---|---|---|
| | AED'000 | | | |
| **VaR – Trading Book** | **16,984** | **12,220** | **7,023** | **24,505** |
| **Foreign exchange** | 15,131 | 9,220 | 46 | 22,525 |
| **Interest Rate** | 6,549 | 6,663 | 5,294 | 11,011 |
| **Credit** | 3,869 | 3,618 | 1,910 | 5,346 |
| **Diversification benefit** | (8,565) | (7,281) | (227) | (14,377) |

### b) Non Trading Portfolios

Exposure to market risk in the non-trading portfolio arises primarily from the investment portfolios, interest rate gaps in the Banking Book, and the Group's overall FX positions. These risks are detailed in section 8.3. The Non Trading VaR at 31 December 2015 was as follows:

| | As at | Average | Minimum | Maximum |
|---|---|---|---|---|
| | AED'000 | | | |
| **VaR – Non Trading Book** | **97,072** | **84,105** | **59,546** | **103,427** |
| **Foreign exchange** | 14,591 | 8,219 | 1,579 | 21,576 |
| **Interest Rate** | 29,071 | 21,639 | 13,209 | 30,885 |
| **Credit** | 95,737 | 84,952 | 57,904 | 99,775 |
| **Diversification benefit** | (42,327) | (30,705) | (13,146) | (48,809) |

## 8.6 Management of Interest Rate Risk in the Banking Book

Group policy is to identify, manage and minimize interest rate risk in the Banking Book.

There are a number of sources of interest rate risk including repricing risk, yield curve risk basis risk and product optionality risk.

The policy protects assets, liabilities and banking income from changes in value caused by interest rate fluctuations and deviations from hedging assumptions. The policy applies to all currencies and yield curves where NBAD has significant interest rate exposure.

The business divisions are required to hedge all interest rate risk with the Group center and this is supported by detailed policies and procedures. The risk transfer from the businesses to the center was completed in 2015 so that materially all of the exposure is captured and managed through a central risk system.

The business divisions have on going procedures to identify, quantify and control the interest rate risks generated by their products and ensure that substantively all interest rate risk is passed to the central unit.

### Identification and Measurement

There are two major approaches for measuring banking book interest rate risk set out by the BCBS "Principles for the Management and Supervision of Interest rate Risk" July 2004:

- An economic value perspective capturing risk sensitivity across the entire maturity structure.
- An accrual / earnings perspective usually over a 12 month period.

NBAD uses both these approaches to measure and manage interest rate risk in the banking book. BCBS state that this focus is of particular importance to long term stakeholders including shareholders, management and supervisors.

The economic value approach is reported to G-ALCO on a monthly basis. Interest rate risk is measured across all the maturities using a “DV01 report“. The DV01 report measures in USD 000s the sensitivity at each gap to a 1 basis point change in rates.

This approach also enables the Group to calculate Value at Risk (VaR) for interest rate risk in the banking book based on a 99% 1 day confidence level. The below table provides the impact on profit and loss and regulatory capital as a result of change in interest rates by 200 basis points in relation to Banking Book.

**Table 15: Interest Rate Risk in the Banking Book as at 31 December 2015***

| Shift in Yield Curves | Net Interest Income | Regulatory Capital |
|---|---|---|
| | AED ‘000 | |
| **±200 basis point** | 635,429 | 635,429 |

* The interest rate sensitivities set out are illustrative only and employ simplified scenarios.

## 8.7 Management of Equity Price Risk

Equity price risk arises from the changes in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

As at 31 December 2015, the Bank's total non-trading equity investment portfolio (Including collective investment schemes) in the banking book amounted to AED 172,604 thousand, 92% of which represents quoted investments. For details of the accounting policies and valuation methodology, please refer to Note 6 (a) to the consolidated Financial Statements.

Equity Position in the Banking Book as at 31 December:

Table 16: Quantitative Details of Equity Position as at 31 December

| Type | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Publicly Traded | Privately Held | Total | Publicly Traded | Privately Held | Total |
| | AED '000 | | | | | |
| **Equities** | 22,424 | 13,781 | 36,205 | 22,188 | 13,687 | 35,875 |
| **Collective investment schemes** | 136,373 | 26 | 136,399 | 586,882 | 184 | 587,066 |
| **Any other investment** | - | - | - | - | - | - |
| **Total** | **158,797** | **13,807** | **172,604** | **609,070** | **13,871** | **622,941** |

The following table provides the details of valuations gains and losses for the year ended 31 December 2015:

| **Table 17: Realized, Unrealized and Latent Revaluation Gains (Losses) for the year ended 31 December 2015** | |
|---|---|
| Type | Amount |
| | AED '000 |
| **Gains (Losses)** | - |
| ***Realized gains (losses) from sales and liquidations** | (2) |
| ****Unrealized gains (losses) recognized in the balance sheet but not through profit and loss account** | 330 |
| **Latent revaluation gains (losses) for investment recorded at cost but not recognized in balance sheet or profit and loss account** | - |
| **Total** | **328** |

| **Table 18: Tier I and Tier II Capital Included In * and ** above are as follows** | |
|---|---|
| Tier Capital | Amount |
| | AED '000 |
| **Amount included in Tier I capital** | (2) |
| **Amount included in Tier II capital** | 149 |
| **Total** | **147** |

The following table provides the capital requirements related to the equity positions held by the Group as at 31 December 2015.

| **Table 19: Capital Requirements by Equity Groupings as at 31s December 2015** | |
|---|---|
| Tier Capital | Amount |
| | AED '000 |
| **Strategic investments** | 1,241 |
| **Available for sale** | 16,379 |
| **Held for trading** | |
| **Total capital requirement** | **17,620** |

## 8.8 Market Risk in International Branches

Larger overseas entities/subsidiaries of the Group have independent risk management functions responsible for controlling and mitigating market risks. The respective risk management/reporting unit sends market risk reports to Market Risk Oversight. Market Risk Oversight reviews these reports before they are submitted to GRC for any specific issues/deliberations.

Risk reports covering compliance on liquidity risk limits along with local ALCO minutes are distributed to Group Treasury which is responsible for escalating any concerns to the G-ALCO. Market Risk Oversight monitors lending by Group Treasury and GMLR to overseas entities/subsidiaries and vice-versa on a daily basis.

The following table provides capital requirement for market risk under standardized approach:

**Table 20:** Total Capital Requirement for Market Risk under Standardised Approach as at 31st December 2015

| Market Risk | Amount AED '000 |
|---|---|
| Interest rate risk | 1,688,098 |
| Equity position risk | 331,697 |
| Foreign exchange risk | 98,251 |
| Commodity risk | - |
| Option Risk | 329,709 |
| **Total Capital Requirement** | **2,447,755** |

## 9. Liquidity Risk

Liquidity risk is defined as the risk that the NBAD Group is unable to meet its financial obligations as and when they fall due or that it can only do so at an excessive cost.

The liquidity risk appetite level for NBAD is set so as to ensure that the Group has adequate cash or cash-equivalents to be able to meet its financial obligations, in all Group stress scenarios. The target is set at one month in 2016 increasing to three months in 2018.

## Liquidity Regulation and Policy Framework

NBAD uses both internationally agreed liquidity standards and extensive use of internal models and metrics to measure its liquidity risk. Basel III proposes that to mitigate liquidity risk banks should have stable sources of funding and high quality liquid assets. The Basel Committee have turned these qualitative statements into internationally agreed quantitative standards; the Liquidity Coverage Ratio and Net stable Funding ratio.

NBAD does not rely on the LCR and NSFR metrics alone; we supplement Basel metrics with policies and limits that recognise fully the liquidity risks facing the bank in its geographical markets and given the structure of it asset and liability position . These are supported by stress testing analysis. The structure and framework of the approach is set out in the following sections. NBAD has a full policy framework to manage and control liquidity risk that is approved by both Group –ALCO and the Board Risk Committee. The NBAD Liquidity Policy Framework consist of Group Liquidity Policy, Contingency Funding Plan, Liquidity Stress Test Policy, Funding Strategy Policy and Funds Transfer Pricing.

## Liquidity Risk Management Framework

The liquidity risk management framework is based on three pillars and is designed to ensure that the Group has adequate cash or cash-equivalent to be able to meet its financial obligations. It is also set at a level to ensure continued compliance with current and proposed liquidity regulation from both domestic and international regulators, and aligned to support NBAD's external credit rating objectives.

## Liquidity Risk Appetite Statement

The first pillar is a comprehensive set of internal and regulatory limit related to liquidity and funding risk. NBAD also uses Basel III framework for managing liquidity including the quantitative measures set out in the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). This approach is consistent with the regulatory framework for liquidity management set out by the CBUAE in circular 33/2015 "*Liquidity Regulations at Banks"* October 2015. The CBUAE also sets out additional metrics to Basel III and these are the Eligible to Liquid Assets Ratio and the Advances to Stable Resources Ratio.

Internal risk limits cover structural mismatches, balance sheet funding composition and reliance on capital markets. This includes measurement and reporting of expected cash inflows and outflows. The risk appetite framework is approved and monitored by G-ALCO.

Detailed plans have been drawn up for contingency funding to be prepared for possible crisis situations. Periodic operational tests are performed for these plans.

### High Quality Liquid Assets

An extensive buffer of liquid assets is maintained as part of the 2nd pillar. In addition to the credit balances held at central banks, these high quality liquid assets can be used as security for loans with central banks, in repurchase transactions or to be sold directly in the market so as to generate liquidity immediately

### Liquidity Stress Testing

The third pillar is liquidity Stress testing of the NBAD Group balance sheet and this process assesses our ability to meet adverse conditions and have a clear understanding of our stress exposures. The Group performs liquidity stress test against scenarios designed to capture idiosyncratic, market wide and combined stresses.

### Governance and Policy Ownership

In addition overall risk management governance as explained in section 5 of this document, Group Treasury and GMLR is responsible for management of liquidity risk as per G-ALCO and RMC Guidance.

**Group Treasury** proposes and implements the Liquidity Policy which is to be approved annually by G-ALCO and RMC, and is responsible for identifying, measuring, assessing, monitoring and managing liquidity risks in the Group.

**Group Market and Liquidity Risk** independently review all liquidity policy and risk appetite documents, risk reports, metrics, & limit utilization, and will submit reports to G-ALCO/RMC with respect to this function. GT and GMLR set liquidity limits and propose liquidity risk appetite for G-ALCO

### Liquidity risk systems

NBAD uses an industry wide risk management system called Quantitative Risk Management (QRM) to support the management of liquidity risk. This enables the group to produce T+1 liquidity reporting and also supports the stress testing framework. QRM also supports group wide funds transfer pricing in accordance with regulatory requirements.

# 10. Operational Risk

NBAD defines operational risk as the risk of losses (direct, indirect & near misses) resulting from inadequate or failed internal processes, human behavior, systems, or from external events. While legal and technology risk are considered to be a part of operational risk, strategic and reputation risks are excluded, and are handled separately. Legal risk includes, but is not limited to fines, penalties or punitive damages resulting from supervisory actions, or from private settlements.[2] The bank defines the legal risk as the risk to earnings or capital arising or resulting from unenforceable or insufficient transaction documents, adverse claims and judgment, non-compliance with applicable laws, rules, and regulations, or a change of law.

Operational risks arise across all businesses in the Group. The primary responsibility to ensure that risks are managed and monitored resides with the businesses within the Group. Group's businesses are supported by embedded risk functions and Group Operational Risk Management as 'second line of defense' to ensure robust risk management. Further, there are reviews conducted by Group Internal Audit as the 'third line of defense'. The results of internal audit reviews are discussed with the management of the division and summaries submitted to the Audit Committee.

## 10.1 Operational Risk Framework

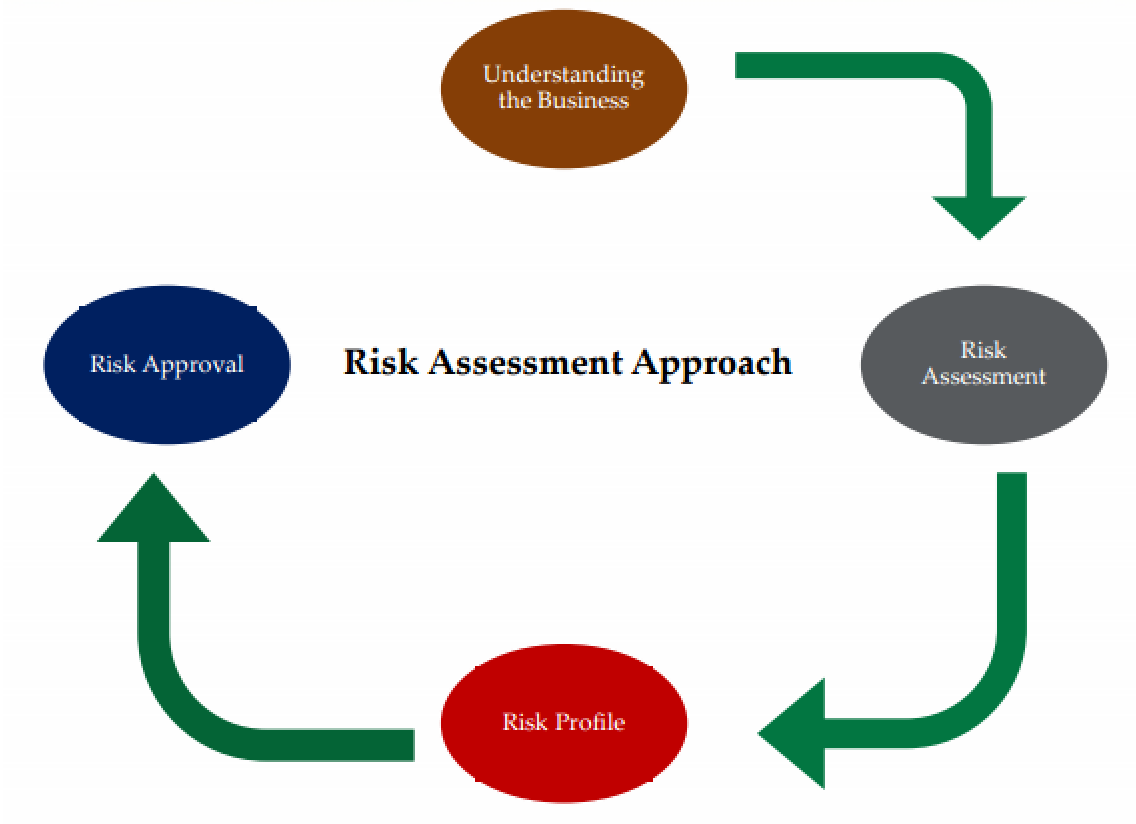
The Group has an established Operational Risk framework consisting of policies and procedures to assess risks, i.e. to identify, assess, monitor, control, report and to manage incidents i.e. to notify, identify and rectify incidents. The Operational Risk framework also provides the interrelation with other risk categories. Where appropriate, risk is mitigated by way of insurance.

### a) Operational Risk elements

NBAD aims to embed operational risk management elements into its day-to-day activities and processes. NBAD annually develops an implementation calendar which details the risk assessments across a calendar year. The key elements of the NBAD Operational risk framework include:

- Risk Assessment (RA), which aims to understand and assess the business risks and associated controls.

[2] BIS June 2006, foot-note (page 144)




The key steps in the risk assessment process include:

- Collating relevant Business Environment and Internal Control Factors (BEICF) information to provide a context for assessment of risks for a business unit. RA is conducted as a workshop with key stakeholders including the business unit head and other experts, as appropriate.

- The outcomes of RA are the Risk Profile and the Key Indicators. The risk profile represents risks and key control ratings along with a risk map in which each residual risk is rated on a combination of the impact and likehood rating.

- Action plans are defined for every gap identified in order to mitigate the identified risk.

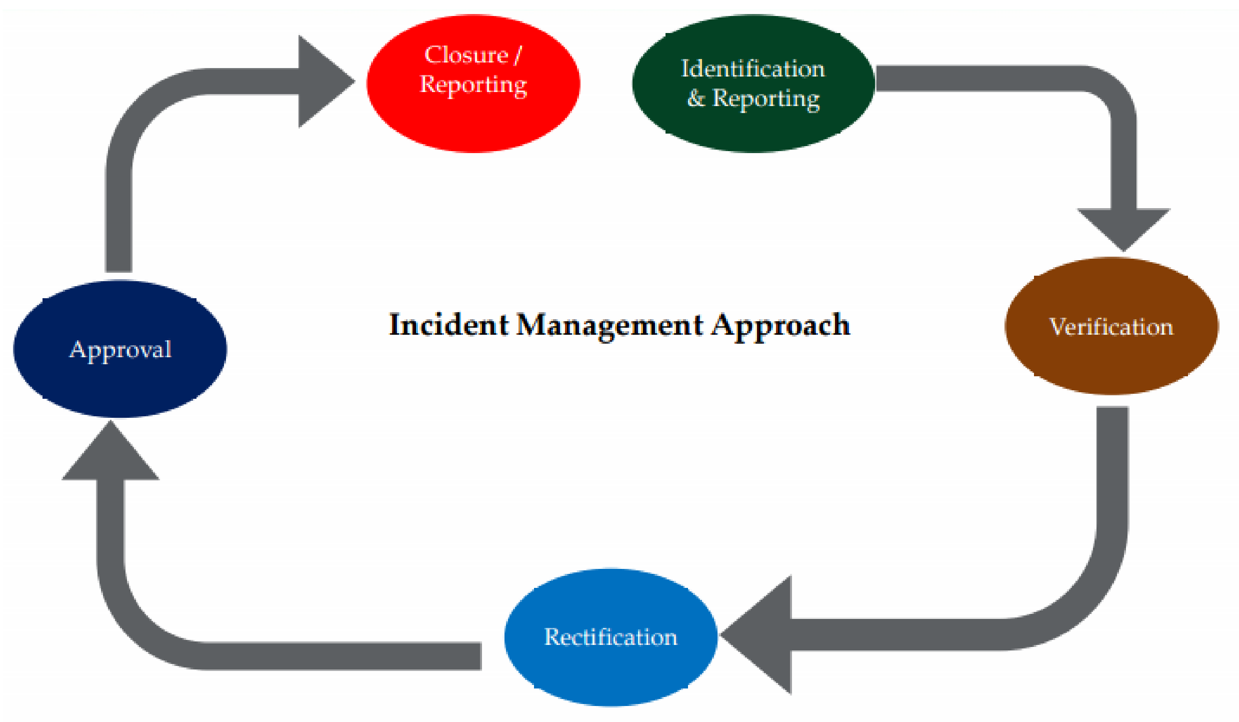
- Key Indicators (KI) are used to monitor the risks and controls of the business unit and reported on a monthly basis.

- Operational Risk Assessment of Projects ("ORAP"): ORAP aims to identify and assess risks and associated controls related to change initiative / project. The policy applies to all non-product change initiatives except new products. It includes changes to processes, activities, system and organizational operating setup. ORAP is to be conducted post business case approval. Projects / changes are managed at NBAD either by a) PMO (Project Management Office) Projects (ii) Business Initiated (non -PMO projects)

- Product Program (PP): The Bank has established PP for the assessment, and approval of residual risks in new or significantly changed products that require the formal risk approval of the designated authorities. Participation and approval of key stakeholders such as Operations, IT / Systems, Legal, Compliance and ORM unit are mandatory in a PP.

- Incident Management (IM), which articulates the principles and minimum requirements to manage operational risk events/incidents at the NBAD Group including:
  - Timely identification, verification, rectification, approval and closure of incidents
  - Aim to minimize financial, reputational, customer and regulatory impacts
  - Aim to minimize reoccurrence of incidents including similar/related incidents
  - Ensuring quality of incident data for risk measurement
  - Assisting NBAD in meeting its regulatory and compliance

Incidents are stored in the Incident Management Database (IMD), which is managed by Group ORM team.



**b) Types of operational risk events**

Typically, Operational Risk events are classified as:

i. **Internal fraud:** Risk of unauthorized activity and fraud perpetrated by employees.

**ii.** **External fraud:** Risk of fraud or breach of system security by an external party.

iii. **Employee practices and workplace safety:** Risk of failures in employee relations, diversity and discrimination, and health and safety risks across the Group.

iv. **Damage to physical assets:** Risk of impact to the Group due to natural disasters

v. **Clients, Products and Business Practices:** Risk of failing in assessing client suitability, fiduciary responsibilities, improper business practices, flawed products and advisory activities.

vi. **Business Disruption and System failures:** Risk of not planning and testing business continuity and disaster recovery for systems

vii. **Execution delivery and process management:** Risk of failed transaction execution, customer intake and documentation, vendor management and monitoring and reporting.

**c) Operational Risk Governance**

The Board has oversight responsibilities for operational risk management across the Group. These responsibilities are delegated and exercised through the Group Risk Committee, which is the senior management forum responsible for the oversight of Operational Risk.

Key responsibilities of Group Risk Committee with regards to Operational risk include:

- Approval of the Group Operational Risk Management Framework and oversight over its implementation.
- Approve large incidents as per the Operational Risk management approval matrix.
- Approve the strategy and direction for Operational Risk across the group.
- Conducting status review of agreed action plans, aging reported operational risk incidents. risk assessment’s progress, and driving effective completion.
- Sanctioning of ORM approaches under Basel II / Regulatory requirements, and approving capital allocation for operational risk.

The Bank has a Group Operational Risk Management function (GORM), as part of the Group Risk whose key responsibilities include:

- Development & continual improvement of policies, methodologies, tools, systems, practices and procedures.
- Facilitating training for Business Units Operational Risk Managers (BUORM) and the Business Units (BU).
- Ensuring management of the incident management database.

## 10.2 Operational Risk Management

Management at all levels is accountable for managing and mitigating operational risks in their areas of responsibility.

### Operational Risk in business units

The business units are mandated to comply with the NBAD Operational Risk framework and policies which includes:

- Conduct risk assessments and incorporate action plans for any gaps.
- Monitor risks by regularly measuring key indicators.
- Report operational risk incidents on a timely basis including any mitigating measures.

Business units have identified ORM coordinators to enable facilitation of Operational risk. The Bank has also created risk functions within the major business lines. The embedded risk plays a greater role in ensuring the business units comply with the requirements set in the NBAD Operational Risk Framework and Policy.

### Independent Management Assurance

Internal Audit provides independent management assurance regarding the effectiveness of controls and compliance with the approved policies and procedures across the Group, including Operational Risk.

### Home-host considerations

Operational risk at NBAD is organized with a Group Operational Risk function which establishes the framework, policies, methodologies and tools in alignment with the regulatory guidelines of CBUAE. These centrally established Operational Risk framework, policies, methodologies and tools are implemented by business units, branches (UAE & overseas) and subsidiaries.
Any changes to the centrally established framework, policies, methodologies and tools must be approved by the Group Risk Committee.

## 10.3 Business Continuity Management ("BCM")

Business Continuity Management is a management process that identifies potential impacts that threaten an organization and provides a framework for building resilience and the capability for an effective response which safeguards its reputation along with the interests of its key stakeholders and customers. Business Continuity Management is responsible for assuring operational resilience to the Group's key business activities under adverse circumstances.

## Governance

Group Risk Committee is responsible for providing oversight and strategy for Business Continuity Management and IT Service Continuity Management at the Group. The committee gathers inputs from business and enablement functions from within the Group to aid in decision making and setting priorities to ensure success of business continuity in the Group.

## Framework and Processes

The Group has in place a Business Continuity Management framework aligned to ISO22313:2012 Societal Security -- Business Continuity Management Systems Guidance; the key steps are:

- Identify key activities (and their dependencies) essential to ensure the delivery of the Group's services;
- Identify and define time frames for the recovery of those key activities;
- Establish cost effective strategies and solutions to achieve the recovery time frames of the key activities; and
- Validate the selected solutions and conduct an annualise awareness campaign.

All business units perform an annual business impact analysis to identify their critical business activities and recovery objectives. Business continuity plans are developed at departmental levels throughout the group and validated through two programmes. The types of validation undertaken for business continuity include call tree checks, desktop walkthrough, business unit testing and integration. For IT Service Continuity NBAD conducts a programme of tests which range from component level to fail over for a business day.

NBAD has a dedicated local contingency site to ensure that UAE operations are not interrupted. NBAD has now completed two full office contingency exercises for business critical activities for its two main Abu Dhabi Sites. Both exercises were successfully completed and provide assurance to stakeholders that our business continuity arrangement is 'fit for purpose.' Across the international locations where NBAD has branch presence NBAD has resilience with contingency solutions aligned to our growing business requirements.

In 2016 NBAD will enhance its IT resilience capability with new data centers in UAE to support our business growth and increasing business demands.

## Crisis Management

A comprehensive incident and crisis management plan has been developed for the Group. Regular training on crisis management is conducted wherein different scenarios are used to further develop the capabilities of the crisis response team, which includes senior management.

NBAD

# Corporate Governance Report 2015

## Introduction

The National Bank of Abu Dhabi and its Group companies (together "NBAD") recognise their responsibility to demonstrate ethical and sustainable business practices in the United Arab Emirates and abroad. A comprehensive corporate governance framework plays a key role in NBAD's culture, business practices and regulatory compliance.

NBAD believes that the benefits arising from a commitment to corporate governance are attributable to both documentary and behavioural elements. Hence, the Board has approved a framework which incorporates a broad range of policies for guidance and control, in addition to approving general principles of behaviour and personal conduct for which all Directors and staff are accountable as individuals and as a collective entity.

The corporate governance culture of NBAD is driven by:

- The responsibility of the Board to lead and direct the Group's affairs and set its objectives;
- The selection of productive strategies and management of risk;
- The appropriate delegation and monitoring of power and accountability to management;
- Satisfying the interests of stakeholders through relevant, material and transparent disclosures;
- Ensuring compliance with all regulatory obligations; and
- Engaging with the community.

**NBAD Guiding Principles of Corporate Governance**

1. Strong Corporate Governance Standards
2. Leadership
3. Accountability
4. Transparency
5. Fairness

The scope and sophistication of the corporate governance framework is proportionate to NBAD's nature, size and complexity. The Board also recognises that NBAD is operating in an evolving global environment of diverse expectations, constant regulatory change, and increasing focus on stakeholder engagement and accountability. NBAD continually seeks to develop and improve its corporate governance framework to enable the Board and management to discharge their duties effectively.

## Recognition and Achievements

For the fifth consecutive year, NBAD remained in the top 10 S&P Hawkamah ESG Pan Arab Index, reaching third place.

The index measures the performance of 150 companies listed in the Arab stick markets and uses more than 200 measures.

## The Corporate Governance Framework

The Board of NBAD has overall responsibility for directing the Group's affairs, to create and preserve value through the Group's operations, and to consider the shareholders and other stakeholder interests. It has documented its roles and responsibilities in a Board Charter and associated policies.

The Board has established a number of Committees, each of which remain an integral part of the Board and whose members are Directors of the Board. The remit of these Committees is to ensure that the Board can devote the maximum possible time to consider topics in more detail, to manage conflicts of interest, to satisfy regulatory rules, and other relevant activities as necessary to ensure the proper governance of the Group.

All Committee Charters have been updated to reflect their duties and accountabilities during 2015.

The Board is responsible for making delegations to the management, including the definition, scope, frequency, and nature of powers. Aside from certain authorities and powers reserved by the Board for its own decision-making, the Group Chief Executive is delegated full responsibility for the management, operations and compliance of NBAD. To satisfy its oversight role, the Board has defined a clear control structure which monitors the management's activities, in addition to creating supporting controls and reporting structures both internal and external to the firm. The delegation and control structure is also subject to compliance with, and oversight by, regulators and third parties, including the Central Bank of the UAE, and the Securities & Commodities Authority of the UAE and regulators in jurisdictions where NBAD operates.

The Board has mandated Codes of Conduct which apply to Directors, employees and agents of NBAD. The codes encourage appropriate behaviour; define inappropriate behaviour; and the process and outcome for the identification and reporting of such behaviour.

Consistent with NBAD's approach to employ high standards for transparency and disclosure for the benefit of shareholders and other stakeholders, NBAD publishes a wide range of reports containing financial and non-financial data, in addition to disclosures required for regulatory purposes.

NBAD has established a number of functions committed to engagement and communication with external stakeholders. These include Investor Relations, Sustainability, Company Secretariat and Corporate Communications. In addition, internal transparency and disclosure is considered from operational, ethical and regulatory perspectives, ensuring that staff are aware of NBAD developments, strategies, risks and their personal responsibilities and duties, whilst protecting customer and personal data confidentiality, sensitive information, and commercial secrets.

Shareholder rights and interests include reserved powers in the UAE Commercial Companies Law and NBAD Articles of Association, and are supported by the duty of the Board to act in the interest of the Company. NBAD acknowledges that there are diverse interests within the shareholder base, and that the Board considers such interests when determining the objectives and strategies for the Group.

### Regulatory Compliance

NBAD is regulated by the Central Bank of the UAE and is therefore required to comply with the Central Bank regulations, circulars and notices issued from time to time. In addition, NBAD is required to comply with all applicable laws and regulations of the UAE and those of the jurisdictions in which it operates, including, without limitation, the UAE Commercial Companies Law, rules and standards established by the Securities and Commodities Authority (SCA) of the UAE, and the NBAD Articles of Association.

NBAD is committed to complying with good corporate governance practices, and so has regard to the provisions of Ministerial Resolution 518 of 2009 Concerning Governance Rules and Corporate Discipline Standards ("MR518") as per listed companies, although this is not a mandatory requirement for Banks in the UAE.

Senior management has the responsibility to ensure compliance with applicable laws and regulations, and report on such matters to the Board. The Board provides guidance and oversight in terms of risk appetite, significant compliance and risk strategies, and dealing with compliance and risk outcomes. The Board has established the Audit and Risk Management Committees with delegated authorities, as noted below, and has also mandated the other Committees to suitably consider compliance and risk in terms of their Charters.

## Board of Directors

### Board Composition in 2015

Six of the 11 Directors, including the Chairman of the Board, are nominees of the Abu Dhabi Government, and five Directors were elected by the minority shareholders during the Annual General Assembly that took place on the 10th of March 2015.

All Directors are Non-Executive and two of those elected by minority shareholders are considered to be independent according to criteria set out by SCA.

Members represent a diversity of viewpoints, experiences and background and are capable of devoting the necessary time to discharge their duties and they are of integrity.

The composition of the Board satisfies the generally acceptable corporate governance practice relating to the separation of Chairman and Group Chief Executive and the majority membership of Non-Executive Directors.

#### H.E. Nasser Ahmed Alsowaidi — Chairman

- Non-Executive Member since 19/05/2003
- Appointee of the Abu Dhabi Government

H.E. Nasser Ahmed Alsowaidi is the Chairman of the Energy Authority, Abu Dhabi Securities Exchange (ADX) and Etihad Rail. H.E. is also a Board Member of International Petroleum Investment Company (IPIC) and Mubadala Development Company (Mubadala) and a Member of Abu Dhabi's Executive Council at the apex of the Abu Dhabi Government Over the last 20 years, H.E. has held senior roles in a number of Government organizations, including Department of Economic Development, the Abu Dhabi Investment Authority (ADIA) and the Abu Dhabi National Oil Company.

H.E. holds a degree in Economics from the California State Polytechnic University, USA.

External appointments

- Chairman – Energy Authority - Abu Dhabi
- Chairman – Abu Dhabi Securities Exchange (ADX)
- Chairman – Etihad Rail
- Board Member – Mubadala Development Company
- Board Member – International Petroleum Investment Comp
- Member – Executive Council of Abu Dhabi Government

### H.E. Dr. Al Taher Musabah Al Kindi Al Marar — Deputy Chairman

- Non-Executive Member since 11/08/2013
- Appointee of the Abu Dhabi Government

Dr. Al Taher Musabah Al Kindi Al Marar was appointed to the NBAD Board in 2013. Dr. Al Kindi has more than 25 years of experience serving various companies and organisations in Abu Dhabi and is the founder of the National Investor Company. He started his career as a manager in Abu Dhabi National Oil Company (ADNOC), where he directed several departments, and has been on the Board of several leading companies in the UAE.

Dr. Al Kindi holds a Bachelor's Degree in Economics and Human Resources from California University in the United States of America, a Master's Degree and Doctorate from Newcastle University in the United Kingdom.

External appointments

- Vice Chairman – Abu Dhabi Chamber of Commerce and Industry
- Honouree - Western Region Municipality
- Board Member – Abu Dhabi Exhibition Center

### Sheikh Mohammed Bin Saif Bin Mohammed Al Nahyan — Director

- Non-Executive Member since 19/03/2006
- Elected by the Minority shareholders

Sheikh Mohammed Al Nahyan is the Vice Chairman of the Abu Dhabi National Insurance Company (ADNIC) which is a leading and prominent insurance provider in the region. Sheikh Mohammed also holds the role of the Chairman of its Compensation and Remuneration Committee as well as its Investment Committee. In addition, Sheikh Mohammed is also the Chairman of the Abu Dhabi Marine Investment Company and the Vice Chairman of the Abu Dhabi International Marine Sports Club (ADIMSC).

Sheikh Mohammed holds a degree in International Economics and History from the American University of Paris, France.

External appointments

- Chairman – Abu Dhabi Marine Investment Company
- Vice Chairman – Abu Dhabi National Insurance Company
- Vice Chairman – Abu Dhabi Marine Sports Club

## Sheikh Ahmed Bin Sultan Al Dhaheri — Director

- Non-Executive Member since 01/05/1994
- Elected by the Minority shareholders

Sheikh Ahmed Al Dhaheri is currently the Chairman of Bin Srour for Engineering. Prior to this, Sheikh Ahmed has been the Undersecretary of the Department of Social Services and Commerce Building (DSSCB) from 1996 until 2009.

Sheikh Ahmed holds a Bachelor Degree in Civil Engineering Science.

External appointments

- Member of Abu Dhabi National Consultative Council
- Board Member – Etisalat
- Deputy Chairman - National Hotels Company
- Deputy Chairman - Abu Dhabi Aviation

## H.E. Dr. Mohammed Omar Abdulla — Director

- Non-Executive Member since 19/05/2003
- Appointee of the Abu Dhabi Government

H.E. Dr. Mohammed Omar Abdulla joined the Department of Economic Development (DED) as Undersecretary in March 2007. Before joining DED, H.E. assumed the position of Director General of the Abu Dhabi Chamber of Commerce and Industry from May 1997 to March 2007.
H.E. is a recognized specialist and expert in the field of Law, Banking and Economic Development. In 2013 he was awarded his Doctor of Philosophy from The University of Northampton, UK

External appointments

- Board member - Abu Dhabi National Exhibition Company
- Board Member - Sheikh Khalifa Fund
- Board Member – Abu Dhabi Pension Fund

### H.E. Sultan Bin Rashid Al Dhaheri — Director

- Non-Executive Member since 02/05/1973
- Elected by the Minority shareholders

H.E. Sultan Bin Rashid Al Dhaheri is a Member of the Federal National Council. H.E. is one of the most recognised and respected businessman in the UAE and plays an essential role in the economy of the UAE through participation in different industries such as real estate, projects, portfolio management or by owning and acting as a partner in leading commercial and industrial companies.

In addition, H.E. is well recognised for his role with charitable activities both regionally and internationally.

External appointments

- Member – Federal National Council of the UAE
- Board Member – Abu Dhabi National Insurance Company

### Mr. Khalifa Sultan Al Suwaidi — Director

- Non-Executive Member since 19/03/2006
- Appointee of the Abu Dhabi Government

Mr. Khalifa Al Suwaidi is an Executive Director of the Direct Investment Department at the Abu Dhabi Investment Council. Prior to this, he was the Deputy Director of the External Funds (Americas) Department at the Abu Dhabi Investment Authority. Mr. Al Suwaidi holds a degree in Business Administration (Finance) and MSC in Finance from Seattle University, USA and is a Chartered Financial Analyst.

External appointments

- Board Member – Abu Dhabi Securities Exchange
- Board Member – Union National Bank
- Board Member – Abu Dhabi National Insurance Company
- Board Member – Abu Dhabi Investment Company (Invest AD)

### Mr. Hashim Fawwaz Al Kudsi — Director

- Non-Executive Member since 11/03/2009
- Appointee of the Abu Dhabi Government

Mr. Hashim Al Kudsi has been an Executive Director, Active Investment Strategies, at the Abu Dhabi Investment Council since April 2007 with a long term investment management background and experience in banking and finance.

He has a degree in Business Administration from American University, USA and is also a Chartered Financial Analyst.

External appointments

- Board Member – Abu Dhabi Investment Company (Invest AD)
- Board Member – Al Wathba Company for Central Services

**Mr. Matar Hamdan Al Ameri** **Director**

- Independent Non-Executive Member since 11/03/2010
- Elected by the Minority shareholders

Mr. Matar Al Ameri has more than 25 years of experience in various roles in Abu Dhabi National Oil Company (ADNOC)where he started his career and has been involved in various senior finance roles including a secondment to Arthur Andersen for two and half years and on assignments across UAE, Australia, UK and USA.

Mr. Al Ameri is currently responsible for the oversight of the ADNOC Group Finance where he also represents as Member or Chairman the ADNOC Group on the Finance Board Advisory and Audit Committees of various companies such as ADCO, ADMA, ZADCO, GASCO, ADGAS, NDC, ESNAAD, FERTIL, BOROUGE, DNATCO, NGCSO and ADNOC Distribution.

An advocate of developing and maximizing opportunities for UAE Nationals towards building future leaders and he is also active in the Al Ain Sports Club sitting as a Board Member. Mr. Al Ameri holds a Bachelor's Degree in Accounting and Information System from UAE University.

External appointments

- Board Member – National Drilling Company
- Board Member – Abu Dhabi National Tanker Company
- Board Member - NGSCO
- Board Member – Excel London – Subsidiary of Abu Dhabi National Exhibition Co. (ADNEC)
- Finance Director – Abu Dhabi National Oil Company (ADNOC)

**Mr. David Beau** **Director**

- Independent Non-Executive Member since 11/03/2009
- Elected by the Minority shareholders

Mr. David Beau has been working for the Abu Dhabi Government since November 2003. Currently, he is the Chief Investment Officer of the Direct Investment Department at the Abu Dhabi Investment Council. Prior to this, he was a Fund Manager at the Abu Dhabi Investment Authority. Mr. Beau is a CFA Charter holder and holds NASD Series 3, 7 and 24.

Mr. Beau grew up and went to university in Strasbourg, France and started his career in finance in New York as a stockbroker before joining Everest Capital in London. He subsequently moved to Bermuda and Dublin where he was a fund manager for Berco Ltd., a family office with substantial assets under management.

External appointments

- Investment Committee Member - Abu Dhabi National Insurance Company

**Mr. Michael H. Tomalin** **Director**

- Executive Member since 13/3/2012
- Non-Executive Member since 1 July 2013
- Appointee of the Abu Dhabi Government

Mr. Michael Tomalin was appointed to the National Bank of Abu Dhabi (NBAD) Board of Directors on 13 March 2012. He was Group Chief Executive of NBAD from June 1999 to June 30, 2013. From March 2012 until he retired as Group Chief Executive in June 2013, Mr. Tomalin served as an Executive Director.

A senior international wholesale and private banker with hands on executive experience in UK, Japan, the Middle East, New Zealand, the Caribbean and the Far East, Mr. Tomalin trained as an investment manager at Rothschilds and broadened into general management at Barclays before his nomination to chief executive of Abu Dhabi's largest bank.

Awards

- Awarded O.B.E. (Officer of the Order of the British Empire) 1991
- Honorary doctorate in banking, Institute of Financial Studies, London
- Appointment as a Companion of the Order of St Michael and St George in 2014.

External appointments

- Director of Morant Wright Japan Fund
- Adviser to the Chairman, Abdul Lateef Jameel Group

**On 12 January 2016, the Abu Dhabi Investment Council appointed three Board Members on the Board of Directors of NBAD replacing three of the six members representing the Council.**

| **The new Board members are:** | **The departing Board members are:** |
|---|---|
| **H.E Sultan Nasser Al Suwaidi** | **H.E Dr. Al Taher Musabah Al Kindi Al Marar** |
| **H.E Hareb Masood Al Darmaki** | **H.E Mohammed Omar Abdullah** |
| **Ms. Mariam Saeed Ghobash** | **Mr. Michael H. Tomalin** |

**H.E. Sultan Nasser Al Suwaidi** **Deputy Chairman**

- Non-Executive Member since 12 January 2016
- Appointee of the Abu Dhabi Government

H.E. Sultan Bin Nasser Al Suwaidi is the former Governor of the Central Bank of the UAE. He held this prestigious position for 23 years until he stepped down in September 2014. Over the last 38 years, H.E. Al Suwaidi has held many senior roles in leading organisations in the country, including General Manager of Abu Dhabi Investment Company (ADIC), General Manager of Gulf International Bank (Bahrain), and Managing Director and CEO of Abu Dhabi Commercial Bank.

H.E. Al Suwaidi has a B.S. degree in Business Administration and Finance, and started his career at Abu Dhabi Investment Authority (ADIA) in 1978 in the Finance and Administration Department. He represented ADIA on the Boards of many banks and financial institutions.

In 2006, H.E. Al Suwaidi was named Central Bank Governor of the Year for the Middle East by Emerging Markets Publication.

**H.E. Hareb Masood Al Darmaki** **Director**

- Non-Executive Member since 12 January 2016
- Appointee of the Abu Dhabi Government

H.E Hareb Masood Al Darmaki is the Executive Director of the Private Equities department at Abu Dhabi Investment Authority (ADIA), and has been with the company since 1976.

H.E Al Darmaki was formerly a Board member of the Arab Banking Corporation and of Qatar Telecom, and he was previously the Chairman of Abu Dhabi Investment Company and Abu Dhabi Securities Market.

H.E. Al Darmaki holds a Bachelor's Degree in Economics and Political Science from Bristol University in the United Kingdom, and a Master's Degree in International Studies from Johns Hopkins University, USA.

**External Appointments**
Chairman - Gulf Capital
Chairman, Investment Committee - AXA Green Crescent Insurance Company
Chairman, Investment Committee - The Zayed Bin Sultan Al Nahyan Charitable & Humanitarian Foundation

Vice Chairman - ADIA Investment Committee
Member - ADIA Strategy Committee
Board Member - AXA Green Crescent Insurance Company

**Ms. Mariam Saeed Ghobash *** **Director**

- Non-Executive Member since 12 January 2016
- Appointee of the Abu Dhabi Government

Ms. Mariam Saeed Ghobash is a Principal in the Direct Investment department at Abu Dhabi Investment Council (ADIC), where she contributes to the active monitoring of the strategic portfolio.

She has worked for HSBC and ABN AMRO, and was previously a Board Member of National Takaful Company (Watania) and Al Hilal Bank.

Ms. Ghobash holds a Bachelor of Science in Economics from the Wharton School at the University of Pennsylvania in the US.

**External Appointments**
Board Member -- Emirates Development Bank
Board Member -- Abu Dhabi Investment Company

***The current female representative in the Board of Directors of NBAD represents 10%.**

## Independent Directors

NBAD's Independent Directors are elected by the minority shareholders during the Annual General Assembly. The Independent Directors are obliged to immediately inform the Board of any circumstance which may impact upon their independent status.

The Corporate Governance and Nominations Committee is charged with nominating suitable candidates for the shareholders to consider for election, and monitoring the independence of Directors according to agreed criteria. The SCA has mandated that nomination by a Government does not by itself exclude Directors from being considered Independent in the event that they would otherwise satisfy the conditions. Whilst the Government nominated Directors are not included in the number of Independent Directors stipulated by the Articles, the Board may potentially consider the attributes of Government nominees to determine whether Independent Directors constitute one-third of the total Board.

## Director Nomination

All Directors serve a maximum term of three years, and there is no restriction on retiring Directors, if considered appropriate, being re-nominated for election at Annual General Meeting or re-appointed by the Abu Dhabi Government. As the Articles of Association fixes the number of Board Directors, the Board may also appoint new Directors to fill vacancies arising during the year, and any Director so appointed must seek re-election at the next Annual General Meeting.

Terms regarding nomination and election of Directors are stipulated in the NBAD Articles of Association as well as the Group Board of Directors Membership and succession policy to include certain representation, including a proportional number of Directors to the ownership by the Abu Dhabi Government, and a minimum number of Independent Directors. The nomination of minority elected Directors are subject to a formal nomination process including the public call for nominations, review of appropriate skills and experience, categorisation as Independent if suitable, and inclusion of the nominations received in the Notice of Meeting for voting by shareholders. Election by minority shareholders of the Directors is subject to secret ballot.

## Board Responsibility and Practices

In order to conduct its business and discharge its duties to a high standard of corporate governance protocols and policies, the Board has committed to several key documents which define the roles, responsibilities, functions, protocols and other matters relevant to the Board and its Members:

- Corporate Governance Policy, which establishes the overarching approach of NBAD.
- Charter of the Board of Directors and of each Committee.
- Directors Code of Conduct.
- Other NBAD policies referred to in the above.

During 2015 pursuant to an initiative of the Corporate Governance and Nomination Committee, the Company Secretariat performed a full review of the corporate governance policies, and the revised documents were approved by the Committee and the Board. The same review will be completed in 2016 to ensure continuing alignment with best practice.

## a. Role of the Board and its Members

The Board is responsible for directing the National Bank of Abu Dhabi and its subsidiaries towards the achievement of NBAD's vision. To this end, the Board ensures NBAD's strategic leadership, financial soundness, governance, management supervision and control.

The Board has delegated certain authorities and powers to committees and individuals including the Group Chief Executive. However, the Board reserves the authority to deal with specific matters. These are detailed with the Board Charter which is available on the Bank's website www.nbad.com.

### Role of Chairman of the Board

It is the responsibility of the Chairman to lead the Board, ensure that the Board is aware of material information and developments pertaining to NBAD, and encourage all Directors to work in the best interests of NBAD. The role is defined clearly in the Board Charter:

- Facilitates and organize the work and activities of the Board and approves the annual rolling agenda for the Board as well as the agenda for each meeting;
- Ensures that new Directors are properly inducted and introduced to the business of NBAD;
- Ensures that Directors receive in good time all information which is necessary for the proper performance of their duties, this information to be accurate, relevant and timely;
- Ensures that there is sufficient time for consultation and decision-making by the Board;
- To effectively provide guidance & oversight and liaises regularly with the Group Chief Executive to ensure adequate contact between the Board and Senior Management;
- Oversees the orderly and efficient conduct of the General Meeting;
- Ensures effective communication with shareholders and other stakeholders and communicates any concern to the Board.

The Deputy-Chairman shall replace the Chairman in his absence or whenever the Chairman is unable to perform his duties. The role of the Committee Chairmen is substantially similar to that of the Chairman of the Board.

### Role of Directors

Directors are expected to exercise due care and skill in the performance of their duties, and in particular to:

- Provide constructive challenge;
- Contribute strategic thought, and utilise their skills and experience;
- Ensure business performance conforms to strategic direction and NBAD values and ethics; and
- Ensuring satisfactory dialogue with shareholders and stakeholders.

Independent Directors have a particular obligation to:

- Conduct themselves and participate in Board matters with an independent mind;
- Give priority to NBAD upon any conflict of interest;
- Have particular regard to the protection of the interests of the minority shareholders; and
- Challenge the board and management.

### Role of Group Chief Executive and Senior Management

The Group Chief Executive has delegated responsibility from, and a job description which is clearly defined by, the Board of Directors to ensure that the Company is operated in accordance with its mandate. Senior Management must ensure that the Board and Committees receive sufficient complete information on a timely basis.

## b. Board Conduct

The Board has approved, and each Director commits, to particular codes and standards of conduct, which are to be considered in terms of their 'spirit' as well as the strict wording. The Directors Codes of Conduct and Board Charter notes the personal duties that Directors owe to the Company, and standards attached to:

1. Conflicts of Interest
2. Provision of Banking Facilities
3. Employment of Family

4. Gifts, Benefits & Business Courtesy
5. Bribery and Corruption
6. Confidentiality
7. Insider Trading
8. Fair, Accurate and Timely Reporting and Disclosures
9. Ethical Behaviour and Whistleblowing
10. Directors and Officers Insurance

## c. Board meetings and attendance

The Board commits to meet at least six times per year, with additional meetings as required to conduct special business. During 2015 the Board met 6 times. The Board may make unanimous written resolutions by circulation. This was made two times in 2015 merely for timing purposes, as the matter could not be held over to the next scheduled meeting. The Board voted unanimously in favour of the resolutions and there were no breaches.

Quorum for meetings is set at a simple majority of Directors, and voting during meetings is a simple majority of attendees.

The Chairman may make a casting vote. Directors must disclose potential conflicts of interest as soon as they are aware of the situation, and recuse themselves from further discussion and voting on the matter.

Attendance during 2015 was as follows:

| 2015 Board Meeting Attendance | 28/01/2015 | 24/02/2015 | 29/04/2015 | 29/07/2015 | 28/10/2015 | 16/12/2015 |
|---|---|---|---|---|---|---|
| H. E. Nasser Ahmed Alsowaidi - *Chairman* | ✓ | ✓ | ✓ | - | ✓ | - |
| H.E. Dr. Al Taher Musabah Al Kindi Al Marar- *Deputy Chairman* | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Sheikh Mohammed Bin Saif Bin Mohammed Al Nahyan | ✓ | ✓ | ✓ | ✓ | ✓ | - |
| Sheikh Ahmed Mohammed Sultan Al Dhaheri | ✓ | - | ✓ | - | - | ✓ |
| H.E. Dr. Mohammed Omar Abdulla | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| H.E. Sultan Bin Rashed Al Dhaheri | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr. Khalifa Sultan Al Suwaidi | ✓ | - | ✓ | ✓ | ✓ | ✓ |
| Mr. Hashim Fawwaz Al Kudsi | ✓ | ✓ | ✓ | - | ✓ | ✓ |
| Mr. David Beau | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr. Matar Hamdan Al Ameri | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Mr. Michael Tomalin | - | ✓ | ✓ | ✓ | ✓ | ✓ |

## d. Delegation and Accountability

The Board retains specific powers in accordance with the NBAD Articles of Association and the Matters Reserved for the Board included in the Board Charter, and delegates other responsibilities to its Board

Committees. Unless otherwise stated, all responsibility for day to day operation of the business is delegated to the Group Chief Executive and senior management who are accountable for mandates.

Certain specific powers which are subject to special controls are appropriately recorded in the Board Resolutions and Minutes. The Board monitors further delegations and devolution of power through NBAD via management reporting frameworks, independent reviews and verifications by audit, compliance and legal departments and external advisors. NBAD continues to review its delegations of authority pursuant to the evolution of risk strategies, prudential requirements, changes in the business environment and operational effectiveness.

## e. Induction, Development, Evaluation and Succession

The Board, Committees and management require an appropriate balance of skills, experience, independence and knowledge having regard to the nature and complexity of the business, its commercial environment, and the interests of stakeholders. The procedures for nomination of Non-Executive Directors for shareholder election and the selection of Directors for Subsidiaries are reviewed by the Corporate Governance and Nomination Committee, which takes these factors into account. New Non-Executive Directors receive formal induction, and all Directors commit to continually refresh their skills and knowledge.

In 2015, the latest Anti-Money Laundering Regulations and new UAE Companies Law No (2) of 2015 amendments were presented to the Board.

### Board evaluation

Performance evaluation of the NBAD Board and its committees takes place on an annual basis, forming a key component of the Bank's Corporate Governance Framework.

## f. Remuneration of the Board and Executives:

It is a policy of NBAD to offer a competitive compensation framework to attract, retain and motivate qualified and talented Directors and staff, whilst having regard to appropriate risk, accountability and the interests of shareholders to build value.

Remuneration for the Non-Executive Directors is based on the time commitment, skills, and responsibility borne by the Directors whilst undertaking their duties for the Board and Committees. The total remuneration allocation for the Non-Executive Directors is approved at the Annual General Meeting based on the recommendation of the Corporate Governance and Nominations Committee and the Board, and subject to regulatory limits. The compensation is allocated to Directors based on their membership and additional roles performed in the Board, including Chairmanship of the Board or Committee and attendance at Committee meetings.

2015 Board Remunerations

| Title | Annual Fee (AED) | Committee attendance (AED/Meeting) |
|---|---|---|
| **Chairman** | 1,000,000.00 | 5,000.00 |
| **Deputy Chairman** | 750,000.00 | 4,000.00 |
| **Director** | 600,000.00 | 4,000.00 |

The Group Chief Executive and Senior Management's remuneration is structured to link reward with corporate and individual performance. As noted below, the Corporate Governance and Nominations Committee is tasked with determining appropriate remuneration frameworks for the Board while the Human Resources Committee reviews Senior Management performance and determines appropriate remuneration frameworks for the Group, taking account of incentivisation measures, risk, seniority, responsibility and industry benchmarks.

In accordance with the NBAD Articles of Association, Executive Directors and Senior Management may participate in the Staff Share Option Scheme, under which allocations of rights are monitored and approved by the Board of Directors.

## Board Committees:

### a. Committee Mandates

The Board has established five Committees in order to focus on key initiatives and controls of NBAD and to assist in the efficiency and effectiveness of the Board. Each Committee Charter is approved by the Board and outlines authority, responsibilities, meeting frequency and practices, reporting, and self-evaluation. The Committees are required to meet as frequently as deemed necessary to fulfil their objectives and to allow sufficient time for discussions, presentations, deliberation, and decisions or recommendations to be clearly formulated.

The composition and Chairmanship of each Committee is approved by the Board after recommendation by the Corporate Governance and Nomination Committee, and reviewed on an annual basis. Quorum is a simple majority, and voting is a simple majority of those in attendance with the Committee Chairman having a casting vote in the case of tied voting. The Committee Chairman shall escalate to the Chairman of the Board and Company Secretary any significant matters arising from the Committee.

Only Directors may be appointed to Committees, however each Committee shall have the authority to obtain advice and assistance from outside legal, accounting and other advisors as it deems necessary to carry out its duties. The Committee may also request management and any other internal or external advisors to attend meetings and/or conduct any investigations, reviews or studies of any matter within the scope of the Committee's duties and responsibilities. In connection with any such investigation, the Committee shall have unrestricted access to NBAD's personnel and documents.

### b. Committee Scope and Composition

This table summarises membership as at **31 December 2015.** 'C' denotes the current Chairmen of the Committees.

| | Risk Management | Audit | Corporate Governance & Nominations | Human Resources | Strategy & Transformation |
|---|---|---|---|---|---|
| H.E. Nasser Ahmed Alsowaidi - Chairman | C | | | | |
| H.E. Dr. Al Taher Musabah Al Kindi Al Marar - Deputy Chairman | | | | | |
| Sh. Mohammed Bin Saif Bin Mohd Al Nahyan | | | | C | C |
| Sh. Ahmed Mohammed Sultan Al Dhaheri | | | | | |
| H.E. Mohammed Omar Abdullah | | | C | | |
| H.E. Sultan Bin Rashed Al Dhaheri | | | | | |
| Mr. Khalifa Sultan Al Suwaidi | | | | | |
| Mr. Hashim Fawwaz Al Kudsi | | | | | |
| Mr. Matar Hamdan Al Ameri - Independent | | C | | | |
| Mr. David Beau - Independent | | | | | |
| Mr. Michael H. Tomalin | | | | | |

This table summarises membership after the appointment of new Board Members nominated by ADIC on 12 January 2016 and the Committees reformation at the Board meeting held on 27 January 2016. 'C' denotes the current Chairmen of the Committees.

| | Risk Management | Audit | Corporate Governance & Nominations | Human Resources | Strategy & Transformation |
|---|---|---|---|---|---|
| H.E. Nasser Ahmed Alsowaidi - Chairman | | | | | |
| H.E. Sultan Nasser Al Suwaidi – Deputy Chairman | C | | | | |
| Sh. Mohammed Bin Saif Bin Mohd Al Nahyan | | | | C | C |
| Sh. Ahmed Mohammed Sultan Al Dhaheri | | | | | |
| H.E. Hareb Masood Al Darmaki | | | C | | |
| H.E. Sultan Bin Rashed Al Dhaheri | | | | | |
| Mr. Khalifa Sultan Al Suwaidi | | | | | |
| Mr. Hashim Fawwaz Al Kudsi | | | | | |
| Mr. Matar Hamdan Al Ameri - Independent | | C | | | |
| Mr. David Beau - Independent | | | | | |
| Ms. Mariam Saeed Ghobash | | | | | |

## Audit Committee

Members: Minimum 3, including 1 Independent

Oversight and review of:

- Integrity of financial statements, accounting policies, adjustments & financial reporting.
- Adequacy and effectiveness of internal control, IT security & risk management systems.
- Compliance with laws & regulations, whistleblowing & fraud.
- Investigations into integrity, conflicts of interest & adherence to standards of conduct of Senior Management.
- Examination reports from regulatory authorities.
- Internal audit function, plans, independence, resourcing and effectiveness in the context of NBADs overall risk management.
- Appointment, remuneration & removal of Group Chief Audit Officer.
- External audit function, including recommendations to the Board & Shareholders on appointment, remuneration, non-audit fees, independence, audit plans, audit recommendations & removal.
- Compliance with Codes of Conduct.

## Risk Management Committee

Membership: Minimum 5

The Risk Management Committee plays a key role in evaluating the risk appetite and policies of the Group. This is an extremely active Committee with delegated decision-making authority on material credit approvals, in addition to the strategic risk issues. Certain matters may be decided, and later ratified by the Committee, in case of extreme urgency when the Committee cannot meet.

Oversight and review of:

- Risk appetite & tolerance taking into account the Group's strategies & operating environment.
- Group's risk methodology, KPIs and tolerances, including stress testing.
- Trading, investment, liquidity, funding & interest rate risk, including transfer pricing.
- Risks of strategic acquisitions or disposals.
- Adequacy & allocation of capital.
- Management proposals, material risk transactions & seeking Central Bank approval if required.
- Alignment of remuneration to risk.
- Risk disclosures & reports.
- Compliance with regulatory requirements.
- Overall risk management framework, including adequacy of company procedures, material findings of regulators, independence & resourcing of the risk function, & assurance from internal audit on risk controls.
- Chief Risk Officer Role.

**Corporate Governance & Nominations Committee** Membership: Minimum 3, including 1 Independent

Oversight and review of:

- Corporate Governance Charters, policies, practices, & organizational structure.
- Size and composition of the Board & its Committees relative to the responsibilities of each.
- Director independence.
- Allocation of responsibilities to the Committees, Directors & Company Secretary.
- Board membership & management of subsidiaries.
- Board remuneration.
- Outside directorships, director lending, share trading and conflicts of interest of Directors & Senior Management.
- Compliance with Charters & policies.

**Human Resources Committee** Membership: Minimum 3, including 1 Independent

Oversight and review of:

- Strategic human resources.
- Remuneration & performance related pay schemes, policies & framework for NBAD.
- Appointment, promotion, remuneration, retirement & dismissal of Senior Management.
- Development & implementation of Emiratisation strategies & targets.
- Terms of reference and reporting of the Management Remuneration Committee.
- Training strategy for NBAD.
- High level succession planning.
- Review of Senior Management performance against KPIs.
- Headcount budgets.
- HR related expenditure above delegated authorities.

**Strategy and Transformation Committee** Membership: Minimum 3

Oversight and review of:

- Assisting the NBAD Board in fulfilling and development of its strategic plan.
- Assist the Board in relation to the implementation of the Bank's strategy and related transformation implementation plan, expansion, acquisition strategy and potential acquisitions.
- Review and evaluate major unbudgeted expenditure, external developments and factors.
- Issues related to senior staff.
- Structure, size and composition of the STC, determined by the Board.
- Review plans to relaunch new products, lines of businesses or projects
- Assist the Board in regards to NBAD's mission, vision and values.

## Risk and Control Framework

The Board of Directors has approved and implemented an extensive internal control system, which includes:

- Control environment and codes of conduct for the Board and staff.
- Risk management.
- Control functions.
- Management Information systems
- Monitoring, security and prevention systems.

The significant functions which form the control system include Internal Audit, Risk, Legal and Compliance, and Company Secretariat. Control functions within NBAD functionally report to the Board or designated Committees, and administratively report to the Group Chief Executive.

Control functions are comprised of skilled and experienced staff with internationally recognized qualifications, and are provided with unfettered and independent powers to investigate the affairs and internal controls of the Corporation. Where necessary, the controls function may also be outsourced to reputable third parties who are qualified to provide specialist expertise.

In particular, the evolution of risk perspectives and policies in the international and local regulatory environment will continue to mandate or influence NBAD's approach to, and appetite for, risk. As risk is an integral part of both the operational and control framework, the Board will continue to monitor the appropriate delegation of risk, the continued nature of its risk appetite and strategies, and the authorities provided to the Risk Committee.

The External Auditors are paid on a fixed annual fee basis. The auditors' fee is recommended by the Board of Directors for shareholders' approval in the Annual General Meeting. Non-audit work or audit work not within the scope of the annual review will be reviewed by the Audit Committee on a case by case basis, although procurement policies may exclude tendering by auditors to avoid any perceived or potential conflict of interest. The external audit fees are disclosed in the NBAD Annual Audited Accounts.

As required by the Central Bank of the UAE and as desirable for international banks of NBAD's stature, NBAD has implemented a comprehensive set of policies for the prevention and detection of fraud, corruption, bribery, money laundering and other criminal and civil offences. These are monitored by a number of control functions, which ultimately report to the Committees and Board on matters of significant breach, local and international updates, monitoring programs, trends and risks. Whilst NBAD has instituted a sophisticated set of systems and controls to segregate duties, establish limits and approval processes, and monitor and audit employee and stakeholder interactions, it is recognised that systems are not failsafe. Hence, NBAD has an over-arching Whistleblowing Policy which incorporates independent reporting channels, confidentiality and sensitivity, investigation powers, escalations, reporting, re-integration of findings into the operational and control framework, and regulatory co-operation.

### Transactions of Directors and Employees in Securities

By virtue of NBAD's status as a listed company on the Abu Dhabi Stock Exchange, Directors and staff are subject to certain trading restrictions on NBAD securities, including Close Periods. All Directors and a wide class of Senior Management are classified by NBAD as "Insiders" with respect to trading rules set by the SCA, which imposes internal and public disclosure requirements. The 'Insider List' is reviewed and updated quarterly.

Also, due to the nature of NBAD's business, Directors and staff may come into possession of material non-market information which may impact the prices of listed securities (including equities, bonds, ETFs, etc.) on many global exchanges. The legal prohibition of Insider Trading is incorporated within the NBAD's Codes of Conduct, which specifies that trading with inside knowledge on any security (including but not limited to NBAD securities) is strictly forbidden and may expose the individual and NBAD to serious negative outcomes. All Directors and staff are made aware of their legal obligations, the consequences for non-compliance, and the need for timely, relevant disclosure in relation to reporting on these issues.

## Other Policies

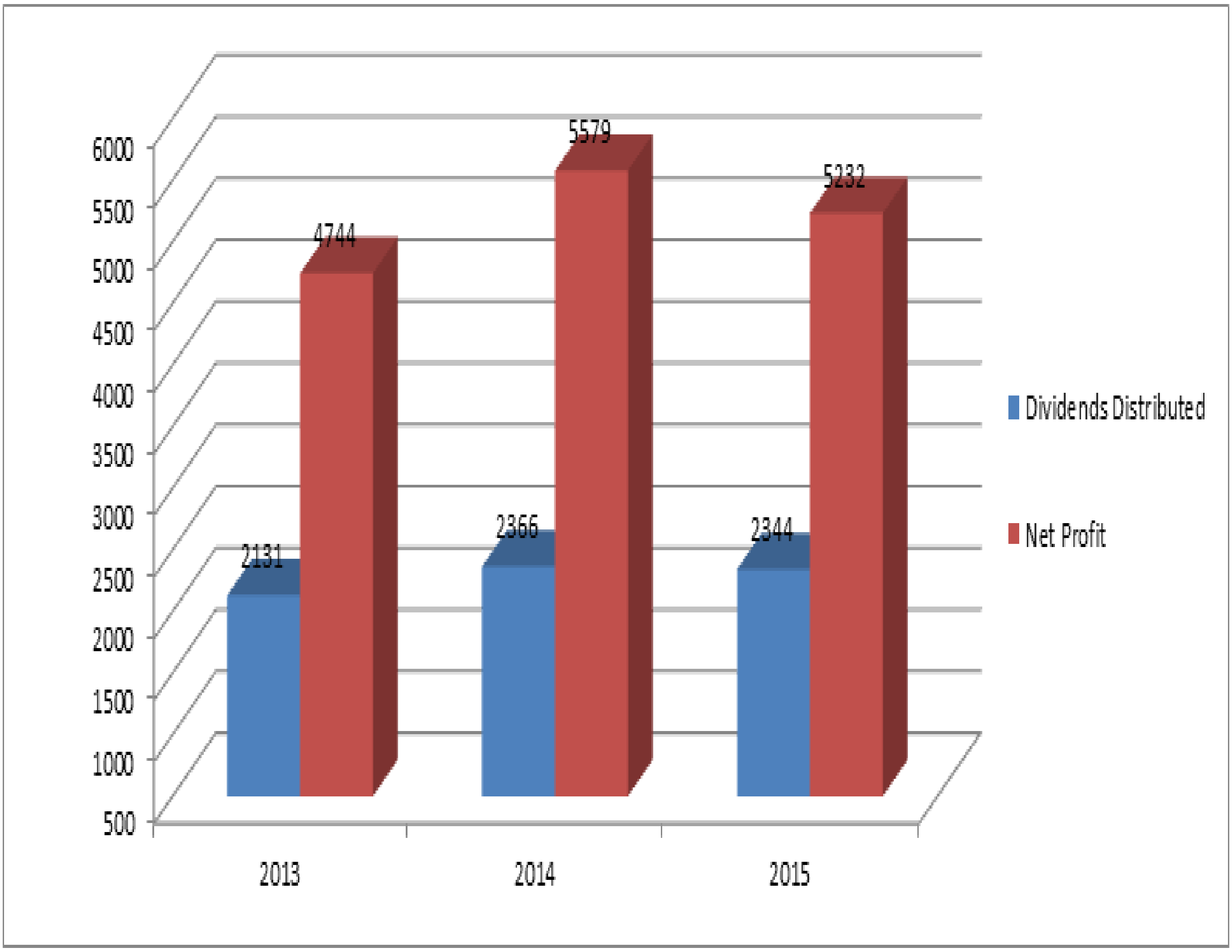
### Dividends

NBAD adopt a conservative policy when distributing dividends, taking into account the current challenging economic and financial conditions with the aim to strengthen the safety and soundness of the bank's financial position. The board of directors examines various elements, factors and requirements in order to decide on what cash or share dividend each year that can be recommended. The assessment takes in-depth review which is presented to the annual shareholders meeting for their final approval.

However, clause (56) of the bank's AOA refers to certain procedures when considering distribution of dividends to shareholders. It calls for deducting certain percentages from the net profit in favor of various accounts namely (10%) for the legal reserve, another (10%) for the special reserve. Then, of the remaining profits; the max of (10%) can be deducted for the remuneration of the board of directors and thereafter, the net profit can be distributed to shareholders or added to retained earnings.

Provided that no adverse conditions exist regarding domestic and/or global economic circumstances, and after making transfers to the mandatory reserves and ensuring that the Bank's capital adequacy ratio remains at the targeted level, and subject to approval by shareholders, NBAD's policy is to recommend for the approval of shareholders in the Annual General Meeting a cash dividend and or share dividend which are covered at least three times by the distributable profit.

The following chart compares the annual distributed dividends with the available distributable profits in the last three years.



## Corporate Sustainability

NBAD has a proud history of being a UAE leader in disclosure through the publication of annual Corporate Responsibility and Sustainability Reports, employing the Global Reporting Initiative's (GRI's) international reporting standard and the supporting Financial Sector Supplement.

All historical reports and current reports are available on the NBAD website in the Governance section, demonstrating NBAD's commitment to full disclosure, of both current achievements and historical context, and continuous improvement.

## Share Registry Services

NBAD is a significant provider of share registry services to other public joint stock companies in the UAE and is recognised by the market for providing integrated and support services for the conduct of shareholder actions. The Securities and Funds Administration Services Department is subject to an extremely high standard of duty and care with regard to issues such as regulatory compliance, confidentiality, audit and regulatory co-operation.

## Investor Transparency and Disclosure

A dedicated Investor Relations site is included on the Corporation's website (www.nbad.ae), where investors are provided with current information relating to the Corporation such as:

- Annual reports
- Financial reports
- Corporate Governance documentation
- Credit profiles
- Analyst coverage
- Press releases
- Securities information
- Presentations
- Feedback facility

## Share Price Information

### NBAD Shareholding

- **Major Shareholders**

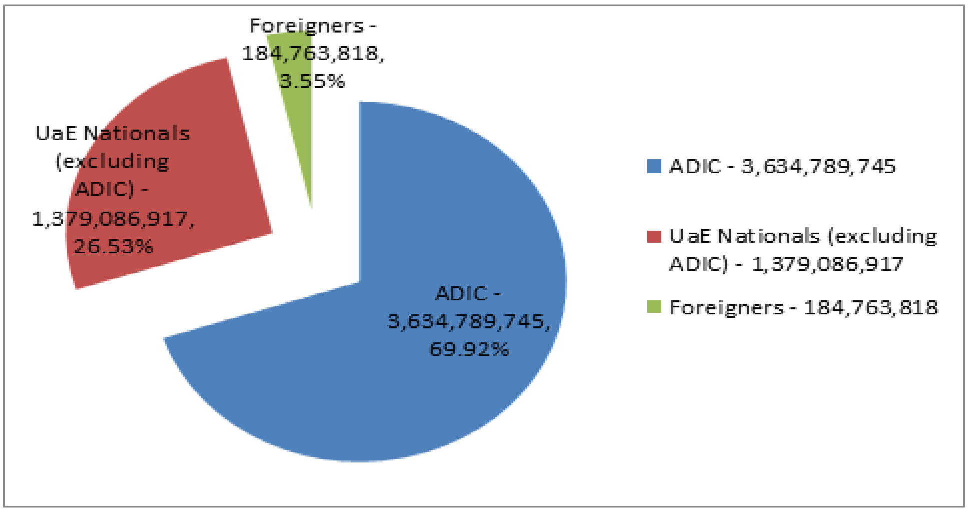
Shareholders holding more than 5% of NBAD shares as at 31 December 2015

-- Abu Dhabi Investment Council (ADIC) 69.92%

- **NBAD Shareholding by Nationality**

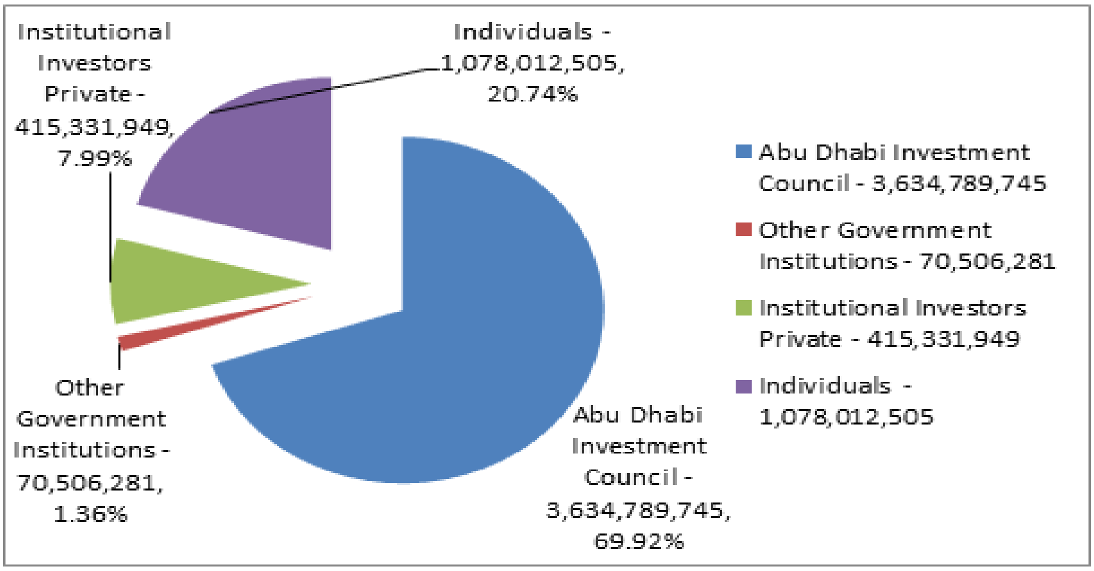
Foreign ownership is restricted to 25% of the total shares listed on the exchange. As of 31 December 2015, foreign ownership in NBAD shares amounted to 3.55% (31 Dec 2014 – 3.35%).

| | % | No of shares | Holding % | No of shares held |
|---|---|---|---|---|
| Abu Dhabi Investment Council | | | 69.92% | **3,634,789,745** |
| UAE Nationals (excluding ADIC) | | | 26.53% | **1,379,086,917** |
| Foreigners | % | No of shares | 3.55% | **184,763,818** |
| GCC | 0.56% | 29,052,844 | | |
| Arabs (excluding GCC) | 0.41% | 21,224,653 | | |
| Others | 2.59% | 134,486,321 | | |
| Total | | | 100.00% | **5,198,640,480** |

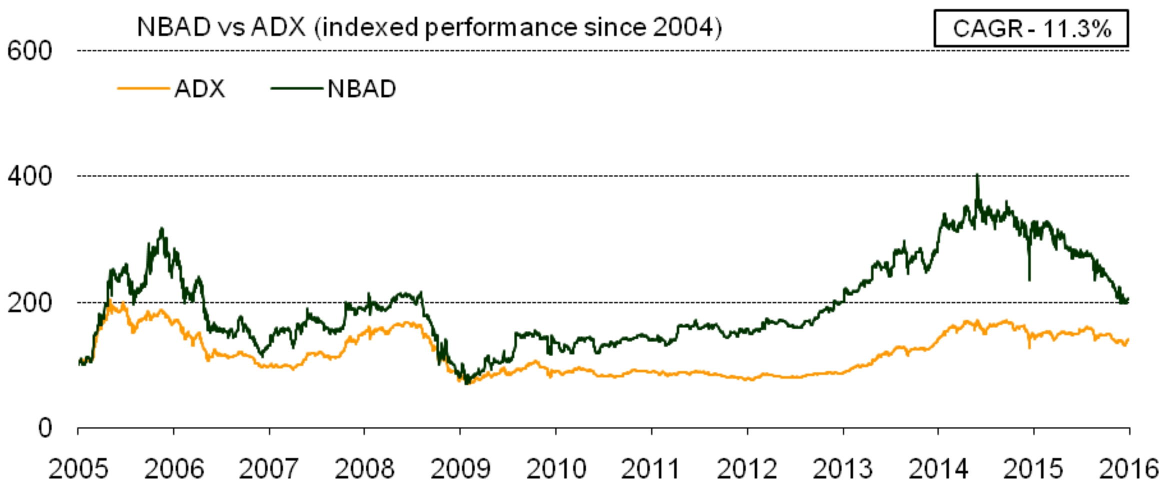


- **NBAD Shareholding by Category**

| | No of Shareholding | Holding % | No of shares held |
|---|---|---|---|
| Abu Dhabi Investment Council | 1 | 69.92% | **3,634,789,745** |
| Other Government Institutions (11) | 11 | 1.36% | **70,506,281** |
| Institutional Investors – Private (416) | 416 | 7.99% | **415,331,949** |
| Individuals (2023) | 2,023 | 20.74% | **1,078,012,505** |
| Total | 4,451 | 100.00% | **5,198,640,480** |



▪ **Shareholder Returns & Share Price Information**




Footnotes for table:

Based on total outstanding number of shares (Issued less treasury shares)

1 Percentage change in price during the year (closing price – opening price)
2 Based on unadjusted closing price
3 Shown as a percentage of face value
4 Shares prices adjusted for bonus shares issuances
5 Cash Dividends for 2015 are proposed and subject to approval by the shareholders at the AGM

Sources: Bloomberg, ADX, NBAD Financials