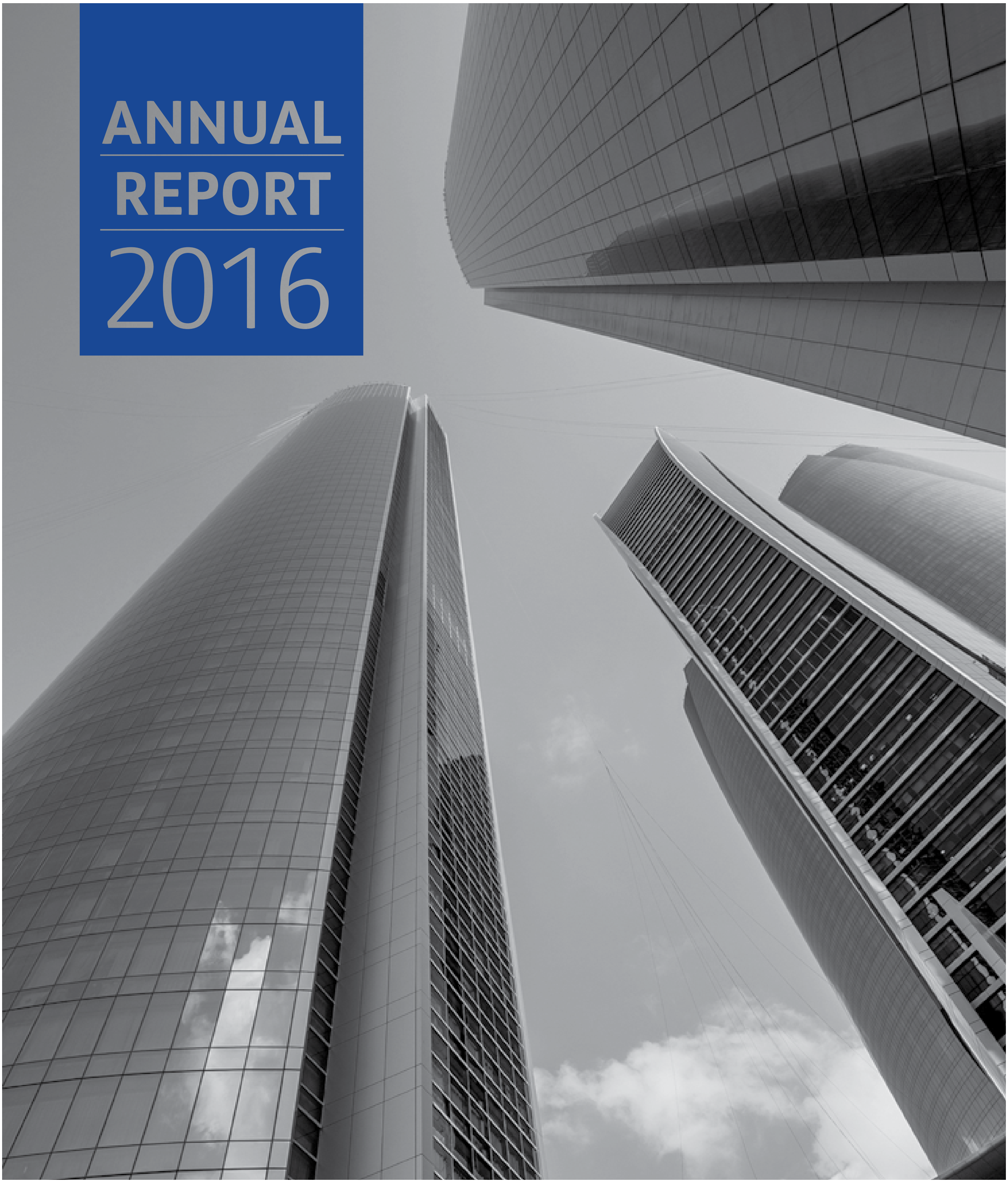
ANNUAL REPORT 2016



بنك الخليج الأول

FGB

ANNUAL REPORT 2016

HIS HIGHNESS SHEIKH KHALIFA BIN ZAYED AL NAHYAN

PRESIDENT OF THE UNITED ARAB EMIRATES

HIS HIGHNESS SHEIKH MOHAMED BIN ZAYED AL NAHYAN

CROWN PRINCE OF ABU DHABI
DEPUTY SUPREME COMMANDER OF THE UAE ARMED FORCES

HIS HIGHNESS SHEIKH TAHNOON BIN ZAYED AL NAHYAN

CHAIRMAN

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HISTORY & KEY MILESTONES

1979 – FGB is incorporated in Ajman with an initial focus on Corporate Banking

1996-1999 – Abu Dhabi ruling family acquires 45% stake and designates new management team

2001 – New vision, brand identity and introduction of new business segments: Retail and Treasury & Investments

2002 – Listing on Abu Dhabi Exchange

2005 – Net profit crosses the AED 1Bn (USD 272 Mn) mark

2006 – Introduction of Islamic banking services Rated A by Fitch (followed by A+ in 2007) and A2 by Moody's

2007 – First overseas office in Singapore

2009 – New offices in Qatar and India

2011 – Net profit crossed the USD 1Bn mark

2012 – New office in Hong Kong

2013 – Acquisition of Aseel and Dubai First FGB becomes the #1 UAE Bank in terms of net profit with USD 1.3Bn

2014 – New rep offices in London and Seoul Maintained position of #1 UAE Bank by Net Profit at USD 1.54Bn

2015 – Net profit crosses AED 6Bn (USD 1.6Bn)

2016 – FGB-NBAD merger announcement.

CHAIRMAN'S REPORT

CHAIRMAN'S REPORT – 2016 ANNUAL REPORT

On behalf of the Board of Directors, I am pleased to present to our shareholders the Audited Financial Statements of FGB for the year ended 31 December 2016. Marking our 17th consecutive year of revenue and net profit growth, 2016 reflected a continuation of FGB's long history of strong performance and success. It also marked a significant milestone for the future of the UAE's banking industry, with the announcement of the upcoming merger of FGB with NBAD.

This historic merger will enable us to create a new bank with the financial strength, expertise and global reach to support the UAE's long-term economic development plans, whilst further strengthening our ability to navigate an evolving operating and regulatory landscape.

With its strong focus on economic diversification and developing a knowledge-based economy through encouraging innovation and entrepreneurialism, the United Arab Emirates (UAE) in particular has made great strides in this regard, helping to limit the impact of global economic challenges and further strengthen the country's resilience.

2016 was a challenging year, on both a regional and global level, however FGB continued to adapt to evolving operating conditions. Lower oil prices continued to weigh on economic growth, affecting the ability of banks to grow their assets and revenues, with governments throughout the region turning towards fiscal and structural reforms to adjust and promote growth.

I am very pleased to report that FGB achieved a full year net profit of AED 6.03 Billion in 2016, compared to AED 6.01 Billion in 2015. This financial performance, against a challenging economic backdrop, demonstrates FGB's continued resilience, robust business model, and the success of the various measures implemented by the bank to maintain disciplined growth, a strong balance sheet, and solid ratios.

In light of these results, the Board of Directors recommended the distribution of 100% cash dividends for the financial year ended 31 December 2016. This implies total cash dividends of AED 4.5 Billion for the year 2016, similar to 2015. FGB has delivered cumulative shareholder returns of over 40 times since the shares were listed on the Abu Dhabi Stock Exchange in 2002, which is a remarkable achievement.

On behalf of FGB and the bank's Board of Directors, I would like to thank the President of the United Arab Emirates, His Highness Sheikh Khalifa Bin Zayed Al Nahyan for his wise leadership and support, His Highness Sheikh Mohammed Bin Rashid Al Maktoum, Vice President, Prime Minister and the Ruler of Dubai, His Highness Sheikh Mohamed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and their Highnesses, Rulers of the UAE, and members of the Supreme Council for their continued guidance.

I would also like to express my gratitude and thanks to the UAE Central Bank and Securities and Commodities Authority, as well as our shareholders, customers and correspondent banks, for the important, ongoing role they have played in our success and the achievement of our goals.

Last but not least, our success has been built upon the loyalty and dedication of our talented staff, who I would like to thank for their hard work and commitment, across all areas of the business.

Looking back at FGB's extraordinary journey throughout its 38-year history, I am proud to say that we have fulfilled our pledge to maximise value for all of our stakeholders. As we embark on the next chapter of our story together, we are looking towards an exciting future, filled with new possibilities and opportunities.

Tahnoon Bin Zayed Al Nahyan
طحنون بن زايد آل نهيان
Chairman

MANAGING DIRECTOR'S REPORT – 2016 ANNUAL REPORT

I'm proud to announce that FGB continued to perform well, achieving a record Group Net Profit of AED 6.03 Billion in 2016, thereby marking its 17th year of consecutive growth in profitability. Our solid performance stemmed from our consistent focus on safeguarding the quality of our fundamentals in a challenging operating environment. These results clearly demonstrate the relevance of our flexible business model and dynamic business strategy which enabled us to grow our revenues, enhance the quality of assets, and effectively withstand the ever-changing global geopolitical landscape.

2016 was a difficult year for all sectors, and the financial sector was no exception. Lower oil prices and a number of significant events taking place in the MENA region had tangible effects on regional and international economies alike. Despite continued challenges, the UAE proved to be resilient and adaptive, due to the wise strategies adopted by its leadership, and as a result, the banking sector was able to cope with difficulties and continued to effectively support the UAE's economy and its overall goals and strategies.

Following FGB's and the National Bank of Abu Dhabi's (NBAD) merger announcement in July 2016, the largest bank in the UAE with total assets of approximately USD 183 Billion and a market share of 27% will see the light in the second quarter of 2017. This new Bank will have the financial strength and expertise to promote banking innovation and capture significant opportunities across various business segments, in the UAE and abroad. We look to the future with optimism as this combined entity will play a key role in supporting the UAE's long term ambitions and drive the country's international business relationships, while at the same time shaping the future of the regional banking industry.

2017 will also mark our relentless and undivided commitment to supporting our nation in achieving the goals and objectives that have been set by UAE President His Highness Sheikh Khalifa bin Zayed Al Nahyan's "Year of Giving" initiative. We will continue to work under our leaders' guidance to foster a sense of giving and community values in the UAE, and for this value to be embedded in our relationships with our stakeholders and with the UAE's community.

Our journey began in 1979 and is full of countless achievements and incredible growth. Through it all, our customers, shareholders and employees were at the core of our success story and continue to be the engine for our success. As we move on to new and exciting opportunities, we look towards the future with optimism and the knowledge that we will continue to operate as professionally and passionately as we have throughout the years and that our best is yet to come.

Abdulhamid Saeed

FGB's Managing Director and Board Member

CEO'S REPORT – 2016 ANNUAL REPORT

Dear Stakeholders,

Marking our 17th consecutive year of consistent growth in profitability, 2016 was another key milestone in FGB's success story.

The strategic actions we implemented, allowed us to successfully navigate volatile operating conditions throughout the year, demonstrating our resilience and dynamic strategy once again. Our ongoing focus on the prudent and selective growth of risk assets, funding cost optimisation and the efficient allocation of resources enabled us to build resilience and earnings momentum, and to achieve continued growth.

2016 in review

Although 2016 was a challenging year in many respects, the UAE proved to be one of the most resilient economies on a global level, backed by solid fundamentals and a diversified economy. Throughout 2016, FGB delivered a robust performance, recording a Group Net Profit of AED 6.03 Billion at the close of the year.

Growth was achieved across the business, with the Wholesale and International Banking group contributing 39% of Group revenues, followed by the Consumer Banking Group with 33% and the Treasury & Global Markets group 11%. Subsidiaries and associates including Dubai First and Aseel Islamic Finance generated 9% of FGB's total revenues, whilst real estate subsidiaries contributed 8%. The Group's international operations provided 7% of revenues in 2016.
Our Wholesale and International Banking Group delivered a solid performance throughout 2016, successfully closing a range of significant transactions and collaborating with key partners. The Group continued to invest in new products and technology, and a major restructure exercise across the division enhanced our ability to meet the evolving needs of clients, both domestically and internationally.

Building on our customer-centric approach, the Consumer Banking Group introduced and worked with a number of leading entities to launch innovative new products, services and platforms to meet our customers' banking needs. Digital innovation also remained a key focus throughout 2016, which marked the launch of several key firsts for the market, including FGB VR, a first-of-its-kind virtual reality application for the banking industry, globally.

Within Treasury & Global Markets, the Group continued to diversify, enhancing revenues across the board despite challenging operating conditions. The Group also strengthened its investments and fixed income portfolios throughout the year, and as of December-end 2016, our liquidity position was at an optimal level, well within regulatory requirements.

As the sole manager of Abu Dhabi's National Housing Loans programme in the UAE, we also hosted the third edition of our successful National Housing Loans Exhibition in December 2016, which attracted almost 8,000 visitors and exhibitors. The event provided Emirati homeowners, as well as individuals planning to build new homes or expand/renovate their existing residences, the chance to meet with hundreds of contractors, design companies and other building-related specialists, all under one roof, to create their dream homes. For 2016's exhibition, we also launched a survey to better understand what Emiratis are looking for in their dream home as part of a 'Our Home: Our Design' competition, where students from the United Arab Emirates University used the results to develop architectural designs of the ideal Emirati home.

In recognition of our achievements across the business, FGB received a number of prestigious accolades throughout 2016, including 'Best Co-branded Credit Card', 'Best Onshore Wealth Proposition' 'Best SME Trade Finance Offering' and 'Best Bancassurance Product' at the Banker Middle East Product Awards, alongside 'Best Consumer Finance Award' from The Asian Banker, 'Best Premium Credit Card' at the Smart Card and Payments Awards, a PFI and IJGlobal award for Hassyan Clean Coal Power, three Islamic Finance News awards, four Bonds, Loans and Sukuk Middle East awards, a Global Transport Finance Award - Islamic Deal of the Year: Etihad Airways US$ 1.5bln Privately Placed and Unlisted Sukuk due 2021, and 'Best International Bond' at the Asiamoney/Global Capital Asia 'Best China Deals' awards.

A. The Business Groups

1. Consumer Banking Group (CBG)

The Consumer Banking Group (CBG) performed well throughout 2016. CBG assets were stable year-on-year at AED 55.0 Billion as of December-end 2016, while liabilities stood at AED 37.3 Billion at the end of Q4 2016. Assets under management crossed the AED 9.5 Billion mark during the period. CBG continued to strengthen our digital offering throughout 2016, with the launch of a first-of-its-kind virtual reality application, FGB VR, which presents a seamless and immersive 360-degree entertainment environment, allowing customers who own VR glasses to interact with objects placed throughout an FGB Virtual World. These objects are integrated online with existing servicing processes of the bank, and provide information about products and services, such as Accelerator, Manchester City and Ferrari credit cards and FGB's Mobile banking platform. The application also features an entertainment aspect, which includes a football penalty shoot-out game, allowing customers to test out their football skills.

CBG also introduced a new 'FGB Watch Banking' application for Apple Watch in 2016. Via the application, customers can quickly and easily access banking information such as balances for accounts, deposits, loans and cards on the go, along with the last 10 transactions for accounts and cards. Customers can also access an FGB branch and ATM locator through the application, as well as the bank's contact details. Customers can experience FGB Watch Banking by downloading the application on their iPhone and completing a one-time activation process.

During the year, we successfully hosted our second FGB Hackathon at Abu Dhabi Global Market (ADGM), under the theme, "What next in Digital Banking?" The event attracted over 130 participants across 15 teams. We also took our National Housing Loans facilities to a new level in 2016, moving the department to FGB's premises at Al Qurm. The new location offers enhanced customer servicing facilities and enriched digital experience components to support a stronger customer-centric environment.

Introducing another first for the UAE, CBG announced the launch of our new Wealth Sentiment Index in 2016. The Index was established to measure the prevailing mood of affluent investors in the UAE market, from a personal and business point of view and is an indicator of the overall sentiment of the market, based on existing fundamental and economic factors. The Wealth Sentiment Index was announced at our fourth annual Investment Conference, which provided a unique opportunity for wealth managers from across the UAE to gain new perspectives as well as insights into market trends and how they are shaping the industry, now and in the years to come.

2. Wholesale and International Banking Group (WBG)

Our Wholesale and International Banking Group ended the year recording an 18% growth in net profit, exceeding both its revenue and net profit targets for the year. The Group continued to diversify revenue streams across clients, products, and geographies, and establish a best-in-class franchise in our target markets and client segments, to sustain growth.
The Group undertook a major architectural redesign exercise in Q2-Q3 of 2016, reorganising WBG into Institutional, Corporate, Commercial Banking and Financial Institutions coverage units, whilst integrating Global Markets Sales & Trading and Credit Restructuring under the Group, to enhance alignment with our client segments and facilitate a more cohesive approach to meeting our clients' needs. The reorganisation delivered positive results, particularly in the fourth quarter of 2016, where the Group witnessed increased revenue momentum, significant NPL reduction, greater client calls, and the conclusion of several landmark deals.

The same principles were implemented across the International Business, leading to a significant improvement in our origination efforts whilst increasing our product offerings as we support clients globally. In terms of strategic partnerships, WBG collaborated with Abu Dhabi Global Market (ADGM) in 2016, to establish the legislation and fee structure to attract lessors to the region and place Special Purpose Vehicles (SPVs) into the ADGM franchise. This work culminated in FGB part-financing and engineering a Natixis-led lease structure on the refinancing of an FGB bridge facility to Etihad airline for an A380 aircraft.

Landmark deals throughout the year included the first clean coal power project of the region for Hassyan Energy , the deal required close collaboration between multiple units across FGB to deliver a solution that matched client expectations. In addition, the WBG financed a deal for Adeptio AD Investments to acquire the Americana Group, the Middle East's largest integrated food company and operator of restaurant chains, and a transaction for ENEC to finance the UAE's first nuclear power plant – Barakah Nuclear Power Project.

In 2016, WBG also continued to invest heavily in technology, including FGB Online, our global front end cash management and trade finance platform which brings market-leading capabilities to our clients. Key clients are now using the FGB Online platform for both Cash and Trade, and we've received very positive feedback regarding its straight-through capabilities.

3. Treasury and Global Markets Group (T&GM)

The Treasury and Global Markets Group achieved a solid performance in 2016, recording an increase in net revenue to AED 805 million compared to AED 784 million in 2015, and outperforming its targets for Return on Assets and Cost to Income ratios.

Amidst challenging operating conditions, our investments portfolio continued to be a major contributor to Group revenue and despite volatility in the bonds markets due to the first interest rate hike in the US in ten years, our Fixed Income portfolio performed well throughout 2016. The Group also continued to diversify, augmenting revenues across the business. Our continued focus on the diversification of sources of funds and funding cost optimisation led to an AED 8.3 Billion net deposit inflow during the fourth quarter of 2016, which was coupled with an increase in short term funds raised through FGB's Euro Commercial Paper (ECP) programme, totaling USD 2.1 Billion during Q4 2016.

FGB ended the year in a strong liquidity position, well within regulatory requirements, whilst our Advances to Stable Resources Ratio of 86.7% is comfortably below the UAE Central Bank regulatory ceiling of 100%. During the fourth quarter of 2016, we strengthened our High Quality Liquid Assets base by deploying excess funds into Central Bank Certificates of Deposits and Treasury Bills. As a result, FGB's Liquidity Coverage Ratio (LCR) increased to 108% as of December-end 2016, against a minimum requirement of 70%.

4. Aseel Islamic Finance

Committed to developing sustainable, long-term value for its stakeholders and the community, Aseel Islamic Finance is working to meet the Shari'ah compliant financing needs of consumers and SMEs across the Emirates. Maintaining a strong market portfolio throughout 2016, Aseel penetrated the commercial financing market during the year, through the introduction of property and real estate financing facilities.

Aseel was recognised as the "Best Islamic Finance Company in the Middle East" and received the "Best Business Credit Card in the UAE" award at the 2016 Banker Middle East Product Awards.

5. Dubai First

2016 was another strong year for our "Dubai First" credit card company, as it continued to develop and launch innovative solutions which reflect the Dubai growth story. During the year, Dubai First launched its Dubai Moments Credit Card, which celebrates the spirit of Dubai, alongside the Dubai First Business Flex Card, offering exclusive financial privileges, competitive interest rates and flexible rewards to business owners. 2016 also marked the launch of Dubai First 'Connect', a mobile application enabling customers to manage their finances with ease, anywhere, anytime.

Dubai First also entered into a five-year strategic partnership with Dubai Parks and Resorts, the largest integrated theme park destination in the region. This partnership, which has also named FGB as the official banking partner for Dubai Parks and Resorts, involves providing a wide-range of financial products and services to the destination, in addition to introducing the 'Dubai First – Dubai Parks Amazing Card', a co-branded MasterCard credit card, which offers card members a number of exclusive benefits, rewards and savings.

Dubai First's partnership story continued with Uber, offering Dubai First card holders a range of exclusive benefits, and a collaboration with Dubai SME, to offer financing solutions and facilitate SME access to funding. Dubai First also partnered with First Gulf Properties (FGP) in 2016, to offer UAE residents hassle-free rental payment solutions, and Orient Insurance to broaden its insurance offering throughout the UAE.

During the year, Dubai First received the 2015 'Dubai Quality Appreciation Award', one of the most prestigious business excellence awards in the UAE, which was presented by His Highness Sheikh Maktoum bin Mohammed bin Rashid Al Maktoum, Deputy Ruler of Dubai.

Dubai First was also awarded 'Superbrand' status for a second consecutive year in 2016 by the Superbrands organisation, alongside 'Best Consumer Finance Company' for the second consecutive year at the Banker Middle East Industry Awards 2016. It was also named 'Best Non-Bank Consumer Finance Business in the Middle East' and received the 'Best Micro Finance Product in the Middle East' award from The Asian Banker, Middle East & Africa.

6. First Gulf Properties (FGP)

During 2016, First Gulf Properties (FGP) built on its position as a pioneering real estate service provider in the UAE, expanding through new and diverse properties such as LILAC Residence in Dubai, Wave Tower in Abu Dhabi and Nalaya Villas. Furthermore, Mismak Properties successfully completed the handover of units in Marina Bay Towers C2 & C3.

Another key milestone for the year included achieving ISO 9001:2008 re-certification for Quality Management Systems, following a rigorous evaluation process.

B. Business Support

1. Human Resources

Our FGB workforce teams are critical to our success and we remain committed to developing their capabilities and skills as our business and employees progress together. Over the past year, FGB continued to implement its successful Emiratisation strategy, achieving an Emiratisation rate of 35.5% at the end of 2016.

The bank also participated in several leading career fairs, including Tawdheef, Careers UAE and the first National Services Career Fair throughout the year, as part of FGB's ongoing efforts to further promote Emirati participation in the banking and financial sector, develop the skills of UAE Nationals and attract new talent.

The HR department continued to develop its FGB Business School offerings, supporting CBG through launching products aligned to their strategic objectives of improving sales effectiveness. These included a mobile tool for learning and communication, which ensures sales representatives learn on the move, and receive daily tips on improving productivity. This app also serves as a platform for new product updates and digital sales presentations for customers.

FGB is also one of the few regional banks where all wealth managers are Chartered Institute for Securities & Investment (CISI) certified.

In 2016, our HR department was recognised at the 2015 Middle East HR Excellence Awards, where we received an 'Innovation in Learning and Development' award and were shortlisted as 'Employer of Year'.

2. Information Technology

In 2016, First Gulf Information Technology company (FGIT) continued to build on the strong foundations of delivery planted since our inception two years ago as we significantly evolved our operations and revolutionised the way we work. One of our main achievements was increasing both the quality and speed at which we deliver our services. Furthermore, we successfully drove efficiencies throughout IT by creating cross-functional roles, renegotiating with vendors and identifying savings wherever possible.

In line with our vision to continuously enhance our digital capabilities, we created a Digital Centre of Excellence. We also continued to support the business by improving the reliability of our systems through investing in our infrastructure, improving processes and increasing automation.

In 2016, we successfully implemented our 'Big Data' capability used to roll out the Digital Intelligence Platform, enabling us to measure insights from FGB Social Media channels, as well as those of our peers. In 2017, we will utilise this platform for advanced and predictive analytics.

3. Enterprise Risk Management TBC

FGB had another robust year of growth due to efficient business model complemented by proactive management of diverse risks in an integrated manner. This was made possible by strictly adhering to the basic principles of enterprise risk management; sound fundamentals and strong risk bearing capacity to withstand macroeconomic risks; strategic alignment and enduring partnership with all businesses; integrated corporate and risk governance framework for effective oversight and robust risk infrastructure to manage enterprise-wide risks in a holistic manner.

In 2016, we implemented several key risk management initiatives towards further enhancing the established Enterprise Risk Management (ERM) framework across FGB Group. These included: roll out of enhanced risk appetite framework to identify early warning risk indicators across businesses; review of ERM policies; implementation of common reporting standard (CRS) and enterprise fraud management solution (EFMS); validation of models and automation of hedge accounting. We also concluded the impact assessment pertaining to IFRS-9 regulation and enhanced the information security risk framework to meet the ever changing data security challenges.

Looking Ahead

Looking back at FGB's successful history since it was established in 1979, I am filled with pride for what we have achieved. We came a long way – moving from a small corporate bank to an international wholesale bank; from small beginnings in retail banking into a leading franchise with a diversified business across products and geographies, and from a low rated BB+ bank to a high investment grade A+ rated company.

With exciting changes, including the historic merger of FGB and NBAD, just around the corner, we are looking towards the future with clear optimism and excitement for greater opportunities and achievements.

André Sayegh

Chief Executive Officer

2016 GROWTH INDICATORS

A resilient performance marking 17th consecutive year of consistent net profit growth

In 2016, FGB delivered a resilient performance reporting a Group Net Profit of AED 6.03 Billion for the full year, an all-time record.

This performance was achieved on the back of prudent and disciplined growth in risk assets, funding optimization, and efficient allocation of resources.

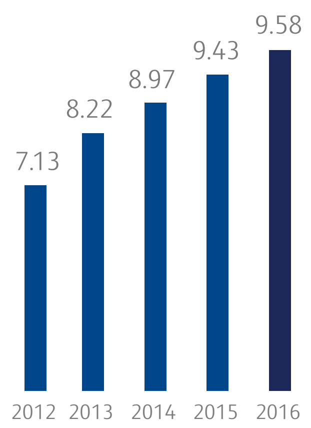
EARNINGS PER SHARE
AED 1.32

MARKET CAP
AED 57.8 Billion as of Dec 31st 2016

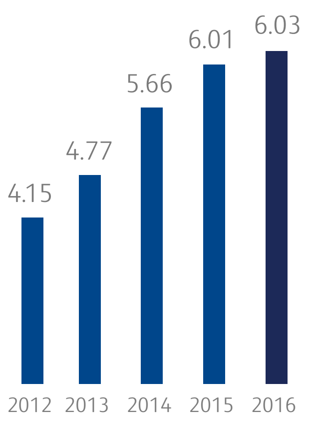
REVENUES
AED 9.58 Billion

GROUP NET PROFIT
AED 6.03 Billion

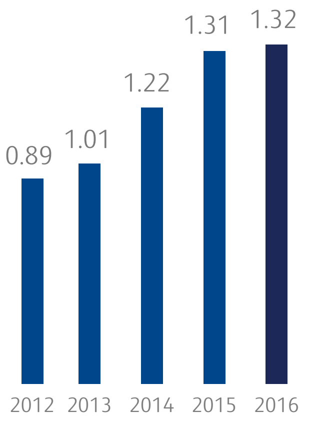
REVENUES
IN AED BN



NET PROFIT
IN AED BN



EARNINGS PER SHARE
IN AED



BALANCE SHEET (AED BN)	DEC'16	DEC'15	YOY
LOANS & ADVANCES	156.7	149.8	5%
CUSTOMER DEPOSITS	149.2	142.5	5%
TOTAL ASSETS	245.1	227.5	8%
SHAREHOLDERS EQUITY	37.2	35.9	4%

RETURN ON AVERAGE EQUITY
16.5%

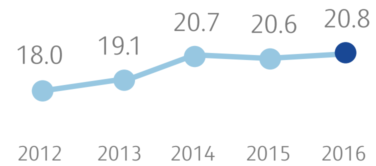
COST-TO-INCOME RATIO
20.8%

CAPITAL ADEQUACY RATIO
18.3%

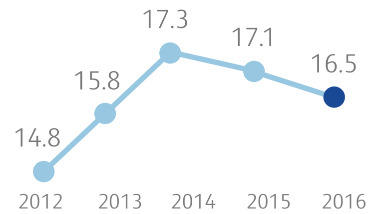
RETURN ON AVERAGE ASSETS
2.6%

NON-PERFORMING LOAN RATIO
2.3%

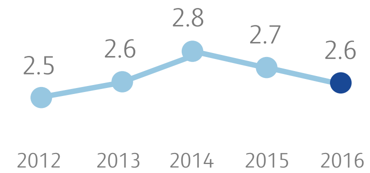
COST-TO-INCOME RATIO
%



RETURN ON AVERAGE EQUITY
%



RETURN ON AVERAGE ASSETS
%



WORKFORCE
1,322 employees

UAE DISTRIBUTION NETWORK
22 branches

CREDIT RATINGS

	RATING	OUTLOOK
Fitch Ratings	**A+** (SINCE 2007)	RATING WATCH POSITIVE
Moody's	**A2** (SINCE 2007)	POSITIVE
S&P Global	**A** (SINCE FEB'16)	CREDIT WATCH POSITIVE

A REMARKABLE 17-YEAR TRACK RECORD

Total Assets growth
102x

Shareholders' Equity growth
74x

20.8%
Cost-to-Income ratio

From BB+ to A+ rated company

Diversified
Banking Group

c. 4000%
*Total Shareholder Return**

Revenue Growth
100x

New Profit Growth
120x

Industry-leading Return on Assets

10%
Loan market share

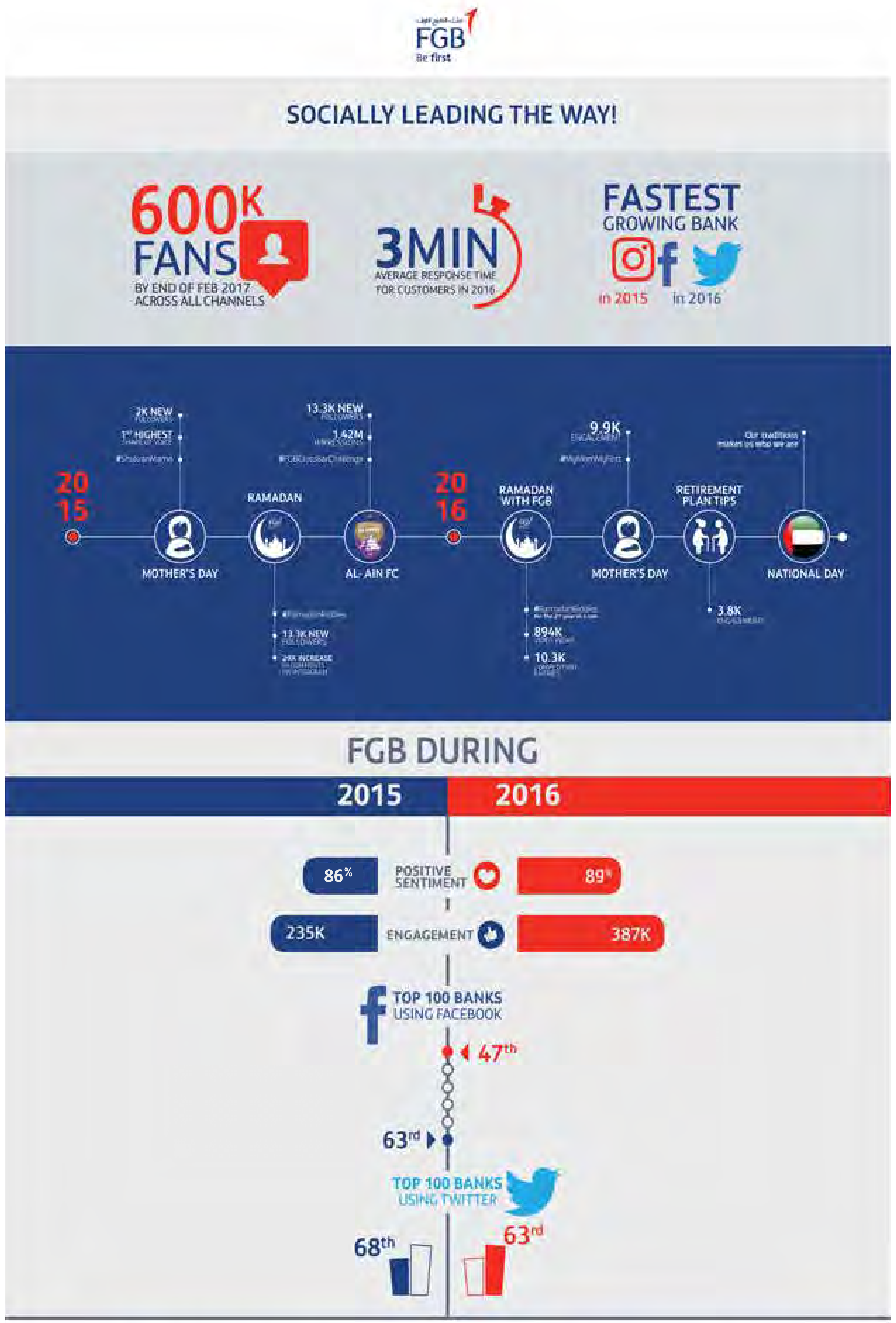
Leading Retail franchise

Presence in
7 countries

AED 21Bn
National Housing Loan Program

*Since listing of FGB shares on ADX in June 2002

SOCIAL MEDIA ACHIEVEMENT



It's been an amazing journey where we set new benchmarks in the social space, while evolving socially along the way. And on our 2nd anniversary, we reaffirm our commitment to continue delivering memorable moments on social media.

Creating the largest bank in the UAE

The merger of FGB and NBAD will create a bank with the financial strength, expertise, and global network to support the UAE's economic ambitions at home and drive the country's growing international business relationships.

AED 671bn Total Assets ($ 183bn)	AED 98bn Equity ($ 27bn)	country presence outside UAE = 19
16.5%[1] Tier-1 ratio	89% Loan to deposits ratio	AED 110bn Market cap* ($ 30bn)

[1] After considering proposed dividends of AED 2.3bn for NBAD and AED 4.5bn for FGB, to be approved at banks' respective AGMs on 28 February 2017

* Based on 31 December 2016 closing prices

A transformational merger of equals

The merger of First Gulf Bank (FGB) and National Bank of Abu Dhabi (NBAD) will create the largest bank in the UAE with approximately AED 671bn ($ 183bn) of assets, representing a 27% share of the UAE banking sector.

In combining two highly complementary, best-in-class consumer and wholesale businesses, the new bank will deliver significant benefits to employees, customers and investors. The merger creates a financial powerhouse with the capital strength, expertise and global network to cultivate UAE's business environment, while also supporting the country's relationships around the world.

Meanwhile, the integration of two banks affords substantial opportunities for cost savings and the realisation of synergies through the consolidation of common business functions and the ability to cross-sell an enhanced suite of banking products and services.

Formidable leadership team

The new bank's Board of Directors, which will preserve the highest standards of Corporate Governance at the new bank, has been drawn from the current Boards of FGB and NBAD, with H.H. Sheikh Tahnoon bin Zayed Al Nahyan appointed as Chairman Designate. Led by Abdulhamid M. Saeed, Chief Executive Officer Designate, the combined bank's executive management comprises a mixture of current NBAD and FGB executives with the strength and experience to take advantage of sustainable growth opportunities in both the UAE and international markets.

Cohesive culture

The new bank will have a unified, customer-driven culture, based on shared values of teamwork, empowerment and accountability. The bank can benefit from a strong pool of talent and will have a focus on attracting and developing UAE nationals. Meanwhile, investment into technology, risk management, compliance and governance, as well as in consumer digital platforms, will ensure that the bank is internationally competitive and able to serve the needs of an increasingly sophisticated client base.

A transformational merger of equals

The merger of First Gulf Bank (FGB) and National Bank of Abu Dhabi (NBAD) will create the largest bank in the UAE with approximately AED 671bn ($ 183bn) of assets, representing a 27% share of the UAE banking sector.

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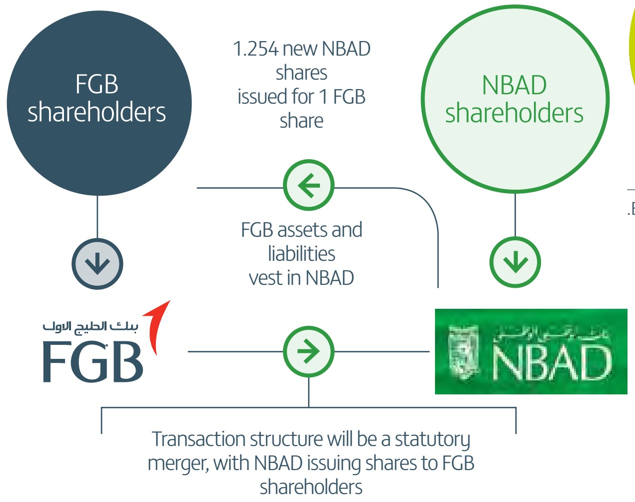
Merger process



Well-diversified business

Gross loans mix by counterparty

AED 365bn

($ 99bn)

Financial institutions	6%
Government	21%
Corporate	46%
Consumer	27%

Operating income by customer type

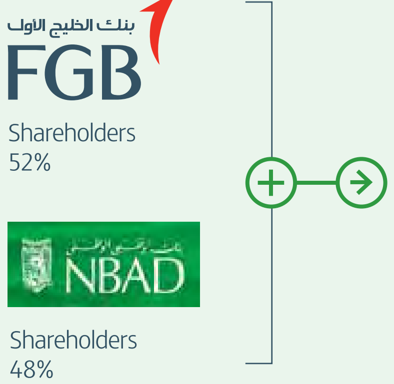
AED 20bn

($ 6bn)

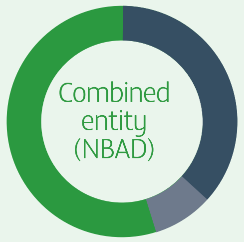
Corporate	45%
Consumer	37%
Wealth	5%
Other	13%

.Based on company information and pro forma financials as of 31 December 2016

Post-merger structure



Post-merger shareholding structure



ADIC	33.2%
Mubadala	3.7%
Free float	63.1%

Benefits to stakeholders

1. Creates No. 1 bank in the UAE by assets, internationally connected for its target clients
2. Combination of best in-class consumer and wholesale businesses and potential for growth in global wealth
3. Fit for the changing regulatory landscape
4. Efficiency through cost and revenue synergies
5. Enhanced capacity through capital consolidation and strong core liquidity to capture strategic growth opportunities

Board of Directors / Executive Leadership

Chairman
H.H. Sheikh Tahnoon Bin Zayed Al Nahyan

Vice Chairman
H.E. Nasser Ahmed Alsowaidi

Board Members
H.E. Sheikh Mohammed Bin Saif Bin Mohammed Al Nahyan
H.E. Khaldoon Khalifa Al Mubarak
H.E. Sheikh Ahmed Mohammed Sultan Al Dhaheri
H.E. Mohammed Thani Al-Romaithi
Mr. Khalifa Sultan Al Suwaidi
Mr. Jassim Mohammed Al Siddiqi
Mr. Mohamed Saif Al Suwaidi

Executive Leadership
Abdulhamid M. Saeed – Chief Executive Officer
James Burdett – Chief Financial Officer
Zulfiqar Sulaiman – Chief Integration Officer

Timeline

3Q-16
- 3 July 2016 merger announcement
- Appointment of Chief Integration Officer (CIO)
- Appointment of external consultants
- Integration Steering Committee (ISC) and Integration Management Office (IMO) established

4Q-16
- Appointment of Senior Leadership team
- 23 October: Publication of Shareholder Circular
- 7 December: General Assembly Meetings

  NBAD and FGB shareholders approve the merger
- 11 December: Filing of Special Resolution

1Q-17
- Creditor objection period completed
- Effective date of merger

Read more about the merger on www.bankfortheuae.com

CORPORATE GOVERNANCE REPORT

FGB CORPORATE GOVERNANCE REPORT

Introduction

First Gulf Bank Group ('FGB' or 'the company' or 'the bank') recognises that a well-considered and established corporate governance framework helps improve decision making and also helps ensure better relations with stakeholders through improved transparency and better quality disclosures. FGB is committed to high standards of corporate governance, business integrity and professionalism. Its developing corporate governance framework is aligned with the company's strategic objectives and reflects best practice and applicable regulatory guidelines, including those of the Central Bank of the UAE (CBUAE) and its other regulators. The framework includes a strong, ethical code of conduct which all employees of the company must be aware of and comply with.

FGB is governed by a framework of boards and committees. The FGB Board is the principal decision-making forum for the company and it has overall responsibility for directing, leading and controlling the company. The company's corporate governance framework was reviewed and approved by the Board in 2016 and it sets out a clear responsibility structure for the Board and Board Directors; Board Committees; the Executive Committee and its supporting Management Committees; and the organisation's support and control functions. This framework has been documented in the company's Corporate Governance manual which is reviewed and updated on an ongoing basis and approved at Board level at least annually.

High-level overview of the FGB corporate governance structure

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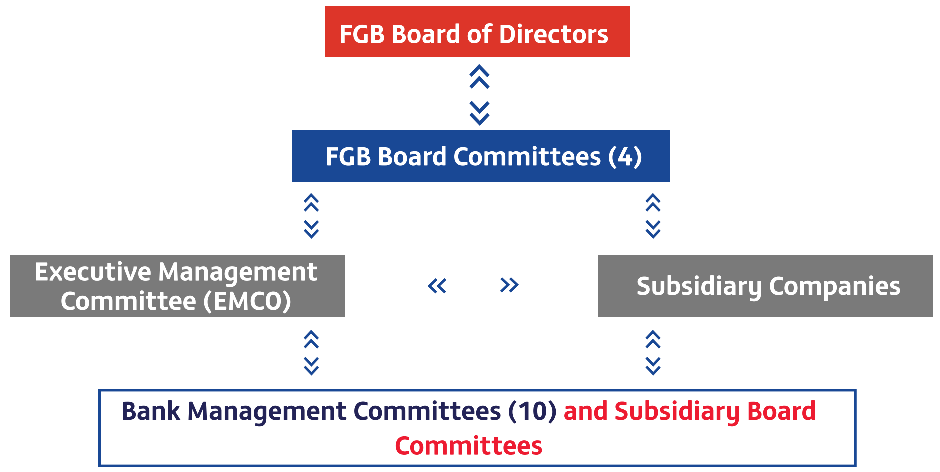

* Indicates flow of information and not reporting lines « »
** The bank also operates a Shariah Supervisory Board which advises all relevant parts of the FGB business on key aspects of its Islmaic Banking activities (more details are included later in this report).

The Board of Directors

1. H.H Sheikh Tahnoon Bin Zayed Al Nahyan (Chairman of Board of Directors) (Non-Executive)

External Appointments:
- Head of the National Security Council
- Chairman of Presidential Flight Authority
- Chairman of Royal Group

2. Ahmed Ali Al Sayegh (Vice Chairman and Board member) (Non-Executive)

External Appointments:
- Chairman of Abu Dhabi Global Market
- Managing Director of Dolphin Energy
- Board member of Etihad Airways

3. Abdulhamid Mohammed Saeed (Managing Director and Board member) (Executive)

External Appointments:
- Board member of Emirates Investment Authority
- Board member of Mubadala Development Company

4. Khaldoon Khalifa Al Mubarak (Board member) (Non-Executive)

External Appointments:
- Group CEO and MD of Mubadala Investment Company
- Chairman of Abu Dhabi Executive Affairs Authority
- Chairman of Emirates Nuclear Energy Corporation
- Chairman of Emirates Global Aluminium
- Member of Abu Dhabi Executive Council
- Member of Supreme Petroleum Council

5. Sultan Khalfan Al Ketbi (Board member) (Non-Executive)

External Appointments:
- Vice Chairman of Al Ain Holdings

6. Mohammed Saif Al Suwaidi (Board member) (Non-Executive)

External Appointments:
- Director General of Abu Dhabi Fund for Development
- Board Vice Chairman of Al Masraf (ARBIFT)
- Chairman of Al Ain Farms for Livestock Production
- Board member of the Centre of Food Security of Abu Dhabi
- Board member DP World

7. Jassim Alseddiqi (Board member) (Non-Executive)

External Appointments:
- MD and CEO of Abu Dhabi Financial Group
- Chairman of SHUAA Capital
- Chairman of Integrated Capital
- Chairman of Integrated Securities
- Board member Tourism and Development Investment Company
- Board member Qannas Investments Limited
- Board member Northacre Plc

Responsibilities of the Board of Directors

The Board of Directors is the principal decision-making forum for the company and its responsibilities include approving the company's strategy; setting its risk appetite and risk management strategy; monitoring financial performance; establishing the corporate governance framework; and approving the company's corporate values. The Board is also responsible for providing oversight and challenge of senior management across a range of matters including its execution of the agreed strategy and for Board and executive management succession planning. The Board met 5 times in 2016 and it met again in January 2017 to review a range of matters including the company's annual financial performance in 2016.

The role of Board Committees

Board Committees play a crucial part of the decision making process and they help support the Board in the execution of its responsibilities. These specialist committees help share the Board's workload and the detailed involvement of Board members allows them to get closer to the business, its activities and the bank's control framework. Relevant matters are referred by these committees to the Board. The company's Board Committees are:

- the Audit Committee;
- the Risk and Compliance Committee;
- the Executive Committee; and
- the Remuneration and Nominations Committee.

Board Committees

1. Board Audit Committee: FGB has an Audit Committee ("AC") composed of 3 Board members including the Managing Director of the Bank. The majority of the members of the AC are independent directors including the Chairman of the committee. Along with other Board members, the AC also comprises the Head of the Internal Audit function of the Bank. The members of the AC hold office until the next Annual General Meeting ("AGM") and are eligible for reappointment. AC is responsible for overseeing the Group's financial reporting process, system of internal control, audit process, as well as reviewing the Bank's process for monitoring compliance with laws and regulations.

During 2016, the committee continued to leverage on the Audit Committee Charter, Internal Audit Charter and the bank's Group Internal Audit Manual which was revised to better align with newer challenges and updates within the Internal Audit Domain and International Standards for the Professional Practice of Internal Auditing. Further, the committee continued to monitor and follow up on several initiatives that were proposed through external Quality Assessment Review of the Internal Audit function in line with industry best practices and also endorsed bank's Risk Based Audit Plan, its operating model, budget and resource requirements.

A range of internal and external factors including increased industry fraud risk and other threats were key contributors in shaping the focus of committee discussions. Management was encouraged to lift the control culture of employees through regular training and development programmes in order to enhance fraud awareness as a sustainable deterrence. There was also regular coverage of asset quality matters, provisioning levels and monitoring of both the Wholesale Banking and Consumer Banking loan books. Increased cyber-security threats and tighter security regulations lead to the committee's focus on increased coverage of technology and information security audit engagements. Additionally, strong focus was maintained on increasing the coverage of international branches, subsidiaries and risk management functions in order to provide the committee with an acceptable level of assurance on overall controls, levels of compliance and the governance of these operations.

The committee also met with the External Auditor to discuss the key findings and themes identified through its work; all relevant matters pertaining to the quantitative and qualitative aspects of the bank's financial results including financial statement disclosures; and other matters relevant to its engagement.

2. Board Risk and Compliance Management Committee: FGB has a Risk and Compliance Management Committee (RCMC) composed of 3 Board members including the Managing Director of the Bank. The majority of RCMC members are independent directors, including the Chairman of the committee and this helps ensure there is rigour in the committee's challenge to business management across a wide range of risk issues. Along with other Board members, the RCMC also comprises the FGB Chief Risk Officer (GCRO). RCMC is responsible for oversight of the effectiveness of the way in which risks are identified, controlled and managed on an enterprise wide basis and for ensuring the adequacy of the risk management system. The committee also ensures FGB's compliance with applicable laws and regulatory guidelines.

It was a busy and demanding year for the committee, not least given the challenges, risks and opportunities posed by the continued impact of depressed oil revenues and a range of other global macroeconomic factors. These issues have been the subject of frequent discussion and debate by the committee and particularly their impact on the bank's approach to its risk management strategy, its risk appetite framework and the quantity and quality of its risk management staff. It also regularly reviewed and discussed a range of key risk indicators across the bank. The Committee considered a wide variety of other issues during the year including:

- the bank's capital, liquidity and funding profile and performance against regulatory requirements and benchmarks;
- the shape and construct of its liability portfolio; non-performing loans; and levels of credit provisions;
- global and regional economic scenario and initiatives planned/undertaken by the bank to ensure alignment with strategic goals;
- the bank's risk profile on an overall basis and the risk profile of various business lines and Group entities;
- the bank's approach to asset and liability management;
- the increased level of information security, cyber-risk and fraud threats facing the banking industry; and
- imbedding and making fully operational, the bank's updated corporate governance framework.

3. Board Executive Committee: FGB Group has an Executive Committee (EC) composed of 3 Board members including the Managing Director of the Bank. The majority of the members of the EC are independent directors. The EC on behalf of the Board is responsible for overseeing the regular business of FGB Group. Along with the Board members, EC also comprises CEO of FGB. The EC oversees FGB's overall management and ensures that the business policies and practices are in line with Bank's business interests and are in alignment with sound corporate governance and compliance standards including provisions of the CBUAE.

The committee's work during 2016 included regular oversight and monitoring of material credit exposures and satisfying itself that exposures operated within the bank's approved credit risk appetite framework. Working closely with the External Auditors, the EC also conducted a number of reviews of the bank's financial performance prior to referral of these to the bank's Board of Directors. The EC also considered a range of matters leading to the merger with the National Bank of Abu Dhabi ('NBAD'); plans and preparations for the company's Annual General Meeting; and a number of issues related to the bank's capital raising activities.

4. Board Remuneration and Nomination Committee: FGB has Remuneration and Nomination Committee (REMCO) composed of 3 Board members with a majority of the members being Independent directors including the Chairman of the committee. Along with other Board members, the REMCO also comprises the CEO and the Head of Human Resources. The committee is responsible for recommending to the Board the appointment/termination of directors and where appropriate senior management of FGB and to ensure that there is a smooth succession process. The committee is also responsible for the oversight and approval of the rewards design methodology consistent with FGB's culture, values, business performance and risk strategy.

The following key issues were considered by the committee in 2016. A review of:

- the bank's Reward Strategy with a particular focus on key initiatives for 2016;
- performance based variable compensation for the performance year 2015;
- the bank's Balanced Scorecard performance (including key people based objectives); and
- the bank's succession plan.

Board Committee Charters

The charter of each of the Board Committees is included in the bank's Corporate Governance manual. The Committee charters provide the details of the roles and responsibilities of each of the committees along with the frequency of meetings, quorum requirements for each committee, membership details and the Chairman, vice Chairman and Secretary of the Committee.

Board Committee Membership

Membership details of the Board Committees are set out below:

Board Committees		*REMCO*	*MC*	*RCMC*	*AC*
H. H. Sh. Tahnoon Bin Zayed Al Nahyan	*Chairman*				
Ahmed Ali Al Sayegh	*Vice Chairman*				
Abdulhamid Mohammed Saeed	*MD & Board Member*				
Khaldoon Khalifa Al Mubarak	*Board Member*				
Sultan Khalfan Al Ketbi	*Board Member*				
Mohamed Saif Al Suwaidi	*Board Member*				
Jassim Alseddiqi	*Board Member*				
FGB Management Members		*+2*	*+1*	*+1*	*+1*

Board Remuneration:

As defined under the relevant UAE law, the annual remuneration of a Board of Directors can be up to 10% of a company's annual net profit. Board of Directors' remuneration paid in 2015 was AED 45M, which was 0.75% of the bank's 2015 annual net profit. Board of Director remuneration for 2016 is expected to be at a similar percentage level to that of 2015 and full details will be put to the bank's shareholders at its Annual General Meeting (AGM) in Abu Dhabi on 28th February 2017. Final remuneration information was not available at the time this report was finalised.

The role of executive management and management committees

There is a clear division of responsibilities at the head of the company between the running of the Board and the executive team's responsibility for day-to-day management of the bank's business. The role of the CEO and the executive management team is to execute the agreed business strategy within the agreed risk appetite. It is also the responsibility of the executive team to develop a mechanism by which the company's vision, values and behaviours are successfully shared, communicated and imbedded in the business. Much of this is achieved through the work of the Executive Management Committee and its Management Committees.

The executive management team is also responsible for timely and accurate reporting to the Board and Board Committees and for the escalation of appropriate information or items.

FGB's Executive Management team

Mr. André Sayegh – Chief Executive Officer

André Sayegh joined FGB as Chief Operating Officer in 1999, responsible for Corporate Banking, Credit, Risk and Legal, Operations and Human Resources. He was appointed CEO of FGB in 2006. Together with Abdulhamid Seed, FGB's Managing Director, André transformed the organisation from a small BB+ rated bank to an A+ large diversified banking group. His previous experience includes senior positions at Citibank within the Corporate Banking, Consumer Bank and Private Banking Departments, the Arab Bank in Lebanon and Strategic Business Trends in Canada. André is fluent in Arabic, English and French. He holds a BBA in Finance and an MBA in Corporate Finance and Banking from the American University of Beirut, Lebanon.

Mr. Arif Shaikh – Group Chief Risk Officer

Arif Shaikh is the Senior Executive Vice President - Group Chief Risk Officer at First Gulf Bank (FGB); he is part of the initial team at FGB which transformed FGB into the No.1 bank in the UAE. Apart from the Group Risk and Compliance Function he is also in-charge of the Group Legal function, the Strategic Business Review function and the overall Corporate Governance of the bank. He has set up the Enterprise Risk Management function at FGB from scratch and has developed the current risk framework in the bank. Mr. Shaikh is a member of all the key committees in the bank and sits on the Board of Dubai First, Aseel Islamic Finance, First Gulf Libyan Bank and FGB subsidiaries in the real estate business. He has 30 plus years of work experience with large MNC banks, consultancy firms and FGB. Mr. Shaikh holds a Bachelor's Degree in Commerce, Bachelor's Degree in Law and is also a member of the Indian Institute of Chartered Accountants and the Indian Institute of Bankers

Mr. Karim Karoui – Chief Financial Officer

Karim Karoui is a key member of FGB's leadership team and enjoys over 23 years of banking experience, including 15 years at FGB and 8 years with Citibank. He is a member of the majority of the group's management committees and he has been a key contributor in the transformation of the organisation and building a strong reputation for FGB within the international investor and analyst community. Karim holds a master's degree in accounting from IHEC Carthage (Tunisia) and is board member of three of the Bank's subsidiaries: Aseel Islamic Finance (Vice Chairman; Dubai First (Vice Chairman); and First Gulf Libyan Bank where he is a Board Member.

Ms. Hana Al Rostamani - Head of Consumer Banking Group

Hana Al Rostamani has more than 16 years of experience in the field of banking and financial services. She is currently the Head of the Consumer Banking Group at FGB and prior to this she was Head of Strategy and Planning where she shaped the strategic direction of the Bank. Hana has a master's degree in Information Management from the George Washington University, UAE. In 2012 she was appointed Chairperson of the boards of Aseel Finance Company and Dubai First.

Ms. Sara Al Binali – Head of Strategy & Planning

Sara Al Binali is the bank's Head of Strategy and Planning responsible for defining and developing the strategic direction of the Bank. Prior to this role, Sara was a member of the International Business Group which oversaw the international expansion of the bank and successfully set up branches in Singapore and Qatar as well as Representative Offices in India, Hong Kong and Korea in addition to the joint venture in Libya. With over 16 years of experience in the financial services field, Sara is a graduate of Northwestern University, USA where she earned a bachelor's degree in Economics. Sara has worked in various roles at Abu Dhabi Investment Authority (ADIA) for over 5 years before joining FGB in 2004. She is also a Chartered Financial Analyst. Sara is a board member of First Gulf Libyan Bank.

Mr. Shirish Bhide, Acting Head of Wholesale and International Banking

Shirish Bhide is a career banker with around 26 years of experience in the banking industry. Shirish worked with Citibank in India and Africa for over 18 years in various leadership roles across the Consumer and Corporate segments. He left India in early 2003 to head up the Citibank's NPC & Corporate business across 32 countries in sub-Saharan Africa and was based out of South Africa. Shirish joined The National Commercial Bank in Jeddah (Kingdom of Saudi Arabia) in 2009 as its Head of Risk Management and was in charge of overseeing risk for all its international businesses, including its subsidiary in Turkey for almost 4 years. Shirish has been at FGB since March 2013 as the Chief Credit Officer. He holds post graduate degrees in Business Administration and Accounting & Finance from The London School of Economics and University of Poona (India).

Mr. Jasim Al Ali- Chief Executive Officer of First Gulf Properties (FGP) & Mismak Properties

Jasim Al Ali is the Chief Executive Officer of First Gulf Properties L.L.C. and Mismak Properties L.L.C, possessing extensive experience in asset management and a passion for service excellence. Since joining FGB, he has helped drive the vision of seeing FGP establish itself as a leading provider of high caliber and professional real estate solutions. Jasim is also Chairman of Green Emirates Properties P.S.C. and a Board Member at Aseel Islamic Finance and Dubai First. In December 2016, he was appointed to the Board of Directors of Shuaa Capital P.S.C. Prior to joining FGB, Jasim held senior roles in DP World and played a key leadership role in Dubai Properties Group. He completed his education in prominent institutions in US and UK, and attained an MBA from the University of Leicester, UK.

Mr. T G Ramani – Acting Head of Treasury & Global Markets

Mr. T.G. Ramani is the Executive Vice President & Head of Treasury and Global Markets at FGB. He has been with the bank for 15 years and currently heads the Treasury and Global Markets division of the Group, covering areas of Investments and Fixed Income, Asset and Liability Management and Money Market. Prior to this he was in-charge of the Risk Management Division of the bank for 11 years. The bank, its branches and subsidiaries have an enterprise-wide risk management structure covering credit risk, market risk, operational risk, compliance, asset and liability management and Basel II. Mr. Ramani is a member of most of the management committees at FGB. He started his career as a Management Trainee in the Bank of India and now has over 25 years of banking experience in different countries. Mr. Ramani is a Post Graduate in Economics and a qualified Financial Risk Manager from the Global Association of Risk Professionals in the USA.

Mr. Melvin Fraser, Acting Head of Human Resources.

Melvin Fraser was appointed as acting Head of Human Resources in July 2016. He joined FGB in September 2014 as Head of Resourcing and Development coming from KCS, a corporate services company based in Hong Kong, where he was the Group HR Director for two years. Prior to this, he worked for HSBC for 12 years in Asia and the Middle East in a number of senior roles including Organisation Development, Employee Relations and Reward. Melvin is an Honours graduate from the University of Aberdeen, United Kingdom, holds a Post Graduate Diploma in Personnel Management from the Robert Gordon's University, United Kingdom and is a member of the Chartered Institute of Personnel & Development (UK). He began his career in Scotland and has also worked in Al Ain and Dubai in the United Arab Emirates prior to his move to Hong Kong.

Mr. Rajesh Deshpande, Acting Head of Wholesale Credit

Rajesh Deshpande is a career banker with over 23 years of experience in the sector. His experience covers relationship management, product and particularly project finance, structured finance, leverage finance and private equity. Specifically in the Middle East, Rajesh has led structuring teams on several landmark project financing and leverage finance transactions. Within FGB, key responsibilities include managing and mitigating credit risk in the balance sheet, providing credit approvals, credit administration services and implementing credit policy Group wide. Prior to joining FGB, Rajesh worked with the National Commercial Bank, Gulf International Bank and Abu Dhabi Commercial Bank. Rajesh holds a Chartered Accountancy degree from The Institute of Chartered Accountants of India and completed his MBA from the Manchester Business School, UK.

Mr. K K S Nurendra Perera – Head of Group Internal Audit

K K S Nurendra Perera joined FGB in 2001 as Deputy Head of Internal Audit and has been Head of Group Internal Audit at the bank since 2007. He has 30 years of banking experience and was previously with the National Bank of Umm Al Quwain, Sampath Bank and Commercial Bank plc in both the UAE and Sri Lanka. He has a Master's Degree in Business Administration with a specialisation in Finance and is a Certified Internal Auditor and Certified Financial Services Auditor holding the following certifications: CIA, CFSA and CRMA from IIA USA, CISA and CRISC from ISACA USA and CIB from the UK. Nurendra is a permanent invitee/observer to FGB's Executive Management Committee and sits on the bank's Board Audit Committee.

Bank Management Committees

FGB has 10 management committees, including and headed by the Executive Management Committee. This management committee structure helps drive senior level management decision making within the company across a range of matters including the management of strategic; financial; capital; risk; operational; and people issues affecting FGB. The composition, guiding principles and detailed roles and responsibilities of all FGB's management committees are set out in their respective charters. More details on the role and responsibilities of each of the management committees are set out below.

1. Executive Management Committee

The Executive Management Committee (EMCO) is FGB's most senior management level committee and it operates under a delegated authority from the FGB Board. It reviews and debates relevant items before they are submitted to the FGB Board and relevant Board Committees. The EMCO also supports the CEO to determine and implement the Bank's strategy as approved by the Board. The key responsibilities of EMCO include decisions on the Bank's strategy, annual budgets, capital management, risk management and FGB's more material policies and procedures. The Head of Internal Audit is a permanent non-voting attendee at EMCO meetings. The Managing Director has free right of attendance and has full Member voting rights.

During 2016 the EMCO considered a range of issues including regular reviews of performance; a number of strategic initiatives; the bank's operating model; its people and leadership strategy; balance sheet management and control issues; and business project governance. The EMCO formally met 14 times in 2016 and these meetings were supported by a number of separate leadership and strategy sessions. In the second half of the year, the Committee dedicated a considerable amount of its time on the merger between FGB and the National Bank of Abu Dhabi ('NBAD') and in particular integration governance and activity. Please see the later section of this report.

In light of the agreed merger between FGB and the National Bank of Abu Dhabi which was approved by the respective banks' Board of Directors in July 2016, a formal performance effectiveness evaluation of the EMCO was not undertaken in 2016. However, the formal recommendations from the 2015 review were successfully completed and implemented during the course of 2016.

2. Wholesale Banking Credit Committee

The Bank has a management level Wholesale Banking Credit Committee (WBCC) which assists the EMCO put into operation the wholesale credit risk strategy and policies and procedures pertaining to the wholesale banking business. The primary objective of the WBCC is to assist in the development and implementation of wholesale banking business' credit strategy and policies and procedures. The committee met 9 times during 2016.

3. Consumer Banking Credit Committee

The Bank has a management level Consumer Banking Credit Committee (CBCC) which assists the EMCO put into operation the consumer and small business banking credit strategy and policies and procedures. The primary objectives of the CBCC include approving the consumer and small business banking credit criteria, and set portfolio level limits in line with the defined business and the credit risk strategy of the Bank.

4. Asset and Liability Management Committee

The Bank has a management level Asset and Liability Management Committee (ALCO) to assist the EMCO in fulfilling its responsibility to oversee the Bank's asset and liability management (ALM) related responsibilities. The objective of the ALCO is to identify, manage and control FGB's balance sheet risks in executing its business strategy while ensuring it has adequate levels of liquidity. The committee met 10 times during 2016.

5. Compliance Committee

The Bank has a management level Compliance Committee (CC) to assist the EMCO in fulfilling its objective of overseeing the Bank's regulatory and compliance responsibilities. The committee oversees the Bank's compliance with respect to legal and regulatory requirements and relevant policies and procedures including code of ethics and matters relating to operating and non-operating financial risk. It also ensures the Bank's compliance with Anti Money Laundering (AML) and other relevant legislation issued by UAE Central Bank and/or Securities and Commodities Authority and/or other regulatory authorities, as applicable. The committee met 11 times during 2016.

6. Operational Risk Committee

The Bank has a management level Operational Risk Committee (ORC) to assist the EMCO in fulfilling its objective of overseeing the Bank's Operational Risk Management, Business Continuity and Information Security responsibilities. Responsibility areas for ORC include management and reporting of the Bank's operational risk profile, ratifying information security policy and procedures, integrated business continuity management policy and business recovery strategy of the Bank. The committee met 9 times during 2016.

7. Investment Management Committee

The Bank has a management level Investment Management Committee (IMCO) for overseeing and providing guidance in respect of the Bank's Treasury and Global Markets' trading and investment activities. IMCO approves the exposure and Risk Limits Framework for the trading and investment activities with the approval of the Board Executive Committee. IMCO also ensures effective management of market risks in accordance with the principles laid down in the FGB Market Risk Management Policy. The committee met 8 times during 2016.

8. Technology Steering Committee

The Bank has a management level Technology Steering Committee (TSC) to assist the EMCO in fulfilling its responsibilities related to setting of Information Technology (IT) related strategic goals and for successful implementation of the strategic IT objectives. TSC ensures the alignment of the IT strategy with the Bank's business strategy and to support successful implementation of the IT strategy. The committee met 7 times during 2016.

9. Human Resources Steering Committee

The Bank has a management level Human Resources Steering Committee (HRSC) to assist the EMCO in fulfilling its responsibilities related to the material human resource policies applicable to the Bank's staff. The objectives of the committee include implementation of recommendations made by the REMCO regarding compensation, benefits, rewards, working environment, employee contracts, terms and conditions and other issues that form part of the Human Resources (HR) strategy. HRSC also has the responsibility to put in place an appropriate whistle blowing policy to enable employees to raise concerns in a responsible and effective manner with a sense of protection. The committee met 7 times during 2016.

10. Real Estate Committee

The Bank has a management level Real Estate Committee (RECO) to assist the EMCO in overseeing and approving the Bank's real estate investment and management activities in line with effective market and liquidity risk management practices and in accordance with the Bank's strategic risk policy. RECO is responsible for providing oversight, guidance and strategic input on the action plans for the Group's real estate investment, review real estate budgets and provide oversight and guidance for real estate investment limits and risk appetite. The committee met 5 times during 2016.

FGB also operates a Business Portfolio Committee (BPC) which has senior representatives from all business areas and functions and whose key responsibilities include the recommendation of business project initiation to the EMCO on a prioritised basis. This governance forum helps ensure that the right business projects and programmes are delivered within the portfolio and these are aligned with FGB's business strategy. The committee met 12 times during 2016 and evaluation of the effectiveness of the BPC was completed in 2016 and recommendations for improvement discussed with and approved by it.

Subsidiary company governance

Dubai First and Aseel Finance are regulated subsidiary companies of FGB and each operates within the company's overarching corporate governance framework. Dubai First and Aseel Finance operate corporate governance arrangements suitable for their business and both have their own Board of Directors and Board Committees. Dubai First has a Board Risk and Compliance Committee, a Board Audit Committee and Board Remuneration and Nominations Committee. Aseel Finance has a Board Risk and Compliance Committee, Board Audit Committee and
Board Management Committee.

To assist guide, direct and challenge senior management of Dubai First and Aseel Finance, the Board Directors consist of senior professionals with substantial banking, finance and risk experience. The Board of Directors of both companies have a majority of UAE Nationals as required under the UAE Commercial Companies Law and FGB is committed to developing the leadership skills of Emiratis. The Board of Dubai First met 4 times in 2016 (as did each of the Board Committees) and the Board of Aseel Finance met 3 times in 2016.

Shariah Governance

Shariah Supervisory Board

The Shariah Supervisory Board (SSB) is the bank's main Shariah governance body comprising of three prominent Shariah Scholars. The SSB operates in accordance with the requirements of the UAE Central Bank and exercises their supervisory authority in accordance with the Islamic Jurisprudence (Fiqh al Muamalat) to ensure that all Islamic banking operations and activities are conducted in line with appropriate Shariah standards. The bank's Islamic Banking operation regulalrly seeks the guidance of the SSB on matters relating to Shariah. There were 4 SSB meetings held in 2016 where more than 60 Shariah approvals and resolutions were issued on various Islamic banking products, services and transactions offered by the Wholesale Banking, Consumer Banking, Treasury and Global Markets and Aseel Finance.

The bank's SSB Members are:

Dr. Mohamed A. Elgari
Dr. Elgari was a former Professor of Islamic Economic at King Abdulaziz University, Jeddah, Saudi Arabia and Former Director of the Center for Research in Islamic Economics at the same university. He is an Expert at the Islamic Jurisprudence Academy of the OIC and the Islamic Jurisprudence Academy of the Islamic World League and a member of the Shariah Council of AAOFI. He is member of editorial board of several academic publications in the field of Islamic Finance and Jurisprudence among them, Journal of the Jurisprudence Academy (of the IWL), Journal of Islamic Economic Studies (IDB), Journal of Islamic Economic (IAIE, London), and the advisory board of Harvard Series in Islamic Law, Harvard Law School. He authored several books in Islamic finance and published tens of articles on the subject both in Arabic and English.

Professor Dr. Abdul Aziz Al Qassar
Prof. Dr. Abdul Aziz Al Qassar is a Professor of Comparative Jurisprudence at the Faculty of Sharia and Islamic Studies at Kuwait University; he received a doctorate degree in comparative jurisprudence from the Faculty of Sharia and Law - Al-Azhar University , Cairo in 1997. As a faculty member at the Faculty of Sharia and Islamic Studies at Kuwait University from 1997 to this time, he served as Associate Dean for Academic Affairs and Graduate Studies and Research at the Faculty of Sharia and Islamic Studies at Kuwait University from the period 2001-2005. Dr Al Qassar is also a lecturer in Islamic finance and has written many research and religious studies items on Islamic jurisprudence and contemporary financial transactions.

Dr. Mohd Daud Bakar
Dr. Daud is the Founder and Group Chairman of Amanie Advisors, a global boutique Shariah advisory firm with offices spread across the globe. Prior to this, he was the deputy vice-chancellor at the International Islamic University Malaysia. He received his first degree in Shariah from University of Kuwait in 1988 and obtained his PhD from University of St. Andrews, Scotland in 1993. In 2002, he completed an external Bachelor of Jurisprudence at University of Malaya. Dr Daud is currently the chairman of the Shariah Advisory Council of the Central Bank of Malaysia, the SACSC and the Shariah Supervisory Council of Labuan Financial Services Authority. He is also a member of the Shariah Board of Dow Jones Islamic Market Index (New York), Oasis Asset Management (Cape Town, South Africa), The National Bank of Oman, Financial Guidance (USA), BNP Paribas (Bahrain), Morgan Stanley (Dubai), Jadwa-Russell Islamic Fund (Kingdom of Saudi Arabia), Bank of London and Middle East (London), Noor Islamic Bank (Dubai), Islamic Bank of Asia (Singapore), and in other financial institutions both local and abroad. Recently, Dr Daud has been honoured with "The Asset Triple A Industry Leadership Award" at The Asset Triple A Islamic Finance Award 2014 by The Asset magazine.

Shariah Governance Framework
The bank's Shariah Governance Framework (SGF) was revised and updated during the course of 2016 and these operate in full compliance with the best practice guidelines issues by the UAE Banks Federation (UBF). The SGF contains the key governing principles pertaining to the Islamic Banking window operations such as appointment of the Shariah Board, the responsibilities of the Head of Islamic Banking, the roles of the Internal Shariah Unit and relevant covenants towards regulatory adherence and the collective accountability of various stakeholders within the SGF.

Application of Shariah non-compliant income collected for 2015
Based on Shariah principles, financial institutions operating Islamic banking business are required to distribute Shariah non-compliant or impure income that is generated while doing business to charity. This includes money collected as penalty or late payment charges from customers. The bank is only allowed to recover some cost incurred and which are directly related to the recovery process.

During 2016, the SSB approved an amount of AED 912,025.86 to be paid to charitable causes as follows:
1. Dubai Autism Center – AED 304,008.62
2. UAE Red Crescent Society– AED 304,008.62
3. Abu Dhabi Centre for Autism – AED 304,008.62

FGB and National Bank of Abu Dhabi Merger

On 3rd July 2016, FGB and National Bank of Abu Dhabi ('NBAD') announced that their respective Boards had voted unanimously to recommend to shareholders a merger of the two banks. The merger was formally approved by shareholders of the respective banks at separate General Assembly meetings held in Abu Dhabi on 7th December 2016. Upon the effective date of the merger, the assets and liabilities of FGB will be automatically vested in NBAD in consideration for the issue of shares in the new NBAD entity to existing FGB shareholders. In addition, all FGB shares will be de-listed from the Abu Dhabi Securities Exchange.

Work on integration of the two banks has been led by Mr Zulfiqar Sulaiman, Chief Integration Officer and strategic oversight and direction of the integration has been provided by an Integration Steering Committee ('ISC') comprising senior executives from both FGB and NBAD. Supporting the ISC is a jointly staffed Integration Management Office ('IMO') which actively supports the individual workstreams identified as being necessary for successful integration.

Though not always specified in detail in the body of this report, a number of both banks' governance Boards and Committees have dedicated substantial time and attention to all aspects of the merger of FGB and NBAD.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FIRST GULF BANK PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of First Gulf Bank PJSC and its subsidiaries (collectively referred to as the "Bank"), which comprise the consolidated balance sheet as at 31 December, 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December, 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Provision for impairment of loans and advances

Accounting for the provision of impairment of loans and advances is an area that requires management of the Bank to make complex and significant judgments. Such areas of judgment include the identification of which loans are considered to be impaired, assessment of the recoverable amount of the loans and advances as well as the size of the impairment loss to be recorded. We have therefore identified provisions for impairment of loans and advances to be a key audit matter. At 31 December 2016, gross loans and advances amounted to AED 161,216,385 thousand against which provisions for impaired loans and advances amounting to AED 4,468,060 thousand were recorded (see note 4).

As set out in the accounting policies, an assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated income statement. In addition, a provision is made to cover collective impairment for specific groups of assets carried at amortised cost, where there is a measurable decrease in estimated future cash flows. Collective impairment provisions are held against loans and advances across all customer segments and are calculated using models based on probabilities of default and loss given defaults as well as Central Bank guidelines.

Our audit response

We assessed and tested the design and operating effectiveness of key controls over the Bank's credit management and monitoring procedures including controls over the timely identification of which loans and advances were impaired and the calculation of the impairment provisions. In addition, we reviewed governance controls applied by management of the Bank such as reviewing the minutes of key meetings held that form part of the approval for provisions of impairment of loans and advances. We determined that we could rely on these controls for the purposes of our audit.

In addition, for a sample of individual loans and advances, we performed a detailed review of these exposures and evaluated management's assessment of the recoverable amount. This included an assessment of the future expected cash flows from customers and assumptions made and comparing estimates to external evidence, where available. This work also involved assessing the work performed by external experts used by the Bank to value the collateral held against the loans and advances selected. Our sample of individual loans and advances included exposures which have been restructured during the year.

For the collective impairment provisions, we obtained an understanding of the methodology used by the Bank to determine the collective impairment provisions, assessed the underlying assumptions and the sufficiency of the data used by management as well as compliance with Central Bank guidelines.

Valuation of complex financial instruments

The valuation of the Bank's financial instruments held at fair value is a key area of focus of our audit. There is a high degree of complexity involved in valuing some of the financial instruments held by the Bank, including derivatives and available for sale investments, and the judgments and estimates made by management to support the valuations are significant.

Our audit response

Our audit work included testing a sample of the valuations and assessing the assumptions used by management to support the valuations. A particular area of focus of our audit has been in testing the valuation of the more illiquid financial instruments disclosed as level 3 instruments in the fair value hierarchy, which amounted to AED 1,683,720 thousand as of 31 December 2016 (see note 33). This work included our valuation specialists independently valuing a sample of financial instruments using alternative valuation techniques and source data, comparing the results to the Bank's results, and understanding and assessing the reasons for any significant differences.

Merger with NBAD

On 7 December 2016, the shareholders of the Bank and National Bank of Abu Dhabi PJSC (NBAD) approved the merger between both banks and for NBAD to become the legal successor of the Bank in all its rights and obligations on the effective date of the merger, subsequent to 31 December 2016. Management assessed the terms of the merger and concluded that no adjustments are required to the amounts of assets and liabilities recognised in the accompanying consolidated financial statements. Disclosures relating to the merger are set out in note 35.

Our audit response

We reviewed the resolutions adopted by the shareholders and the terms of the merger and assessed whether under IFRS the Bank is required to adjust the amounts recognised in its conolidated financial statements.

Other information included in the Bank's 2016 Annual Report

Other information consists of the information included in the Annual Report and the Chairman's report, other than the consolidated financial statements and our auditor›s report thereon. We obtained the Chairman's Report prior to the date of our audit report, and we expect to obtain the other sections of the Annual Report after the date of our auditor's opinion. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs and in compliance with the applicable provisions of the Articles of Association of the Bank and 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. In preparing the consolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

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

iii. The Bank has maintained proper books of account;

iv. The consolidated financial information included in the Chairman's report is consistent with the books of account and records of the Bank;

v. Investments in shares and stocks are included in note 5 to the consolidated financial statements and include purchases and investments made by the Bank during the year ended 31 December 2016;

vi. Note 28 reflects the disclosures relating to related party transactions and the terms under which they were conducted;

vii. Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2016, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its consolidated financial position as at 31 December 2016.

Signed by

Andre Kasparian
اندريه كاسباريان
Partner
Ernst & Young
Registration No. 365

31 January 2017
Abu Dhabi

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

	Notes	2016 AED 000	2015 AED 000	2016 US$ 000	2015 US$ 000
Assets					
Cash and balances with Central Banks	3	**24,777,953**	21,075,886	**6,745,971**	5,738,058
Due from banks and financial institutions	27	**17,415,706**	15,096,847	**4,741,548**	4,110,222
Loans and advances	4	**156,748,325**	149,766,060	**42,675,830**	40,774,860
Investments	5	**29,272,993**	22,692,143	**7,969,778**	6,178,095
Investment in associates	6	**40,030**	39,551	**10,898**	10,768
Investment properties	7	**6,422,502**	8,242,190	**1,748,571**	2,243,994
Other assets	8	**8,902,500**	9,097,964	**2,423,769**	2,476,984
Property and equipment	9	**1,528,255**	1,485,732	**416,078**	404,501
Total assets		**245,108,264**	227,496,373	**66,732,443**	61,937,482
Liabilities					
Due to banks	10	**22,163,763**	17,883,112	**6,034,240**	4,868,803
Customers' deposits	11	**149,233,883**	142,462,563	**40,629,971**	38,786,432
Euro Commercial Paper	12	**10,016,916**	2,834,808	**2,727,176**	771,796
Term loans	13	**16,666,304**	15,857,504	**4,537,518**	4,317,317
Sukuk financing instruments	14	**1,836,500**	4,223,950	**500,000**	1,150,000
Other liabilities	15	**7,533,926**	7,930,365	**2,051,164**	2,159,097
Total liabilities		**207,451,292**	191,192,302	**56,480,069**	52,053,445
Equity					
Equity attributable to equity holders of the Bank					
Share capital	17	**4,500,000**	4,500,000	**1,225,157**	1,225,157
Capital notes	18	**4,000,000**	4,000,000	**1,089,028**	1,089,028
Legal reserve	19	**8,780,110**	8,780,110	**2,390,446**	2,390,446
Special reserve	19	**2,250,000**	2,250,000	**612,578**	612,578
General reserve	19	**120,000**	120,000	**32,671**	32,671
Revaluation reserve	9	**280,601**	280,601	**76,395**	76,395
Proposed cash dividends	19	**4,500,000**	4,500,000	**1,225,157**	1,225,157
Retained earnings		**12,469,016**	11,132,046	**3,394,777**	3,030,778
Cumulative changes in fair values		**412,790**	410,638	**112,385**	111,799
Foreign currency translation reserve		**(88,327)**	(69,763)	**(24,048)**	(18,994)
		37,224,190	35,903,632	**10,134,546**	9,775,015
Non-controlling interests		**432,782**	400,439	**117,828**	109,022
Total equity		**37,656,972**	36,304,071	**10,252,374**	9,884,037
Total equity and liabilities		**245,108,264**	227,496,373	**66,732,443**	61,937,482

Tahnoon Bin Zayed Al Nahyan	**Abdulhamid Saeed**	**Andre Sayegh**
طحنون بن زايد آل نهيان	عبد الحميد سعيد	أندريه الصايغ
Chairman	Managing Director	Chief Executive Officer

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2016

	Notes	2016 AED 000	2015 AED 000	2016 US$ 000	2015 US$ 000
Interest income and income from Islamic financing	20	**8,545,672**	8,289,779	**2,326,619**	2,256,950
Interest expense and Islamic financing expense	21	**(2,159,780)**	(1,860,328)	**(588,015)**	(506,487)
NET INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING		**6,385,892**	6,429,451	**1,738,604**	1,750,463
Fees and commission income, net	22	**1,848,700**	1,700,445	**503,322**	462,958
Other operating income	23	**1,347,329**	1,302,201	**366,820**	354,533
Share of profit of associates	6	**479**	1,568	**130**	427
OPERATING INCOME		**9,582,400**	9,433,665	**2,608,876**	2,568,381
General and administrative expenses	24	**(1,997,740)**	(1,947,403)	**(543,899)**	(530,194)
PROFIT FROM OPERATIONS BEFORE IMPAIRED ASSETS CHARGE		**7,584,660**	7,486,262	**2,064,977**	2,038,187
Provision for impairment of loans and advances	25	**(1,452,162)**	(1,407,176)	**(395,361)**	(383,114)
Impairment of available for sale investments		**(20,852)**	(46,576)	**(5,677)**	(12,681)
PROFIT FOR THE YEAR BEFORE TAXATION		**6,111,646**	6,032,510	**1,663,939**	1,642,392
Income taxes		**(41,846)**	(13,286)	**(11,393)**	(3,616)
PROFIT FOR THE YEAR		**6,069,800**	6,019,224	**1,652,546**	1,638,776
Profit attributable to:					
Equity holders of the Bank		**6,026,226**	6,006,116	**1,640,683**	1,635,207
Non-controlling interests		**43,574**	13,108	**11,863**	3,569
		6,069,800	6,019,224	**1,652,546**	1,638,776
Basic and diluted earnings per share	26	**AED 1.32**	AED 1.31	**US $ 0.36**	US $ 0.36

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 AED 000	2015 AED 000	2016 US$ 000	2015 US$ 000
PROFIT FOR THE YEAR	**6,069,800**	6,019,224	**1,652,546**	1,638,776
OTHER COMPREHENSIVE INCOME (LOSS):				
Items that will not be reclassified to the consolidated income statement:				
Board of directors remuneration	**(51,000)**	(45,000)	**(13,885)**	(12,252)
Items that may be reclassified subsequently to the consolidated income statement:				
Loss on available for sale investments, net	**(17,258)**	(126,770)	**(4,699)**	(34,514)
Net unrealised gains on cash flow hedges	**19,410**	18,710	**5,284**	5,094
Share of changes recognised directly in associates' equity	**-**	(393)	**-**	(107)
Foreign exchange translation	**(29,795)**	(125,845)	**(8,112)**	(34,262)
	(27,643)	(234,298)	**(7,527)**	(63,789)
Other comprehensive loss for the year	**(78,643)**	(279,298)	**(21,412)**	(76,041)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**5,991,157**	5,739,926	**1,631,134**	1,562,735
Total comprehensive income attributable to:				
Equity holders of the Bank	**5,958,814**	5,782,754	**1,622,329**	1,574,395
Non-controlling interests	**32,343**	(42,828)	**8,805**	(11,660)
	5,991,157	5,739,926	**1,631,134**	1,562,735

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 AED 000	2015 AED 000	2016 US$ 000	2015 US$ 000
OPERATING ACTIVITIES					
Profit for the year before taxation		**6,111,646**	6,032,510	**1,663,939**	1,642,392
Adjustments for:					
Depreciation		**119,860**	102,083	**32,632**	27,793
Amortisation of intangible assets	24	**21,119**	21,918	**5,750**	5,967
Provision for impairment of available for sale investments		**20,852**	46,576	**5,677**	12,681
Gain on sale of an associate		**-**	(15,100)	**-**	(4,111)
Loss on sale of property and equipment	23	**2,519**	864	**686**	235
Provision for impairment of loans and advances	25	**1,452,162**	1,407,176	**395,361**	383,114
Loss (gain) on revaluation of investment properties	23	**5,651**	(548,887)	**1,539**	(149,438)
Gain on sale of investment properties	23	**(550,682)**	(98,099)	**(149,927)**	(26,708)
Gain from investments		**(319,385)**	(134,550)	**(86,955)**	(36,632)
Share of profit of associates	6	**(479)**	(1,568)	**(130)**	(427)
Operating profit before changes in operating assets and liabilities:		**6,863,263**	6,812,923	**1,868,572**	1,854,866
Deposits with banks		**(1,849,394)**	6,564,053	**(503,510)**	1,787,110
Mandatory cash reserve with Central Banks		**(446,139)**	82,673	**(121,465)**	22,509
Loans and advances		**(8,444,994)**	(11,400,434)	**(2,299,209)**	(3,103,848)
Other assets		**973,039**	375,337	**264,916**	102,188
Due to banks		**4,280,651**	5,292,585	**1,165,437**	1,440,943
Customers' deposits		**6,694,550**	1,190,814	**1,822,638**	324,207
Other liabilities		**(1,395,117)**	170,495	**(379,830)**	46,418
Cash from operations		**6,675,859**	9,088,446	**1,817,549**	2,474,393
Directors' remuneration paid		**(45,000)**	(42,500)	**(12,252)**	(11,571)
Net cash from operating activities		**6,630,859**	9,045,946	**1,805,297**	2,462,822
INVESTING ACTIVITIES					
Purchase of investments		**(24,180,933)**	(25,131,152)	**(6,583,429)**	(6,842,132)
Proceeds from redemption and sale of investments		**17,923,922**	19,177,524	**4,879,913**	5,221,216
Purchase of property and equipment	9	**(402,737)**	(409,638)	**(109,648)**	(111,527)
Deposits with Central Banks		**(409,592)**	(1,300,255)	**(111,514)**	(354,004)
Additions to investment properties	7	**(798,856)**	(677,556)	**(217,494)**	(184,469)
Proceeds from sale of investment properties		**3,253,726**	1,396,032	**885,850**	380,079
Proceeds from sale and capital reduction of associate		**-**	113,275	**-**	30,840
Proceeds from sale of property and equipment		**147,683**	63	**40,208**	17
Net cash used in investing activities		**(4,466,787)**	(6,831,707)	**(1,216,114)**	(1,859,980)
FINANCING ACTIVITIES					
Dividends paid	19	**(4,423,230)**	(3,829,385)	**(1,204,255)**	(1,042,577)
Interest on capital notes		**(138,256)**	(128,830)	**(37,641)**	(35,075)
Repayment of Sukuk	14	**(2,387,450)**	-	**(650,000)**	-
Proceeds from issuance of euro commercial paper		**7,182,108**	2,834,808	**1,955,380**	771,796
Movement in term loans		**948,352**	4,105,309	**258,195**	1,117,700
Net cash from financing activities		**1,181,524**	2,981,902	**321,679**	811,844
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,345,596**	5,196,141	**910,862**	1,414,686
Cash and cash equivalents at 1 January		**18,855,192**	13,784,896	**5,133,458**	3,753,034
Net changes in foreign currency translation reserve		**(29,795)**	(125,845)	**(8,112)**	(34,262)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	27	**22,170,993**	18,855,192	**6,036,208**	5,133,458
Operating cash flows from interest and Islamic financing					
Interest and Islamic financing income received		**8,538,326**	**7,892,411**	**2,324,619**	**2,148,764**
Interest and Islamic financing expense paid		**1,952,232**	**2,215,387**	**531,509**	**603,155**

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2016

	Attributable to equity holders of the Bank													
	Share capital AED 000	Capital notes AED 000	Legal reserve AED 000	Special reserve AED 000	General reserve AED 000	Revaluation reserve AED 000	Proposed bonus shares AED 000	Proposed cash dividends AED 000	Retained earnings AED 000	Cumulative changes in fair values AED 000	Foreign currency translation reserve AED 000	Total AED 000	Non-controlling interests AED 000	Total equity AED 000
As of 1 January 2015	3,900,000	4,000,000	8,780,110	1,950,000	120,000	305,851	600,000	3,900,000	10,074,510	519,091	146	34,149,708	587,254	34,736,962
Total comprehensive income for the year	-	-	-	-	-	-	-	-	5,961,116	(108,453)	(69,909)	5,782,754	(42,828)	5,739,926
Transfer to special reserve (note 19)	-	-	-	300,000	-	-	-	-	(300,000)	-	-	-	-	-
Other movement	-	-	-	-	-	(25,250)	-	-	25,250	-	-	-	-	-
Liquidation of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(143,987)	(143,987)
Transfer to dividends payable	-	-	-	-	-	-	-	(3,900,000)	-	-	-	(3,900,000)	-	(3,900,000)
Interest on capital notes (note 18)	-	-	-	-	-	-	-	-	(128,830)	-	-	(128,830)	-	(128,830)
Proposed cash dividends (note 19)	-	-	-	-	-	-	-	4,500,000	(4,500,000)	-	-	-	-	-
Bonus shares issued (note 17)	600,000	-	-	-	-	-	(600,000)	-	-	-	-	-	-	-
As of 1 January 2016	4,500,000	4,000,000	8,780,110	2,250,000	120,000	280,601	-	4,500,000	11,132,046	410,638	(69,763)	35,903,632	400,439	36,304,071
Total comprehensive income for the year	-	-	-	-	-	-	-	-	5,975,226	2,152	(18,564)	5,958,814	32,343	5,991,157
Transfer to dividends payable	-	-	-	-	-	-	-	(4,500,000)	-	-	-	(4,500,000)	-	(4,500,000)
Interest on capital notes (note 18)	-	-	-	-	-	-	-	-	(138,256)	-	-	(138,256)	-	(138,256)
Proposed cash dividends (note 19)	-	-	-	-	-	-	-	4,500,000	(4,500,000)	-	-	-	-	-
As of 31 December 2016	**4,500,000**	**4,000,000**	**8,780,110**	**2,250,000**	**120,000**	**280,601**	**-**	**4,500,000**	**12,469,016**	**412,790**	**(88,327)**	**37,224,190**	**432,782**	**37,656,972**

The attached notes 1 to 36 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

1 ACTIVITIES

First Gulf Bank PJSC is a public joint stock company with limited liability incorporated in Abu Dhabi in accordance with UAE Federal Law No. (8) of 1984 (as amended). The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the existing Federal Law No. 8 of 1984. First Gulf Bank PJSC, its branches and subsidiaries (the "Bank") carry on commercial and retail banking, investment and real estate activities in Abu Dhabi, Dubai, Ajman, Sharjah, Fujairah, Al Ain and Ras Al Khaimah.

The representative office of the Bank in Singapore has commenced operations from September 2007 and was upgraded to a wholesale bank in August 2009. The Bank has established a representative office in India in September 2009 and in Qatar in November 2009. The representative office in Qatar was upgraded to a branch in May 2011. In December 2012, the Bank established a representative office in Hong Kong. In April and June 2014, the Bank established representative offices in South Korea and United Kingdom, respectively.

The registered head office of the Bank is at PO Box 6316, Abu Dhabi, United Arab Emirates (UAE). The principal activities of the Bank are described in note 31.

On 3 July 2016, the Bank and National Bank of Abu Dhabi PJSC ("NBAD") announced that their Boards of Directors unanimously voted to recommend to their shareholders to merge both banks pursuant to Article 283 (1) of UAE Federal Law no. 2 of 2015. The proposed transaction will be executed through a share swap, with the Bank's shareholders receiving 1.254 NBAD shares for each of the Bank's shares they hold. Following the issue of the new NBAD shares, shareholders of the Bank will own approximately 52% of the combined bank and NBAD shareholders will own approximately 48%. On the effective date of the merger, the Bank's shares will be delisted from the Abu Dhabi Securities Exchange. Additional disclosures relating to the merger are set out in note 35.

The consolidated financial statements of the Bank were authorised for issue by the Board of Directors on 31 January 2017.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standard Board (IASB) and the applicable requirements of the laws of the United Arab Emirates.

The consolidated financial statements have been prepared under the historical cost convention except for investment securities (other than held to maturity investments), derivative financial instruments, investment properties and land included in property and equipment which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The consolidated financial statements of the Bank are prepared in United Arab Emirates Dirhams (AED) which is the functional currency of the Bank. The consolidated balance sheet, consolidated income statement and consolidated statement of cash flows in US Dollar (US$) are presented solely for the convenience of the readers of the consolidated financial statements. The AED amounts have been translated at the rate of AED 3.673 to US$ 1 (2015: AED 3.673 to US$ 1) and all values are rounded to the nearest thousand AED, except where otherwise indicated.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Changes in accounting policies and disclosures
In accordance with its policy, the Bank reviews the estimated useful lives of its fixed assets on an ongoing basis. The latest review indicated that the actual lives of certain items of its property and equipment were longer than the estimated useful lives used for depreciation purposes. As a result, effective 1 January 2016, the Bank changed its estimates of the useful lives for those items to better reflect the estimated periods during which these assets will remain in service. This is considered a change in accounting estimate and as such, will not have any retrospective implications on the Bank's consolidated financial statements.

The Bank's other accounting policies and the key sources of estimation uncertainty are the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2015, except for the following amendments to IFRS effective as of 1 January 2016. Although these new amendments are applied for the first time in 2016, they do not have a material impact on the consolidated financial statements of the Bank.

Amendments to IAS 1: Disclosure Initiative
The amendments provide clarifications and narrow-focus improvements on materiality, presentation of primary statements, structure of notes, disclosure of accounting policies, and presentation of other comprehensive income (OCI) arising from equity accounted investments. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose and how to structure notes in their financial statements. These amendments did not impact the Bank's financial statements or accounting policies.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. These amendments did not impact the Bank's financial statements or accounting policies.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities: Applying the Consolidation exception
The amendments define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. These amendments did not impact the Bank's financial statements or accounting policies.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
The amendments clarify that when acquiring an interest in a joint operation where the activity of the joint operation constitutes a business, all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in IFRS 11, are to be applied. The requirements apply to the acquisition of both the initial interest and additional interests in a joint operation but any previously held interest in the joint operation would not be remeasured. These amendments did not impact the Bank's financial statements or accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Standards issued but not yet adopted
The following new standards / amendments to standards which were issued up to 31 December 2016 and are not yet effective for the year ended 31 December 2016 have not been applied while preparing these consolidated financial statements. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9: Financial Instruments introduces new requirements for classification and measurement, impairment, and hedge accounting. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015.

The complete version of IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

(a) Classification and measurement

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets:

a) amortised cost;
b) fair value through OCI; and
c) fair value through profit and loss.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.

(b) Impairment

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9 requires the Bank to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis.

(c) Hedging

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The Bank is in the process of analysing IFRS 9's full impact.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Standards issued but not yet adopted continued

IAS 7 (Amendments): the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

IAS 12 (Amendments): the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements.

IFRS 15: Revenue from Contracts with Customers was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Bank does not expect that IFRS 15 will have any significant impact on the consolidated financial statements.

IFRS 16: Leases was issued in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the consolidated income statement.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Basis of consolidation

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

			Percentage of holding	
	Activity	***Country of incorporation***	**2016**	**2015**
Mismak Properties Co. LLC (Mismak)	Real estate investments	United Arab Emirates	**100%**	100%
First Merchant International LLC	Real estate investments	United Arab Emirates	**100%**	100%
FGB Sukuk Company Limited	Special purpose vehicle	Cayman Islands	**100%**	100%
FGB Sukuk Company II Limited	Special purpose vehicle	Cayman Islands	**100%**	100%
FGB Global Markets Cayman Limited	Special purpose vehicle	Cayman Islands	**100%**	-
First Gulf Libyan Bank *	Banking services	Libya	**50%**	50%
First Gulf Properties LLC	Management and brokerage of real estate properties	United Arab Emirates	**100%**	100%
Aseel Finance PJSC	Islamic finance	United Arab Emirates	**100%**	100%
Dubai First PJSC	Credit card finance	United Arab Emirates	**100%**	100%
First Gulf Information Technology LLC	Information Technology Services	United Arab Emirates	**100%**	100%

* Although the Bank owns 50% of the outstanding shares of First Gulf Libyan Bank, the investment has been classified as a subsidiary as the Bank exercises control over the investee because it casts the majority of the votes on the board of directors.

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. The Bank exercises control over all of the subsidiaries listed above. Control is achieved when the Bank is exposed, 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.

Specifically, the Bank controls an investee if and only if the Bank has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Bank has less than a majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Bank's voting rights and potential voting rights.

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are consolidated from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Basis of consolidation continued

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Bank's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Bank are eliminated in full on consolidation.

Non-controlling interests represent the portion of the profit and net assets in subsidiaries not held by the Bank and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the Bank shareholders' equity.

Due from banks
Due from banks are stated at amortised cost using the effective interest rate less any amounts written off and provision for impairment.

Trading investments
These are initially recognised at cost, being the fair value of the consideration given and subsequently remeasured at fair value. All related realised and unrealised gains or losses are included in the consolidated income statement.

Investments
These are classified as follows:

- Held to maturity
- Available for sale
- Investments carried at fair value through income statement

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges (except for investments carried at fair value through the income statement) associated with the investment. Premiums and discounts on investments (excluding those carried at fair value through income statement) are amortised using the effective interest rate method and taken to interest income.

Held to maturity
Investments which have fixed or determinable payments and are intended to be held to maturity, are carried at amortised cost, less provision for impairment in value.

Available for sale
After initial recognition, investments which are classified "available for sale" are remeasured at fair value. Fair value changes which are not part of an effective hedging relationship are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition, the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity is included in the consolidated income statement.

Investments carried at fair value through income statement
Investments are classified as fair value through income statement if the fair value of the investment can be reliably measured and the classification as fair value through income statement is as per the documented strategy of the Bank. Investments classified as "Investments at fair value through income statement" upon initial recognition are subsequently remeasured at fair value with all changes in fair value being recorded in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Investment in associates
An associate is an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Bank's investments in its associates are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Bank's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The consolidated statement of income reflects the Bank's share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the Bank's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Bank recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Bank and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Bank's share of profit or loss of an associate is shown on the face of the consolidated statement of income. The financial statements of the associate are prepared for the same reporting period as the Bank. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Bank determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss in the consolidated statement of income.

Upon loss of significant influence over the associate, the Bank measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of income.

Repurchase and reverse repurchase agreements
Assets sold with a simultaneous commitment to repurchase at a specified future date ("Repo") are not derecognised. The counterparty liability for amounts received under these agreements is included in due to banks, customers' deposits and term loans in the consolidated balance sheet, as appropriate. The difference between the sale and repurchase price is treated as interest expense which is accrued over the life of the repo agreement using the effective interest rate.

Conversely, securities purchased under agreements to resell at a specified future date ("Reverse Repos") are not recognised on the consolidated balance sheet. The corresponding cash paid, including accrued interest, is included in loans and advances. The difference between the purchase price and resale prices is treated as interest income which is accrued, using the effective interest rate, over the life of the Reverse Repos.

Loans and advances
These are stated at amortised cost, adjusted for effective fair value hedges and stated net of interest suspended less any amounts written off and provision for impairment. Impaired loans are written off only when all possible courses of action to achieve recovery have proved unsuccessful. Amortised cost is calculated using the effective interest rate method.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Bank elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Bank acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate standards. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Bank re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Islamic financing
Islamic financing comprises principally of floating profit-rate Ijara and Murabaha contracts which are stated at cost less any provisions for impairment.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Impairment and uncollectibility of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated income statement.

Impairment is determined as follows:

(a) For assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate.
(b) For assets carried at fair value, impairment is the difference between cost and fair value.
(c) For assets carried at cost, impairment is based on the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

For available for sale equity investments, reversals of impairment losses are recorded as increases in cumulative changes in fair value through equity.

In addition, a provision is made to cover collective impairment for specific groups of assets carried at amortised cost, where there is a measurable decrease in estimated future cash flows.

Government grants
Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the Bank receives non-monetary grants with no conditions attached thereto, the asset and grant are recorded at fair value and the grant is recognised in the consolidated income statement in the period in which it is received. In the case of other non-monetary grants, the grant is set up as deferred income at its fair value and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual instalments.

Investment properties
Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

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 gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

Property and equipment
Property and equipment are initially recorded at cost. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount and, where carrying values exceed the recoverable amount, assets are written down. Land is measured at fair value based on valuations performed by independent professional valuers.

Any revaluation surplus is credited to the revaluation reserve included in the equity section of the consolidated statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Property and equipment continued

Depreciation is provided on a straight-line basis on all property and equipment, other than freehold land which is determined to have an indefinite life.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	40 years
Motor vehicles	3 years
Furniture, fixtures and equipment	5 to 7 years
Computer hardware and software	3 to 7 years

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

Intangible assets

The Bank's intangible assets other than goodwill include intangible assets acquired in business combinations. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

The estimated useful lives of the intangible assets for the calculation of amortisation are as follows:

Dubai First Brand	20 years
Credit card customer relationships – Royale Card	15 years
Other credit card customer relationships	7.5 years
Core deposit intangibles: corporate deposits	2.5 years
Core deposit intangibles: margin deposits	15 years

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Deposits

All money market and customer deposits are carried at amortised cost less amounts repaid.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Treasury shares

Own equity instruments which are acquired (treasury shares) are deducted from the equity and accounted for at weighted average cost. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancelation of the Bank's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. If treasury shares are distributed as part of a bonus share issue, the cost of the shares is charged against retained earnings. Voting rights relating to treasury shares are nullified for the Bank and no dividends are allocated to them respectively.

Fiduciary assets

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available for sale investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised.

Income from Islamic financing activities

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

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

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Revenue recognition continued

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

Dividend income
Revenue is recognised when the Bank's right to receive the payment is established.

Net trading income
Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

Rental income
Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the income statement in 'Other operating income'.

Income and expense from Islamic financing
Income and expense from Islamic financing is recognised on a time-proportion basis based on principal amounts outstanding.

Foreign currencies
Monetary assets and liabilities in foreign currencies are translated into AED at rates of exchange prevailing at the balance sheet date. Any gains and losses are taken to the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of foreign operations are translated into the Bank's presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in the equity relating to a particular foreign operation is recognised in the consolidated income statement.

Cash and cash equivalents
Cash and cash equivalents comprise cash, balances with UAE Central Bank and due from banks and other financial institutions with original maturities of less than three months.

Employees' pension and end of service benefits
The Bank provides end of service benefits for its employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its UAE national employees, the Bank makes contributions to the relevant government pension scheme calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Leases
Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the shorter of the lease term or the estimated useful life of the asset.

Derivatives
The Bank enters into derivative financial instruments including forwards, swaps, futures, options and swaptions in the foreign exchange and capital markets. Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated balance sheet.

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

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognised immediately in the consolidated income statement. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the consolidated income statement.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the consolidated income statement. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the consolidated income statement in the period in which the hedged transaction impacts the consolidated income statement or included in the initial measurement of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken to the consolidated income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, in the case of a cash flow hedge, any cumulative gains or losses on the hedging instrument initially recognised in equity remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gains or losses initially recognised in equity are transferred to the consolidated income statement.

In the case of a fair value hedge, for hedged items recorded at amortised cost, using the effective interest rate method, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Settlement date accounting
Purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the Bank settles the purchase or sale of an asset.

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Taxes
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Bank operates and generates taxable income. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

There is no deferred tax asset or liability recognised at 31 December 2016 (2015: nil).

Financial guarantees
Financial guarantees are defined as contracts whereby an entity undertakes to make specific payments for a third party if the latter does not do so. Financial guarantees are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on loans and advances. If a specific provision is required for financial guarantees, the related unearned commissions recognised under other liabilities in the consolidated balance sheet are reclassified to the appropriate provision.

De-recognition of financial assets and liabilities
The Bank de-recognises all or part of a financial asset when the contractual rights to the cash flows on the asset expire or when the Bank has transferred the contractual rights to receive the cash flows and substantially all of the risks and rewards linked to the ownership of the asset. The Bank derecognises all or part of a financial liability when the liability is extinguished in full or in part.

Fair value measurement
The Bank measures financial instruments and non-financial assets at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in note 33.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement, such as assets held for sale. External valuers are involved for valuation of significant assets, such as investment properties. Selection criteria for valuers include market knowledge, reputation, independence and whether professional standards are maintained. The management decides, after discussions with the Bank's external valuers, which valuation techniques and inputs to use for each case.

The management, in conjunction with the Bank's external valuers, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and ask prices are used for liabilities. The fair value of investments in mutual funds, private equity funds or similar investment vehicles are based on the last net asset value published by the fund manager. For other investments, a reasonable estimate of the fair value is determined by reference to the price of recent market transactions involving such investments, current market value of instruments which are substantially the same, or is based on the expected discounted cash flows.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

The fair value of forward exchange contracts is calculated by reference to forward exchange rates with similar maturities. For other derivatives without quoted prices in an active market, fair value is determined based on quotations received from counter party financial institutions or established third party valuation models.

The fair value of unquoted investments is determined by reference to discounted cash flows, pricing models, net asset base of investee companies or broker over-the-counter quotes.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Repossessed collateral
Repossessed collateral against settlement of customers' debts are stated within the consolidated balance sheet under 'Other assets' at their acquisition date fair value net of allowance for impairment.

According to the instructions of the Central Bank of the UAE, the Bank should dispose of any land and properties acquired against settlement of debts within a period not exceeding three years from the date of acquiring the assets.

Significant accounting judgements and estimates
In the process of applying the Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Going concern
The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business under the new merged entity (note 35) for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Classification of investment properties under construction
Management decides for each property whether it should be classified as investment property, property and equipment or as properties held for sale.

Properties acquired by the Bank are recorded as investment properties if these were acquired for rental purposes or capital appreciation.

Properties held for own-use are recorded as property and equipment.

Properties are recorded as held for sale, at cost, if their carrying amounts will be recovered through a sale transaction.

Classification of investments
Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through income statement, or available for sale.

For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and in particular the Bank has the intention and ability to hold these to maturity.

The Bank classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments as fair value through income statement depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through income statement.

All other investments are classified as available for sale.

2 SIGNIFICANT ACCOUNTING POLICIES *continued*

Significant accounting judgements and estimates *continued*
Impairment of investments
The Bank treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgement for which management takes into consideration, amongst other factors, share price volatility and the underlying asset base of the investee companies.

Impairment losses on loans and advances
The Bank reviews its problem loans and advances on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on loans and advances
In addition to specific provisions against individually significant loans and advances, the Bank also makes a collective impairment provision against loans and advances which although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted. The amount of the provision is based on IFRS and the guidelines issued by the Central Bank of the UAE.

3 CASH AND BALANCES WITH CENTRAL BANKS

	2016	2015
	AED 000	AED 000
Cash on hand	**448,305**	368,358
Balances with Central Banks	**24,329,648**	20,707,528
	24,777,953	**21,075,886**

Balances with Central Banks include AED 5,892,907 thousand (2015: AED 5,446,768 thousand) representing mandatory cash reserve deposits and AED 12,280,365 thousand (2015: AED 11,870,773 thousand) representing certificates of deposit maturing after three months of placements. These are not available for use in the Bank's day-to-day operations.

4 LOANS AND ADVANCES

The composition of loans and advances portfolio is as follows:

	2016 AED 000	2015 AED 000
Economic Sector		
Agriculture	686,922	1,330,563
Energy	2,166,613	2,398,723
Trading	11,427,934	8,876,394
Construction	6,858,217	6,267,869
Transport	1,655,162	1,147,316
Personal – Retail loans and credit cards	34,418,040	35,966,157
Personal – Retail mortgages	3,702,051	3,801,537
Personal – Retail mortgages - National Housing Loans (note 11)	21,128,324	19,260,516
Personal – Others	2,798,640	3,153,229
Government	268,002	1,393,301
Share financing	755,330	633,808
Real estate	15,883,627	12,800,038
Financial services	8,353,259	10,405,878
Other services	29,936,098	26,048,024
Public sector	14,287,604	13,787,409
Manufacturing	6,890,562	6,914,875
Total	161,216,385	154,185,637
Less provision for impaired loans and advances	(4,468,060)	(4,419,577)
Total	156,748,325	149,766,060
Representing:		
Conventional loans and advances	143,241,468	137,724,119
Islamic financing	13,506,857	12,041,941
Total	156,748,325	149,766,060

Loans and advances to customers are stated net of provision for impairment. The movements in the provision during the year were as follows:

	2016	2015
At 1 January	4,419,577	4,478,046
Charge for the year (note 25)	1,579,306	1,551,691
Amounts written-off	(1,323,240)	(1,371,175)
Recoveries (note 25)	(127,144)	(144,515)
Notional interest on impaired loans and advances (note 20)	(80,439)	(94,470)
At 31 December	4,468,060	4,419,577

Analysis of the provision for impairment is as follows:

	2016	2015
Specific provision	1,870,123	1,727,721
Collective provision	2,597,937	2,691,856
Total provision	4,468,060	4,419,577

4 LOANS AND ADVANCES *continued*

In certain cases, the Bank continues to carry classified doubtful debts and delinquent accounts on its books even after making 100% provision for impairment. Where appropriate, interest is recorded and suspended on these accounts for legal considerations. Interest income on impaired loans is recognised in accordance with IAS 39: Financial Instruments: Recognition and Measurement. The notional interest on impaired loans and advances charged during the year amounted to AED 80,439 thousand (2015: AED 94,470 thousand).

During 2016, National Housing Loans increased by AED 2,674,816 thousand (2015: AED 2,958,366 thousand), which was partially offset by the waiver of AED 807,008 thousand (2015: AED 893,496 thousand) representing a discount of 25% (2015: 25%) granted to nearly 1,617 borrowers (2015: 1,792 borrowers) on the completion of their houses as directed by the Private Housing Loans Authority for Nationals. The amount waived was reduced from the corresponding Abu Dhabi Government deposit (note 11).

5 INVESTMENTS

		2016 AED 000	2015 AED 000
Carried at fair value through income statement			
Investments in managed funds		50,990	78,339
Investments in equities	- Quoted	13,593	40,113
	- Unquoted	7,383	19,180
Debt securities		827,558	435,333
		899,524	572,965
Available for sale investments			
Investments in equities	- Quoted	140,368	196
	- Unquoted	149,353	149,768
Investments in private equity funds		1,526,984	1,496,098
Debt securities	- Quoted	22,762,028	13,596,231
	- Unquoted	1,363,431	271,424
		25,942,164	15,513,717
Held to maturity investments			
Debt securities	- Quoted	1,519,124	5,421,705
	- Unquoted	912,181	1,183,756
		2,431,305	6,605,461
Total		29,272,993	22,692,143

5 INVESTMENTS *continued*

	2016	2015
	AED 000	AED 000
Analysis of debt securities:		
Fixed rate	**26,295,391**	19,673,136
Floating rate	**1,088,931**	1,235,313
	27,384,322	20,908,449
Geographic analysis of investments is as follows:		
UAE	**7,301,213**	8,181,642
Other Arab Countries	**3,050,227**	3,080,505
Asia	**6,036,074**	5,642,964
Europe	**2,344,460**	1,775,665
USA	**8,788,574**	3,497,849
Rest of the world	**1,752,445**	513,518
	29,272,993	22,692,143

Investments in managed funds represent investments made in managed hedge funds which invest in equities, debt securities and derivatives with the objective of generating superior returns on a risk-adjusted basis using a diversified portfolio approach.

Investments in private equity funds represent investments made in funds and limited partnerships to fund primary investment commitments in target companies with the objective of generating returns outperforming the public equity markets.

Debt securities represent bonds with maturities ranging up to 10 years from the balance sheet date. Of the debt securities at 31 December 2016, 46% (2015: 28%) comprise bonds which are either guaranteed by governments or issued by entities owned by governments.

At 31 December 2016, the Bank's largest holding of debt securities issued by a single issuer accounted for 21% (2015: 12%) of total debt securities.

At 31 December 2016, debt securities with a carrying value of AED 12,949,681 thousand (2015: AED 8,250,520 thousand) were pledged under repurchase agreements with overseas financial institutions and banks with a principal value of AED 13,109,155 thousand (2015: AED 8,313,565 thousand).

The fair value of held to maturity investments at 31 December 2016 amounted to AED 2,486,070 thousand (2015: AED 6,716,113 thousand).

All unquoted available for sale equities are recorded at fair value except for investments amounting to AED 1,033 thousand (2015: AED 1,448 thousand) which are recorded at cost since their fair values cannot be reliably estimated. There is no active market for these investments and the Bank intends to hold them for the long term.

6 INVESTMENT IN ASSOCIATES

The Bank has the following investments in associates:

	Percentage of holding	
	2016	2015
Green Emirates Properties PJSC	**40%**	40%
Midmak Properties LLC	**16%**	16%

Green Emirates Properties PJSC ("GEP") is a private joint stock company incorporated in the Emirate of Abu Dhabi and engaged mainly in the management and brokerage of real estate properties in United Arab Emirates and overseas.

Midmak Properties LLC ("Midmak") is a limited liability company incorporated in the Emirate of Abu Dhabi. Midmak is involved in real estate activities. Although the Bank owns 16% of the outstanding shares of Midmak, the investment has been classified as an associate as the Bank exercises significant influence due to representation of the Board of Directors.

Summarised financial information on investment in associates is set out below:

	2016	2015
	AED 000	AED 000
Share of associates' balance sheets		
Current assets	**5,972**	5,718
Non-current assets	**35,117**	34,996
Total assets	**41,089**	40,714
Current liabilities	**1,032**	1,136
Non-current liabilities	**27**	27
Total liabilities	**1,059**	1,163
Net assets	**40,030**	39,551
Carrying amount of investment in associates	**40,030**	39,551
Share of associates' revenue, profit and losses:		
Revenue	**571**	1,515
Profit for the year	**479**	1,568

As of 31 December 2016, the Bank's share of contingent liabilities of associates amounted to AED 2,080 thousand (2015: AED 2,080 thousand).

7 INVESTMENT PROPERTIES

	2016	2015
	AED 000	AED 000
Balance at 1 January	**8,242,190**	8,469,563
Additions	**798,856**	677,556
Disposals	**(2,703,045)**	(1,297,933)
(Loss) gain from fair value adjustment (note 23)	**(5,651)**	548,887
Transfer on liquidation of subsidiary	**-**	(143,987)
Transfer to property and equipment, net	**90,152**	(11,896)
At 31 December	**6,422,502**	8,242,190

Amounts recognised in the consolidated statement of income in respect of net rental income of investment properties are as follows:

	2016	2015
Rental income derived from investment properties	**150,994**	156,248
Operating expenses	**(55,584)**	(56,982)
Net rental income from investment properties	**95,410**	**99,266**

Investment properties are stated at fair value which represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under prevailing market conditions at the measurement date.

The Bank's investment properties consist of land, buildings and properties under development in Abu Dhabi and Dubai. Management determined that these investment properties consist of two classes of commercial and retail assets, based on the nature, characteristics and risks of each property.

As at 31 December 2016 and 2015, fair value of the properties is based on the valuations performed by third party valuers. The valuers are accredited with recognised and relevant professional qualification and with recent experience in the location and category of investment properties being valued. The fair values have been determined based on varying valuation models depending on the intended use of the investment properties; in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards.

The following table shows the analysis of investment properties recorded at fair value by level of the fair value hierarchy:

	Level 1	***Level 2***	***Level 3***	***Total***
	AED 000	***AED 000***	***AED 000***	***AED 000***
31 December 2016	**-**	**44,350**	**6,378,152**	**6,422,502**
31 December 2015	-	39,754	8,202,436	8,242,190

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

7 INVESTMENT PROPERTIES *continued*

Reconciliation of fair value for investment properties is as follows:

		Investment properties	
	Land & buildings	***Under development***	***Total***
	AED 000	***AED 000***	***AED 000***
Opening balance	**5,714,987**	**2,527,203**	**8,242,190**
Additions	**627,389**	**171,467**	**798,856**
Disposals	**(2,703,045)**	**-**	**(2,703,045)**
Fair value adjustment	**190,365**	**(196,016)**	**(5,651)**
Transfers	**1,122,574**	**(1,032,422)**	**90,152**
Closing balance	**4,952,270**	**1,470,232**	**6,422,502**
Unrealised gains/(losses) for the year included in profit or loss (recognised in other operating income)	**190,365**	**(196,016)**	**(5,651)**

Description of valuation techniques used and key inputs to valuation on investment properties as at 31 December 2016 and 201:

	Valuation technique	***Significant unobservable inputs***
Buildings	Comparable and Residual Method	Comparable transactions
	Sales Comparison Method	Current market price of similar assets
Land	Comparable and Residual Method	Cost of construction
		Developer's profit
		Financing cost
Properties under development	Discounted cash flow method	Discount rate
		Cash inflows
		Cash outflows

8 OTHER ASSETS

	2016	2015
	AED 000	AED 000
Interest receivable	**1,385,187**	1,464,301
Prepayments	**50,947**	75,106
Positive fair value of derivatives (note 30)	**1,953,003**	1,920,189
Receivable from sale of investment properties	**44,587**	37,240
Goodwill on acquisition of a subsidiary	**36,869**	36,869
Intangible assets	**133,530**	157,649
Advances against purchase of properties	**-**	68,147
Acceptances	**3,906,933**	4,156,240
Others	**1,391,444**	1,182,223
	8,902,500	9,097,964

9 PROPERTY AND EQUIPMENT

	Land	*Buildings*	*Capital work-in progress*	*Motor vehicles*	*Furniture Fixtures and equipment*	*Computer hardware & software*	*Total*
	AED 000	*AED 000*	*AED 000*	*AED 000*	*AED 000*	*AED 000*	*AED 000*
2016							
Cost or valuation:							
At 1 January 2016	**511,713**	**772,293**	**128,817**	**2,504**	**155,103**	**491,298**	**2,061,728**
Additions during the year	**-**	**185,387**	**18,330**	**-**	**44,708**	**154,835**	**403,260**
Transfer to investment properties (note 7)	**(16,300)**	**(76,558)**	**-**	**-**	**-**	**-**	**(92,858)**
Transfers	**-**	**53,913**	**(53,913)**	**-**	**-**	**-**	**-**
Write offs	**-**	**(102,453)**	**-**	**-**	**(22)**	**(16,553)**	**(119,028)**
Exchange difference	**(730)**	**(1,072)**	**-**	**13**	**(479)**	**(368)**	**(2,636)**
Cost of disposals	**(87,237)**	**(83,611)**	**(1,480)**	**(107)**	**(6,462)**	**(3,625)**	**(182,522)**
At 31 December 2016	**407,446**	**747,899**	**91,754**	**2,410**	**192,848**	**625,587**	**2,067,944**
Depreciation:							
At 1 January 2016	**-**	**197,840**	**-**	**2,063**	**119,043**	**257,050**	**575,996**
Provided during the year	**-**	**29,648**	**-**	**266**	**17,859**	**72,087**	**119,860**
Transfer to investment properties (note 7)	**-**	**(2,706)**	**-**	**-**	**-**	**-**	**(2,706)**
Write offs	**-**	**(102,453)**	**-**	**-**	**(22)**	**(16,553)**	**(119,028)**
Exchange difference	**-**	**(1,182)**	**-**	**15**	**(581)**	**(365)**	**(2,113)**
Disposals	**-**	**(22,554)**	**-**	**(107)**	**(6,072)**	**(3,587)**	**(32,320)**
At 31 December 2016	**-**	**98,593**	**-**	**2,237**	**130,227**	**308,632**	**539,689**
Net book value:							
At 31 December 2016	**407,446**	**649,306**	**91,754**	**173**	**62,621**	**316,955**	**1,528,255**
2015							
Cost or valuation:							
At 1 January 2015	542,913	632,087	42,885	2,455	136,702	305,419	1,662,461
Additions during the year	-	172,778	32,324	569	22,288	186,442	414,401
Transfer to investment properties (note 7)	(27,650)	(30,400)	-	-	-	-	(58,050)
Transfer from investment properties (note 7)	-	-	53,608	-	-	-	53,608
Exchange difference	(3,550)	(590)	-	(20)	(273)	(209)	(4,642)
Cost of disposals	-	(1,582)	-	(500)	(3,614)	(354)	(6,050)
At 31 December 2015	511,713	772,293	128,817	2,504	155,103	491,298	2,061,728
Depreciation:							
At 1 January 2015	-	170,438	-	2,150	108,853	213,812	495,253
Provided during the year	-	44,353	-	409	13,763	43,558	102,083
Transfer to investment properties (note 7)	-	(16,338)	-	-	-	-	(16,338)
Exchange difference	-	48	-	4	25	44	121
Disposals	-	(661)	-	(500)	(3,598)	(364)	(5,123)
At 31 December 2015	-	197,840	-	2,063	119,043	257,050	575,996
Net book value:							
At 31 December 2015	511,713	574,453	128,817	441	36,060	234,248	1,485,732

Revaluation of land

The revaluation reserve of AED 280,601 thousand (2015: AED 280,601 thousand) is related to land included under property and equipment.

The revalued land is located in the United Arab Emirates. Management determined that these constitute one class of asset under IFRS 13, based on the nature, characteristics and risks of the property.

9 PROPERTY AND EQUIPMENT *continued*

Fair value of the land was determined using the market comparable method. This means that valuations performed by the valuer are based on active market prices, adjusted for differences in the nature, location or condition of the specific property. As at the date of external revaluation, which was performed in October 2014, the fair value of the land was based on a valuation performed by an accredited independent valuer who has valuation experience with similar properties in the United Arab Emirates. In the opinion of management the fair value of the land as at 31 December 2016 approximates its carrying value.

10 DUE TO BANKS

	2016	*2015*
	AED 000	*AED 000*
Current and demand deposits	**627,459**	992,930
Deposits maturing within one year	**21,536,304**	16,890,182
	22,163,763	17,883,112

As of 31 December 2016, deposits maturing within one year amounting to AED 10,578,135 thousand (2015: AED 8,073,653 thousand) are held against the sale of debt securities with a carrying value of AED 10,403,741 thousand (2015: AED 7,976,967 thousand) with arrangements to repurchase them at a fixed future date

11 CUSTOMERS' DEPOSITS

	2016	*2015*
	AED 000	*AED 000*
Current accounts	**30,866,639**	26,923,895
Saving accounts	**2,455,543**	2,544,725
Time deposits	**81,965,885**	88,019,687
Call and other deposits	**33,945,816**	24,974,256
	149,233,883	142,462,563

As of 31 December 2016, time deposits include deposits of AED 2,322,761 thousand (2015: AED 31,653 thousand) from overseas financial institutions held against the sale of debt securities, with a carrying value of AED 2,326,704 thousand (2015: AED 44,328 thousand), with arrangements to repurchase them at a fixed future date.

In December 2006, the Bank received an initial deposit of AED 5 billion from the Government of Abu Dhabi (the "Government") to fund an interest-free housing loans scheme for UAE Nationals, which is recorded in call and other deposits. The scheme is being administered by the Bank based on various terms and conditions agreed with the Government. As of 31 December 2016, the Government's time deposit amounted to AED 21,197 million (2015: AED 19,614 million) and housing loans (note 4) amounted to AED 21,128 million (2015: AED 19,261 million). Interest is payable on this Government deposit at market rates based on the principal amount net of loan disbursements made.

During the year, the Abu Dhabi Government deposit increased by AED 2,390,509 thousand (2015: AED 2,818,525 thousand). The increase was partially offset by the waiver of AED 807,008 thousand (2015: AED 893,496 thousand) representing a discount of 25% (2015: 25%) granted to nearly 1,617 borrowers (2015: 1,792 borrowers) as further discussed in note 4.

As of 31 December 2016, the top 5 depositors accounted for 29% of total customer deposits (2015: 28%).

12 EURO COMMERCIAL PAPER

In June 2015, the Bank established a Euro Commercial Paper Programme (the "Programme") of US$ 3 billion. The notes issued under the Programme are denominated in various currencies and have maturities of less than 12 months. As at 31 December 2016, the notes outstanding amounted to AED 10,016,916 thousand (2015: AED 2,834,808 thousand) and bear interest at market rates.

13 TERM LOANS

	2016	*2015*
	AED 000	*AED 000*
Syndicated loan	**3,673,000**	3,673,000
Bank loan	**1,101,900**	183,650
Euro Medium Term Notes	**11,026,801**	10,000,750
Medium term bonds	**656,344**	1,791,845
Repurchase agreements	**208,259**	208,259
	16,666,304	15,857,504

Syndicated Loan:
On 14 September 2015, the Bank obtained a loan of US$ one billion (equivalent to AED 3,673 million) from a syndicate comprising of several banks. The loan is repayable in full in September 2018. The loan accrues interest at the rate of 3 months USD LIBOR plus a margin of 0.70% per annum.

Bank Loan:
Bank loan comprises of a US$ 300 million (equivalent to AED 1,102 million) loan obtained from a commercial bank which matures in June 2019 and accrues interest at the rate of USD Libor + 120 bps.

As of 31 December 2015, Bank loan comprised of a US$ 50 million (equivalent to AED 184 million) loan obtained from a commercial bank which matures in March 2016 and accrues interest at the rate of Libor + 130 bps. The Bank loan was fully settled in March 2016.

Euro Medium Term Notes:
During 2007, the Bank established a US$ 3.5 billion, Euro Medium Term Notes Programme (the "Programme"). In April 2015, the same Programme was upgraded to US$ 5.0 billion. The Bank issued the following notes under the Programme:

(i) On 9 October 2012, the Bank issued a Euro Medium Term Note (EMTN) of US$ 650 million (equivalent to AED 2,387 million). The notes are due in October 2017 and carry a coupon rate of 2.862% per annum payable semi-annually in arrears.

(ii) On 8 August 2013, the Bank issued a Euro Medium Term Note (EMTN) of HKD 400 million (equivalent to AED 190 million). The notes are due in August 2023 and carry a coupon rate of 4.18% per annum payable annually in arrears.

(iii) On 15 August 2013, the Bank issued a Euro Medium Term Note (EMTN) of HKD 400 million (equivalent to AED 190 million). The notes are due in August 2023 and carry a coupon rate of 4.18% per annum payable annually in arrears.

(iv) On 19 September 2013, the Bank issued a Euro Medium Term Note (EMTN) of JPY 4,700 million (equivalent to AED 146 million). The notes are due in September 2016 and carry a coupon rate of 1.00% per annum payable semi-annually in arrears. The note was fully settled in September 2016.

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31 December 2016

13 TERM LOANS continued

Euro Medium Term Notes: continued

(v) On 14 November 2013, the Bank issued a Euro Medium Term Note (EMTN) of US$ 500 million (equivalent to AED 1,837 million). The notes are due in January 2019 and carry a coupon rate of 3.250% per annum payable semi-annually in arrears.

(vi) On 12 December 2013, the Bank issued a Euro Medium Term Note (EMTN) of US$ 25 million (equivalent to AED 92 million). The notes are due in December 2016 and carry a coupon of 3 months USD LIBOR plus a margin of 1.23% per annum payable quarterly in arrears. The note was fully settled in December 2016.

(vii) On 1 July 2014, the Bank issued a Euro Medium Term Note (EMTN) of EUR 100 million (equivalent to AED 387 million). The notes are due in July 2025 and carry a coupon rate of 3.00% per annum payable annually in arrears.

(viii) On 2 July 2014, the Bank issued a Euro Medium Term Note (EMTN) of JPY 10 billion (equivalent to AED 310 million). The notes are due in July 2019 and carry a coupon rate of 0.863% per annum payable semi-annually in arrears.

(ix) On 22 July 2014, the Bank issued a Euro Medium Term Note (EMTN) of AUD 20 million (equivalent to AED 53 million). The notes are due in July 2019 and carry a coupon at the rate of 3 months AUD BBSW plus a margin of 1.42% per annum payable quarterly in arrears.

(x) On 2 October 2014, the Bank issued a Euro Medium Term Note (EMTN) of USD 30 million (equivalent to AED 110 million). The notes are due in October 2019 and carry a coupon of 3 months USD LIBOR plus a margin of 0.91% per annum payable quarterly in arrears.

(xi) On 17 February 2015, the Bank issued a Euro Medium Term Note (EMTN) of HKD 160 million (equivalent to AED 76 million). The notes are due in February 2020 and carry a coupon rate of 2.43% per annum payable annually in arrears.

(xii) On 24 February 2015, the Bank issued a Euro Medium Term Note (EMTN) of US$ 750 million (equivalent to AED 2,755 million). The notes are due in February 2020 and carry a coupon rate of 2.625% per annum payable semi-annually in arrears.

(xiii) On 26 February 2015, the Bank issued a Euro Medium Term Note (EMTN) of EUR 15 million (equivalent to AED 58 million). The notes are due in February 2018 and carry a coupon at the rate of 3 months EURIBOR plus a margin of 0.36% per annum payable quarterly in arrears.

(xiv) On 9 April 2015, the Bank issued a Euro Medium Term Note (EMTN) of CNY 400 million (equivalent to AED 211 million). The notes are due in April 2018 and carry a coupon rate of 5.00% per annum payable annually in arrears.

(xv) On 11 May 2015, the Bank issued a Euro Medium Term Note (EMTN) of HKD 160 million (equivalent to AED 76 million). The notes are due in May 2020 and carry a coupon rate of 2.37% per annum payable annually in arrears.

(xvi) On 27 May 2015, the Bank issued a Euro Medium Term Note (EMTN) of CHF 200 million (equivalent to AED 721 million). The notes are due in May 2022 and carry a coupon rate of 0.625% per annum payable annually in arrears.

(xvii) On 15 June 2015, the Bank issued a Euro Medium Term Note (EMTN) of SGD 11 million (equivalent to AED 28 million). The notes are due in June 2018 and carry a coupon rate of 2.10% per annum payable semi-annually in arrears.

13 TERM LOANS continued

Euro Medium Term Notes: continued

(xviii) On 7 July 2015, the Bank issued Euro Medium Term Note (EMTN) of USD 25 million (equivalent to AED 92 million). The notes are due in July 2045 and are multi-callable, zero-coupon, with a yield of 5.30% per annum.

(xix) On 18 August 2015, the Bank issued a Euro Medium Term Note (EMTN) of CNY 230 million (equivalent to AED 121 million). The notes are due in August 2018 and carry a coupon rate of 4.50% per annum payable annually in arrears.

(xx) On 30 December 2015, the Bank issued a Euro Medium Term Note (EMTN) of USD 20 million (equivalent to AED 73 million). The notes are due in December 2045 and are multi callable, and carry a fixed coupon rate of 4.70% per annum payable annually in arrears.

(xxi) On 18 March 2016, the Bank issued a Euro Medium Term Note (EMTN) of USD 150 million (equivalent to AED 551 million). The notes are due in February 2020 and carry a coupon rate of 2.625% per annum payable semi-annually in arrears.

(xxii) On 31 March 2016, the Bank issued a Euro Medium Term Note (EMTN) of USD 50 million (equivalent to AED 184 million). The notes are due in March 2046 and are multi callable, and carry a fixed coupon rate of 5.08% per annum payable annually in arrears.

(xxiii) On 11 April 2016, the Bank issued a Euro Medium Term Note (EMTN) of AED 50 million. The notes are due in April 2019 and carry a coupon of 3 months EIBOR plus a margin of 0.80% per annum payable quarterly in arrears.

(xxiv) On 12 May 2016, the Bank issued a Euro Medium Term Note (EMTN) of USD 50 million (equivalent to AED 184 million). The notes are due in May 2046 and are multi-callable, zero-coupon, with a yield of 5.00% per annum.

(xxv) On 12 May 2016, the Bank issued a Euro Medium Term Note (EMTN) of CNY 65 million (equivalent to AED 34 million). The notes are due in May 2019 and carry a fixed coupon rate of 4.60% payable annually.

(xxvi) On 3 June 2016, the Bank issued a Euro Medium Term Note (EMTN) of CNY 516 million (equivalent to AED 272 million). The notes are due in June 2019 and carry a fixed coupon rate of 4.55% payable annually in arrears.

(xxvii) On 13 June 2016, the Bank issued a Euro Medium Term Note (EMTN) of USD 10 million (equivalent to AED 37 million). The notes are due in June 2021 and carry a coupon of 3 Month USD Libor + 1.40% payable quarterly in arrears.

(xxviii) On 15 June 2016, the Bank issued a Euro Medium Term Note (EMTN) of USD 10 million (equivalent to AED 37 million). The notes are due in June 2021 and carry a coupon of 3 Month USD Libor + 1.40% payable quarterly in arrears.

(xxix) On 21 June 2016, the Bank issued a Euro Medium Term Note (EMTN) of USD 10 million (equivalent to AED 37 million). The notes are due in June 2021 and carry a coupon of 3 Month USD Libor + 1.40% payable quarterly in arrears.

(xxx) On 23 June 2016, the Bank issued a Euro Medium Term Note (EMTN) of USD 10 million (equivalent to AED 37 million). The notes are due in June 2021 and carry a coupon of 3 Month USD Libor + 1.40% payable quarterly in arrears.

13 TERM LOANS continued

Medium Term Bonds:

On 16 February 2011, the Bank issued 5 year bonds of CHF 200 million (equivalent of AED 721 million). The bonds are due in February 2016 and carry a coupon rate of 3% per annum payable annually in arrears. The bonds were fully repaid in February 2016.

On 27 November 2012, the Bank issued CHF 100 million bonds (equivalent of AED 361 million). The bonds are due in January 2016 and carry a coupon at the rate of 3 months CHF LIBOR plus a margin of 1.15% per annum payable quarterly in arrears. The bonds were fully repaid in January 2016.

On 1 April 2014, the Bank issued AUD 250 million bonds (equivalent of AED 656 million). The bonds are due in April 2019 and carry a coupon at the rate of 5.0% per annum payable semi-annually in arrears.

Repurchase Agreements:

During 2010, the Bank entered into several transactions with a foreign bank to obtain financing against the sale of debt securities with arrangements to repurchase them at a fixed future date. The carrying value of debt securities sold under these arrangements amounted to AED 219,235 thousand as at 31 December 2016 (2015: 229,225 thousand). The amount and maturity of outstanding transactions are as follows:

	2016		*2015*		
No.	***Amount US$ 000***	***Amount AED 000***	*Amount US$ 000*	*Amount AED 000*	*Maturity*
1	**40,500**	**148,756**	40,500	148,756	25 - October - 2017
2	**7,200**	**26,446**	7,200	26,446	1 - August - 2018
3	**9,000**	**33,057**	9,000	33,057	8 - April - 2019
	56,700	**208,259**	56,700	208,259	

The Bank has not had any defaults of principal, interest or other breaches with regard to all borrowings during the year ended 31 December 2016 and year ended 31 December 2015.

14 SUKUK FINANCING INSTRUMENTS

In August 2011, the Bank raised financing by way of a Sukuk issued by FGB Sukuk Company Limited (a special purpose vehicle) amounting to US$ 650 million (equivalent to AED 2,387 million) which matured in August 2016 (the "Sukuk"). The Sukuk carried a fixed profit rate of 3.797 percent per annum payable semi-annually and was listed on the London Stock Exchange. The Sukuk was the inaugural issuance under the US$ 3.5 billion trust certificate issuance programme. Pursuant to the Sukuk structure, FGB Sukuk Company Limited (as Rab-ul-Maal and Trustee) received certain payments from the Bank (as mudareb of certain mudaraba assets and wakeel of certain wakala assets). FGB Sukuk Company Limited used such amounts received from the Bank to discharge its payment obligations under the Sukuk. Such payment obligations of the Bank ranked pari passu with all other senior unsecured obligations of the Bank. Upon maturity in August 2016, the Sukuk was fully repaid.

On 18 January 2012, the Bank issued its second tranche of trust certificates amounting to US$ 500 million (equivalent to AED 1,836 million) due in January 2017 under the same trust certificate issuance program. The Sukuk carries a fixed profit rate of 4.046 percent per annum payable semi-annually and is listed on the London Stock Exchange. Upon maturity in January 2017, the Sukuk was fully repaid.

15 OTHER LIABILITIES

	2016	*2015*
	AED 000	*AED 000*
Interest payable	**674,520**	838,388
Accrued expenses	**261,672**	239,246
Provisions for staff benefits (note 16)	**256,405**	265,936
Accounts payable and sundry creditors	**1,124,431**	1,390,653
Advances received on sale of investment properties	**286,520**	501,272
Payable in respect of acquisition of investment properties	**1,982**	109,757
Negative fair value of derivatives (note 30)	**2,835,008**	2,368,583
Acceptances net of discounting	**1,900,952**	2,129,105
Others	**192,436**	87,425
	7,533,926	7,930,365

16 PROVISION FOR STAFF BENEFITS

The movement in the provision was as follows

	2016	*2015*
	AED 000	*AED 000*
At 1 January	**265,936**	327,653
Arising during the year	**244,906**	201,263
Utilised	**(254,437)**	(262,980)
At 31 December	**256,405**	265,936

17 SHARE CAPITAL

	Authorised, issued and fully paid	
	2016	*2015*
	AED 000	*AED 000*
Ordinary shares of AED 1 each	**4,500,000**	4,500,000

In its meeting held on 28 January 2015, the Board of Directors of the Bank proposed to distribute 600 million shares amounting to AED 600 million to shareholders of the Bank as bonus shares. The resolution was approved by the shareholders of the Bank in the Annual General Meeting held on 25 February 2015.

18 CAPITAL NOTES

Following approval of the Extraordinary General Assembly meeting held on 25 February 2009, the Board of Directors resolved on 26 February 2009 to issue capital notes (the "Notes") to the Department of Finance, Government of Abu Dhabi amounting to AED 4 billion. The Notes are subject amongst other terms, to the following:

- The Notes have a par value of AED 10 million each;
- The Notes are perpetual securities in respect of which there is no fixed redemption date;
- The Notes constitute direct, unsecured and subordinated obligations of the Bank;
- The Notes holder is entitled to a non-cumulative semi-annual fixed interest coupon at the rate of 6% per annum until February 2014 and floating interest rate of EIBOR plus 2.3% per annum thereafter. The Bank may at its sole discretion elect not to make an interest coupon payment. Any interest payment made will be reflected in the statement of changes in equity. During the year, interest payments amounted to AED 138 million (2015: AED 129 million).

19 APPROPRIATIONS

Legal reserve

In accordance with the UAE Commercial Companies Law No. 2 of 2015 and the Articles of Association of the Bank, 10% of profit for the year of the Bank shall be transferred to the legal reserve until it reaches 50% of the nominal value of the paid up share capital. The early conversion of the mandatory convertible bonds during 2011 resulted in an increase to the legal reserve by AED 3,475 million. As the legal reserve exceeds 50% of the share capital, no further transfers from the net profit are made to the legal reserve. The legal reserve is not available for distribution.

Special reserve

As required by Article 82 of Union Law No 10 of 1980, 10% of the profit for the year shall be transferred to the special reserve until the reserve equals 50% of the nominal value of the paid up share capital. As the special reserve is equal to 50% of the share capital, no further transfers from the net profit are made to the special reserve. The special reserve is not available for distribution.

General reserve

Transfers to the general reserve are made upon the recommendation of the Board of Directors. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders. No transfers are proposed by the Board of Directors from the profit for the year to the general reserve (2015: nil).

19 APPROPRIATIONS *continued*

Dividends

	2016 AED 000	2015 AED 000
Cash dividends proposed in respect of 2016: AED 1 (2015: Declared AED 1)	**4,500,000**	4,500,000
Dividend on ordinary shares paid during the year	**4,423,230**	3,829,385

20 INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING

	2016 AED 000	2015 AED 000
Interest income		
Loans and advances	**7,117,500**	7,041,722
Deposits with banks and financial institutions	**157,925**	122,675
Investment securities	**683,648**	604,260
Notional interest on impaired loans and advances (note 4)	**80,439**	94,470
Total	**8,039,512**	7,863,127
Income from Islamic financing	**506,160**	426,652
Interest income and income from Islamic financing	**8,545,672**	8,289,779

21 INTEREST EXPENSE AND ISLAMIC FINANCING EXPENSE

	2016 AED 000	2015 AED 000
Interest expense		
Customers' deposits	**1,327,251**	1,105,902
Bank deposits	**230,054**	156,726
Term loans	**394,016**	301,418
Total	**1,951,321**	1,564,046
Islamic financing expense	**208,459**	296,282
Interest expense and Islamic financing expense	**2,159,780**	1,860,328

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22 FEES AND COMMISSION INCOME, NET

	2016 AED 000	2015 AED 000
Fees and commission income		
Commission income	**521,573**	496,176
Fee income	**919,706**	844,197
Fees and commissions on credit cards	**696,199**	650,103
Brokerage and fund management fee income	**163**	8,330
Total fees and commission income	**2,137,641**	1,998,806
Fees and commission expenses	**(288,941)**	(298,361)
Fees and commission income, net	**1,848,700**	1,700,445

23 OTHER OPERATING INCOME

	2016 AED 000	2015 AED 000
Investment income:		
Gain on disposal of available for sale investments	**250,662**	156,902
Gain (loss) on disposal of investments carried at fair value through income statement	**2,686**	(26,219)
Change in fair value of investments carried at fair value through income statement	**66,038**	4,019
Dividend income	**4,744**	4,113
Total investment income	**324,130**	138,815
Foreign exchange and related derivative income	**194,022**	200,325
Other derivative income	**52,937**	66,694
Gain on sale of investment properties	**550,682**	98,099
(Loss) gain on revaluation of investment properties (note 7)	**(5,651)**	548,887
Gain on sale of an associate	**-**	15,100
Loss on sale of property and equipment	**(2,519)**	(864)
Rental income, net	**95,410**	99,266
Management fees on leasing properties	**53,237**	56,717
Other income	**85,081**	79,162
Total	**1,347,329**	1,302,201

24 GENERAL AND ADMINISTRATIVE EXPENSES

	2016 AED 000	2015 AED 000
Staff costs	**861,927**	868,845
Depreciation (note 9)	**119,860**	102,083
Amortisation of intangible assets	**21,119**	21,918
Other general and administrative expenses	**994,834**	954,557
Total	**1,997,740**	1,947,403
Number of employees	**1,322**	1,436

25 PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES

	2016 AED 000	2015 AED 000
Provision for impaired loans and advances (note 4)	**1,579,306**	1,551,691
Recoveries (note 4)	**(127,144)**	(144,515)
	1,452,162	1,407,176

26 BASIC AND DILUTED EARNINGS PER SHARE

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive instruments.

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

	2016	2015
Profit for the year attributable to ordinary equity holders (AED 000)	**6,026,226**	6,006,116
Deduct: interest on capital notes (AED 000)	**(92,546)**	(129,215)
Profit attributable to ordinary equity holders (AED 000)	**5,933,680**	5,876,901
Weighted average number of ordinary shares in issue (000's)	**4,500,000**	4,500,000
Basic and diluted earnings per share (AED)	**1.32**	1.31

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

27 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following balance sheet amounts:

	2016 AED 000	2015 AED 000
Cash and balances with Central Banks	**24,777,953**	21,075,886
Due from banks and financial institutions	**17,415,706**	15,096,847
	42,193,659	36,172,733
Less: Balances with Central Banks maturing after three months of placement	**(12,280,365)**	(11,870,773)
Less: Mandatory cash reserve with Central Banks	**(5,892,907)**	(5,446,768)
Less: Due from banks and financial institutions maturing after three months of placement	**(1,849,394)**	-
Cash and cash equivalents	**22,170,993**	18,855,192

Geographic analysis of cash and balances with Central Banks and due from banks and financial institutions is as follows:

	2016 AED 000	2015 AED 000
UAE	**26,460,989**	25,947,179
Other Arab Countries	**3,765,403**	2,391,863
Asia	**3,399,129**	1,526,319
Europe	**5,801,848**	3,854,768
USA	**1,950,666**	2,413,884
Rest of the world	**815,624**	38,720
	42,193,659	36,172,733

28 RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank enters into transactions with related parties, comprising directors, major shareholders, key management and their related concerns, at commercial interest and commission rates. The Bank obtains collateral, including charges over real estate properties and securities, the extent of which is dependent on the Bank's assessment of the credit risk of the related party. All loans and advances to related parties are performing advances and are free of any provision for impaired loans and advances.

28 RELATED PARTY TRANSACTIONS *continued*

The following transactions have been entered into with related parties:

	2016	2015
	AED 000	AED 000
Board members, key management personnel and associated companies		
Loans and advances	**3,740,172**	5,094,178
Customers' deposits	**7,606,245**	9,081,811
Finance lease payable	**-**	119,646
Commitments and contingent liabilities	**1,823,169**	3,097,031
Interest and commission income	**85,157**	272,411
Interest expense and Islamic financing expense	**148,888**	133,353
Associates		
Customers' deposits	**26,599**	24,485
Commitments and contingent liabilities	**5,200**	5,200
Interest and commission income	**4**	3
Interest expense and Islamic financing expense	**81**	1,237

During the year, the Bank sold certain items of its investment properties portfolio to a related party. The transaction resulted in a gain of AED 473 million.

Compensation of key management personnel:		
Short term employee benefits	**112,691**	110,832
Post-employment benefits	**8,893**	9,093

In addition to the amounts disclosed above, Board of Directors remuneration amounting to AED 51,000 thousand (2015: AED 45,000 thousand) has been included in the consolidated statement of comprehensive income and is subject to the approval of the shareholders at the forthcoming Annual General Meeting.

29 COMMITMENTS AND CONTINGENT LIABILITIES

The Bank has the following commitments and contingent liabilities at 31 December:

	2016	2015
	AED 000	AED 000
Contingent liabilities:		
Letters of credit	**14,769,639**	14,192,933
Guarantees	**45,385,877**	49,492,411
	60,155,516	63,685,344
Commitments:		
Commitments to extend credit maturing within one year	**4,941,392**	7,502,799
Commitments for future capital expenditure	**492,827**	552,308
Commitments for future private equity investments	**1,049,799**	769,398
	6,484,018	8,824,505
Total commitments and contingent liabilities	**66,639,534**	72,509,849

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29 COMMITMENTS AND CONTINGENT LIABILITIES *continued*

Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act such as the export or import of goods or upon the failure of the customer to perform under the terms of a contract. These contracts would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at a floating rate.

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Bank's customers. These commitments represent contractual irrevocable commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

30 DERIVATIVES

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by term to maturity. The notional amount is the amount of a derivative's underlying asset and liabilities, 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.

				Notional amounts by term to maturity			
	Positive Fair Value	*Negative fair Value*	*Total Amount Total*	*Within 3 Months*	*3-12 Months*	*1-5 Years*	*More than 5 Years*
	AED 000	*AED 000*	*AED 000*	*AED 000*	*AED 000*	*AED 000*	*AED 000*
At 31 December 2016							
Derivatives held for trading:							
Forward foreign exchange contracts	**565,366**	**810,433**	**58,718,836**	**29,439,509**	**24,070,588**	**4,870,890**	**337,849**
Interest rate swaps, caps and collars	**689,050**	**627,500**	**60,084,446**	**1,520,676**	**8,617,853**	**30,786,666**	**19,159,251**
Credit default swaps	**563**	**3,513**	**182,955**	**-**	**98,476**	**84,479**	-
Equity swaps	**5**	**5**	**10,641**	**10,200**	**-**	**441**	-
Swaptions	**32,852**	**36,777**	**3,637,956**	**-**	**-**	**3,637,956**	-
Options	**589,245**	**703,105**	**22,210,641**	**4,103,269**	**8,146,124**	**9,684,918**	**276,330**
Futures	**674**	**-**	**887,986**	**887,986**	**-**	**-**	-
	1,877,755	**2,181,333**	**145,733,461**	**35,961,640**	**40,933,041**	**49,065,350**	**19,773,430**
Derivatives held for hedging:							
Interest rate swaps	**48,064**	**119,443**	**8,492,525**	**500,000**	**175,386**	**3,930,379**	**3,886,760**
Cross currency swaps	**27,184**	**534,232**	**4,923,280**	**109,795**	**26,993**	**2,658,079**	**2,128,413**
	1,953,003	**2,835,008**	**159,149,266**	**36,571,435**	**41,135,420**	**55,653,808**	**25,788,603**
At 31 December 2015							
Derivatives held for trading:							
Forward foreign exchange contracts	308,851	394,839	65,484,682	35,161,019	24,933,668	5,210,242	179,753
Interest rate swaps, caps and collars	760,344	741,990	46,038,951	1,776,216	8,075,135	22,978,302	13,209,298
Credit default swaps	1,242	1,093	203,236	-	36,731	166,505	-
Commodity linked swaps	87,783	63,407	1,757,210	-	-	1,016,800	740,410
Equity swaps	127	127	151,346	2,387	138,318	10,641	-
Swaptions	10,262	6,887	1,720,650	-	367,300	1,353,350	-
Options	526,008	560,556	19,047,003	3,896,600	7,670,971	7,479,432	-
Futures	84	68	843,164	567,689	275,475	-	-
	1,694,701	1,768,967	135,246,242	41,403,911	41,497,598	38,215,272	14,129,461
Derivatives held for hedging:							
Interest rate swaps	26,537	81,806	6,313,596	40,403	227,257	3,492,285	2,553,651
Cross currency swaps	198,951	517,810	7,356,650	1,106,004	452,040	2,485,939	3,312,667
	1,920,189	2,368,583	148,916,488	42,550,318	42,176,895	44,193,496	19,995,779

30 DERIVATIVES *continued*

Derivative product types

In the ordinary course of business the Bank enters into various types of transactions that involve financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments, which the Bank enters into, include forwards, options and swaps, futures and swaptions.

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, fixed or floating interest payments as well as notional amounts are exchanged in different currencies.

Credit default swaps transfer the credit exposure of debt securities between parties. The buyer of a credit default swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. Accordingly, the risk of default is transferred from the holder of the debt security to the seller of the swap.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

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 fair value of instruments that are favourable to the Bank. The Bank enters into derivative contracts with a number of financial institutions of good credit rating.

Derivatives held for trading purposes

Most of the Bank's derivative trading activities relate to offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks and manage their market positions with the expectation of making profit from favourable movements in prices or rates.

Derivatives held for hedging purposes

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to interest rate risks.

Total loss on interest rate swaps held as fair value hedges amounted to AED 578,046 thousand (2015: loss of AED 354,339 thousand). A corresponding amount has been adjusted against the carrying value of the related hedged item.

Movements on cash flow and fair value hedges are excluded from the consolidated statement of cash flows.

31 SEGMENTAL INFORMATION

A segment represents a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Operating segment information

For management purposes the Bank is organised into five operating segments:

Wholesale Banking Group ("WBG"): covers corporate and institutional clients, as well as high net worth individuals, through dedicated client segments. WBG offers credit facilities, Global Transaction Services, Debt Markets (loan, bond, and structured finance), Islamic Finance, Treasury and Global Markets products to both UAE and international clients.

Treasury and Global Markets ("T&GM"), including investment operations: principally provides money market, trading and treasury services, as well as the management of the Bank's funding operations by use of government securities and placements and deposits with other banks.

Consumer Banking Group ("CBG"): principally handles individual customers' deposits, and provides consumer type loans, overdrafts, credit cards facilities and funds transfer facilities.

Real Estate Activities: principally cover the acquisition, leasing, brokerage, management and resale of properties carried out through its subsidiaries and associate companies.

Other operations: comprising mainly of the Head Office and include unallocated costs, subsidiaries and associates other than the above categories.

Operating segmental information for the year ended 31 December 2016 was as follows:

	WBG						
	UAE Operations	*International Banking*	*T&GM*	*CBG*	*Real Estate*	*Other Operations*	*Total*
	AED 000	*AED 000*	*AED 000*	*AED 000*	*AED 000*	*AED 000*	*AED 000*
Assets	**82,858,640**	**27,817,019**	**63,779,991**	**55,012,446**	**7,730,714**	**7,909,454**	**245,108,264**
Liabilities	**99,838,392**	**15,828,628**	**47,594,297**	**37,327,707**	**447,305**	**6,414,963**	**207,451,292**
Operating income excluding associates	**3,076,961**	**624,710**	**1,040,277**	**3,163,882**	**768,863**	**907,228**	**9,581,921**
Net interest income and income from Islamic financing	**2,058,927**	**339,797**	**602,297**	**2,533,174**	**-**	**851,697**	**6,385,892**
Share of profit from associates	**-**	**-**	**-**	**-**	**479**	**-**	**479**
Provision for impairment of loans and advances and available for sale investments	**(244,274)**	**133,225**	**(79,304)**	**(942,908)**	**-**	**(339,753)**	**(1,473,014)**
Profit attributable to equity holders of the Bank	**2,379,770**	**577,443**	**805,348**	**1,393,840**	**726,294**	**143,531**	**6,026,226**
Other segment information							
Investment in associates	**-**	**-**	**-**	**-**	**40,030**	**-**	**40,030**
Capital expenditure	**-**	**481**	**-**	**-**	**809,476**	**391,634**	**1,201,591**
Depreciation	**-**	**21,641**	**-**	**-**	**8,482**	**89,737**	**119,860**

31 SEGMENTAL INFORMATION *continued*

Operating segment information for the year ended 31 December 2015 was as follows:

	UAE Operations	*WBG International Banking*	*T&GM*	*CBG*	*Real Estate*	*Other Operations*	*Total*
	AED 000	*AED 000*	*AED 000*	*AED 000*	*AED 000*	*AED 000*	*AED 000*
Assets	74,909,302	22,084,187	53,971,584	55,056,298	8,981,474	12,493,528	227,496,373
Liabilities	99,035,200	9,730,621	37,386,421	37,111,929	772,833	7,155,298	191,192,302
Operating income excluding associates	2,950,581	468,653	1,142,868	3,337,257	835,642	697,096	9,432,097
Net interest income and income from Islamic financing	1,942,039	265,922	748,687	2,752,051		- 720,752	6,429,451
Share of profit from associates					1,247	321	1,568
Provision for impairment of loans and advances and available for sale investments	83,284	(403,156)	(220,064)	(845,000)	(17,000)	(51,816)	(1,453,752)
Profit attributable to equity holders of the Bank	2,563,322	(53,938)	783,543	1,735,923	780,275	196,991	6,006,116
Other segment information							
Investment in associates	-	-	-	-	39,551	-	39,551
Capital expenditure	-	-	-	-	1,301,412	408,485	1,709,897
Depreciation	-	-	-	-	928	101,155	102,083

The Bank's operations in UAE contribute the majority of its revenues. Also, the Bank's non-current assets in UAE represent a significant portion of its total non-current assets.

32 RISK MANAGEMENT

32.1 Introduction

The core business of a bank is to manage risk and provide returns to the shareholders in line with the accepted risk profile. In the course of its regular business, the Bank gets exposed to multiple risks notably credit risk, market risk, liquidity risk, interest rate risk, operational risk and other risks like compliance risk, strategic risk and reputation risks. A well-established risk governance and ownership structure ensures oversight and accountability of the effective management of risk at the Bank. This tone is set right at the top from the Board of Directors ("BOD") and gets implemented through a well-defined risk management structure and framework.

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32 RISK MANAGEMENT *continued*

32.1 Introduction continued

Composition of Board

The BOD is responsible for the overall direction, supervision and control of the Bank. The day-to-day management of the Bank is conducted by the BOD committees, the Managing Director ("MD") and the Chief Executive Officer ("CEO"). The BOD has overall responsibility for the Bank including approving and overseeing the implementation of its strategic objectives, risk strategy, corporate governance and corporate values within the agreed framework in accordance with relevant statutory and regulatory structures. The BOD currently comprises six members. Each Director holds his position for three years, which may then be renewed for a further three year term. The Board of Directors of the Bank's subsidiaries have the same responsibilities towards their respective entities as the Bank's Directors have towards the Bank.

Corporate Governance Framework:

The Bank has a comprehensive corporate governance framework that puts in place rules, processes, policies and practices by which the Bank is managed by its BOD and Senior Management. The BOD drives the implementation of the corporate governance standards and is the custodian of the corporate governance manual. The Bank's corporate governance standards bind its signatories to the highest standards of professionalism and due diligence in the performance of their duties. The Group Chief Risk Officer ("GCRO") is the custodian of the Corporate Governance Manual.

Risk Management Structure

The BOD approves risk management plans for the Bank, its subsidiaries, its associates and international offices including representative offices and overseas branches. Under authority delegated by the BOD, Board level risk committee - Risk and Compliance Management Committee ("RCMC") through its separately convened risk management meetings formulates high-level enterprise risk management policy, exercises delegated risk authorities and oversees the implementation of risk management framework and controls. The GCRO functionally reports to this committee.

Board Level Committees within the Group

Remuneration and Nomination Committee

The Remuneration and Nomination Committee ("REMCO") comprises three members of the BOD (including the MD) and some members from senior management. REMCO has the overall responsibility of setting the criteria and processes for identification of candidates for the BOD, Board level committees and Senior Management. The committee recommends the appointment or termination of any director to the Board and ensures a smooth succession of Board and Senior Management. The committee takes care of the assessment of the Board and key management personnel. The committee approves and oversees reward design and ensures that the reward is appropriate and consistent with the Bank's culture, business and risk strategy, performance and control environment as well as with any legal or regulatory requirements. REMCO also oversees the Bank's HR policies and rewards policy framework. The composition, guiding principles and detailed roles and responsibilities are covered in REMCO's charter.

Executive Committee

Executive Committee ("EC") comprises three members of the BOD (including the MD) and the CEO. EC oversees the implementation of the Bank's policies, BOD's resolutions and practices the competencies granted to it by the BOD. The EC oversees the Bank's overall management and ensures that the Bank's business policies and practices are in line with the Bank's business interests and are in alignment with sound corporate governance and compliance standards including provisions of the UAE Central Bank. The composition, guiding principles and detailed roles and responsibilities are covered in the EC charter.

32 RISK MANAGEMENT *continued*

32.1 Introduction continued

Board Level Committees within the Group continued

Risk and Compliance Management Committee

The Risk and Compliance Management Committee ("RCMC") comprises three members of the BOD (including the MD) and the GCRO. Under authority delegated by the BOD, RCMC plays a key role in the fulfilment of corporate governance standards and overall risk management by assisting the BOD in formulation of strategy for enterprise-wide risk management, evaluation of overall risks faced by the Bank, alignment of risk policies with business strategies, determination of the level of risks which will be in the best interest of the Bank through risk based capital planning. The RCMC, by virtue of powers delegated to it by the BOD, also approves changes in risk management policies as and when required. The composition, guiding principles and detailed roles and responsibilities are covered in the RCMC's charter.

Audit Committee

This committee is principally responsible for reviewing the internal audit program, considering the major findings of each internal audit review, making appropriate investigations and responses and ensuring coordination between the internal and external auditors and keeping under review the effectiveness of internal control systems, and in particular reviewing the external auditor's management letter and management's response. Members of this committee include three members of the BOD including the MD along with the Head of Internal Audit. The composition, guiding principles and detailed roles and responsibilities are covered in the Audit Committee's charter.

Management Level Committees within the Bank

Executive Management Committee

The Executive Management Committee ("EMCO") is a senior management level committee appointed by the EC that has been entrusted with the role of supporting the CEO to determine and implement the Bank's strategy as approved by the BOD. The key responsibilities of EMCO include decisions on the Bank's strategy, annual budgets, capital management and policies and procedures for the entire Bank. The composition, guiding principles and detailed roles and responsibilities of EMCO are covered in the EMCO's charter.

Wholesale Banking Credit Committee

The Bank has a management level Wholesale Banking Credit Committee ("WBCC") which assists the BOD and Board Committees to put into operation the wholesale credit risk strategy and policies and procedures pertaining to the wholesale banking business. The primary objective of the WBCC is to assist in the development and implementation of wholesale banking business credit strategy and policies and procedures. The composition, guiding principles and detailed roles and responsibilities of WBCC are covered in the WBCC's charter.

Consumer Credit Committee

The Bank has a management level Consumer Credit Committee ("FGCC") which assists the BOD and Board Committees to put into operation the consumer banking credit strategy and policies and procedures. The primary objective of the FGCC is to finalize the consumer banking credit criteria and set portfolio level limits, in line with the defined business and credit risk strategy of the Bank. The composition, guiding principles and detailed roles and responsibilities of FGCC are covered in the FGCC's Charter.

Asset Liability Management Committee

The Bank has a management level Asset Liability Committee (ALCO) to assist the BOD and Board Committees in fulfilling its responsibility to oversee the Bank's asset and liability management (ALM) related responsibilities. The objective of ALCO is to maintain constant oversight of interest rate risk and liquidity risk with the primary goal of achieving optimal return while ensuring adequate levels of liquidity within an effective risk control framework. The composition, guiding principles and detailed roles and responsibilities of ALCO are covered in the ALCO's charter.

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32 RISK MANAGEMENT *continued*

32.1 Introduction continued

Management Level Committees within the Bank continued

Investment Management Committee

The Bank has a management level Investment Management Committee (IMCO) for overseeing and providing guidance to treasury's trading and investment activities. IMCO has to ensure effective management of market risks in accordance with the principles laid down in the market risk management policy. IMCO provides approval of investment limits and individual investment proposals within those limits. Its objective is to ensure that investment decisions conform to the investment policy and are within the overall limits approved by the BOD. The composition, guiding principles and detailed roles and responsibilities of IMCO are covered in the IMCO's charter.

Compliance Committee

The Bank has a management level Compliance Committee to assist the BOD and Board Committees in fulfilling their objective of overseeing the Bank's compliance related responsibilities. The committee oversees the Bank's compliance with respect to legal and regulatory requirements and relevant policies and procedures including code of ethics and matters relating to operating and non-operating financial risk and also ensures the Bank's compliance with Anti Money Laundering ("AML") and other relevant legislation issued by UAE Central Bank and / or Securities and Commodities Authority and / or other regulatory authorities, as applicable. The composition, guiding principles and detailed roles and responsibilities of Compliance Committee are covered in the Compliance Committee charter.

Operational Risk Committee

The Bank has a management level Operational Risk Committee (ORC) to assist the BOD and Board Committees in fulfilling their objective of overseeing the Bank's Operational Risk Management, Business Continuity and Information Security responsibilities. Responsibility areas for ORC include management and reporting of operational risk profile, ratifying information security policy and procedures, integrated business continuity management policy and business recovery strategy of the Bank. The composition, guiding principles and detailed roles and responsibilities of ORC are covered in the ORC's charter.

Technology Steering Committee

The Bank has a management level Technology Steering Committee (TSC) to assist the BOD and Board Committees in fulfilling their responsibilities related to setting of Information Technology (IT) related strategic goals and for successful implementation of the IT objectives. TSC ensures the alignment of the IT strategy with the Bank's business strategy and a successful implementation of the IT strategy. The composition, guiding principles and detailed roles and responsibilities of TSC are covered in the TSC's charter.

Human Resources Steering Committee

The Bank has a management level Human Resources Steering Committee ("HRSC") to assist the BOD in fulfilling its responsibilities related to the human resource policies applicable to the Bank's staff. The objectives of the committee include implementation of recommendations made by the REMCO regarding compensation, benefits, rewards, working environment, employee contracts' terms and conditions and other issues that form part of the Human Resources ("HR") strategy. HRSC also has the responsibility to put in place an appropriate whistle blowing policy to enable employees to raise concerns in a responsible and effective manner with a sense of protection. The composition, guiding principles and detailed roles and responsibilities of HRSC are covered in the HRSC's charter.

Real Estate Committee

The Bank has a management level Real Estate Committee ("RECO") to assist the BOD with overseeing and approving the Bank's real estate investment activities in line with effective market and liquidity risk management practices in accordance with the Bank's risk policy. RECO is responsible for providing oversight, guidance and strategic input on the action plans for the Group's real estate investment, review real estate budgets and provide oversight and guidance for real estate investment limits and risk appetite. The composition, guiding principles and detailed roles and responsibilities of RECO are covered in the RECO's charter.

32 RISK MANAGEMENT *continued*

32.2 Enterprise Risk Management Framework and Structure

Risk Management and Compliance Group

The Bank has a centralized risk management function led by the GCRO. The Head of Risk Management and Compliance Group reports to the GCRO. The function comprises Credit Risk Management Unit (CRMU), Market Risk Management Unit (MRMU), ALM Risk Management Unit (ALMRMU), Operational Risk Management Unit (ORMU), Information Security, Business Continuity Management, Compliance unit and Basel II unit.

Enterprise Risk Management Policy Framework

The Bank's Enterprise Risk Management Policy (ERMP) framework aims to accomplish its core values and purpose of being a world class organization maximizing its risk adjusted returns for all stakeholders by establishing an enterprise wide risk management framework across the Bank including local and international branches, subsidiaries, associates and foreign representative offices. Core objective of ERMP is to provide a reasonable degree of assurance to the BOD that the risks threatening the Bank's achievement of its core purpose are being identified, measured, monitored and controlled through an effective integrated risk management system. The ERMP framework consists of specific policy documents covering all material risks across the Bank; which include ERM policy, Risk Appetite Policy, wholesale banking credit risk policy, consumer banking credit risk policy, market risk policy, operational risk policy, ALM risk policy, Compliance risk policy, AML and Sanctions Policy, IT and information security risk policy, BCP Policy, Internal Capital Adequacy Assessment Process ("ICAAP") policy, new products approval policy, model governance policy, etc. In addition to these risk management policies, the Bank has also put in place detailed operational policies, procedures and programs wherever needed. Other relevant risks such as reputation risk and strategy risk are covered under the ERM policy.

32.3 Overview of Enterprise Risk Management Process

32.3.1 Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Counterparty credit risk arising from derivative financial instruments is limited to those with positive fair values, as recorded in the balance sheet. Credit risk exposure also emerges from off balance sheet exposures like letters of credit, guarantees and committed lines of credit which may require the Bank to make payments to customers or on their behalf.

Credit risk identification and assessment at FGB Group is carried out through a comprehensive mechanism comprising three levels of defence. The first level of defence lies with the business units along with the credit analysis unit that assesses risk on a customer and facility level. The second level of defence is in the form of credit risk management unit that assesses credit risk on a portfolio basis and maintains credit risk policies and credit risk rating models up to date. Internal Audit acts as a third level of defence with regular reviews of credit analysis and the risk functions to check the compliance with policies and procedures of the Bank. The unit also reviews the policy documents on a regular basis.

As a part of credit risk monitoring and control framework, the Bank undertakes regular risk monitoring and provides senior management and BOD assurance that established controls in the form of exposure limits are functioning properly. Risk monitoring is carried out at both individual and portfolio levels by appropriate authorities along several parameters which include credit quality, provisioning levels, exposure limits across several dimensions, financial and operating performance, account conduct, end use of funds, adequacy of credit risk mitigants, adherence to financial and non-financial covenants, recovery performance, rating system performance among others.

The Bank has set up a framework for credit risk mitigation as a means towards reducing credit risk in an exposure, at facility level, by a safety net of tangible and realizable securities including approved third-party guarantees/ insurance. The types of Credit Risk Mitigation (CRM) include netting agreements, collaterals, guarantees, credit derivatives, Stand by Letter of Credit (SBLC) and Comfort Letters. The Bank ensures that all documentation used in collateralized transactions and for documenting on and off-balance sheet netting, guarantees, credit derivatives and collateral is binding on all parties and is legally enforceable in all relevant jurisdictions. The Bank also ensures that all the documents are reviewed by appropriate authority and have appropriate legal opinions to verify and ensure its enforceability.

32 RISK MANAGEMENT *continued*

32.3 Overview of Enterprise Risk Management Process continued

32.3.1 Credit risk continued

The Bank has put in place a comprehensive risk reporting mechanism that provides a wide array of risk related information to concerned audience. Credit risk reporting includes the monthly snapshots for each of the business segments and sub units, a 360 degree view of the credit risk exposures and monthly credit risk pack with granular information on sensitive, watch list accounts, non-performing loans, excesses, restructured and rescheduled accounts.

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

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	*Gross Maximum exposure 2016 AED 000*	*Gross Maximum exposure 2015 AED 000*
Balances with Central Banks	3	**24,329,648**	20,707,528
Due from banks and financial institutions	27	**17,415,706**	15,096,847
Loans and advances	4	**156,748,325**	149,766,060
Investments – debt securities	5	**27,384,322**	20,908,449
Other assets		**6,803,400**	8,828,340
Total		**232,681,401**	215,307,224
Derivatives held for trading			
Forward foreign exchange contracts	30	**565,366**	308,851
Interest rate swaps, caps and collars	30	**689,050**	760,344
Credit default swaps	30	**563**	1,242
Equity swaps		**5**	127
Swaptions	30	**32,852**	10,262
Commodity Linked Swaps	30	**-**	87,783
Options	30	**589,245**	526,008
Futures	30	**674**	84
		1,877,755	1,694,701
Derivatives held for hedging:			
Interest rate swaps	30	**48,064**	26,537
Cross currency swaps	30	**27,184**	198,951
Total		**75,248**	225,488
Contingent liabilities	29	**60,155,516**	63,685,344
Commitments	29	**4,941,392**	7,502,799
Total		**65,096,908**	71,188,143
Total credit risk exposure		**299,731,312**	288,415,556

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

32 RISK MANAGEMENT *continued*

32.3 Overview of Enterprise Risk Management Process continued

32.3.1 Credit risk continued

Credit risk concentration

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographic location.

The Bank assesses credit concentration risk on a regular basis through regular monitoring and reporting of credit portfolio. Credit concentration risk is monitored and controlled through a comprehensive limits framework in the form of exposure limits at both individual and portfolio levels across several dimensions like single name, industry, geography. The Bank mitigates this risk through its constant efforts in diversifying its exposures across a wider customer base, industries and geographies.

Concentration of risk is managed by customer, counterparty, by geographical region and by industry sector. The funded and non-funded credit exposure to the top five borrowers as of 31 December 2016 is AED 16,246,115 thousand (2015: AED 16,338,240 thousand) before taking account of collateral or other credit enhancements and AED 6,944,304 thousand (2015: AED 9,946,495 thousand), net of such protection.

The distribution of the Bank's financial assets by geographic region and industry sector is as follows:

	2016	*2015*
	AED 000	*AED 000*
UAE	**170,322,747**	165,579,656
Other Arab countries	**16,081,408**	11,967,258
Asia	**20,980,504**	19,188,893
Europe	**12,591,024**	11,702,916
USA	**9,840,426**	4,809,409
Rest of the world	**4,744,283**	2,059,092
Financial assets subject to credit risk	**234,560,392**	215,307,224
Other assets	**10,547,872**	12,189,149
Total assets	**245,108,264**	227,496,373
Industry sector		
Commercial and business	**101,096,203**	89,868,201
Personal	**58,507,736**	58,209,025
Government	**34,262,073**	27,833,471
Banks and financial institutions	**38,663,235**	35,768,070
Others	**2,031,145**	3,628,457
Financial assets subject to credit risk	**234,560,392**	215,307,224
Other assets	**10,547,872**	12,189,149
Total assets	**245,108,264**	227,496,373

Further geographical analysis of cash and balances with Central Banks, due from banks and financial institutions and investments are set out in notes 3, 5 and 27 to the consolidated financial statements.

32 RISK MANAGEMENT *continued*

32.3 Overview of Enterprise Risk Management Process continued

32.3.1 Credit risk continued

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For repurchase and reverse repurchase transactions, cash or securities,
- For commercial lending, charges over real estate properties, inventory, trade receivables and securities,
- For personal lending, assignment of salaries in favour of the Bank.

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

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

It is the Bank's policy to dispose of repossessed assets, other than investment properties, in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

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

At 31 December 2016, the fair value of collateral that the Bank holds relating to loans individually determined to be impaired amounts to AED 711,958 thousand (2015: AED 1,631,408 thousand). The collateral consists of cash, securities, letters of guarantee and properties.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset, based on the Bank's credit rating system. The amounts presented are gross of impairment provisions.

	Neither past due nor impaired			
	Pass grade	*Watch grade*	*Past due or individually impaired*	*Total*
	AED 000	*AED 000*	*AED 000*	*AED 000*
2016				
Cash and balances with Central Banks	**24,329,648**	**-**	**-**	**24,329,648**
Due from banks and financial institutions	**17,415,706**	**-**	**-**	**17,415,706**
Loans and advances	**149,972,305**	**3,061,792**	**8,182,288**	**161,216,385**
Other assets	**8,681,155**	**-**	**-**	**8,681,155**
Investments	**27,384,322**	**-**	**142,764**	**27,527,086**
Total	**227,783,136**	**3,061,792**	**8,325,052**	**239,169,980**
2015				
Cash and balances with Central Banks	20,707,528	-	-	20,707,528
Due from banks and financial institutions	15,096,847	-	-	15,096,847
Loans and advances	142,321,004	3,542,437	8,322,196	154,185,637
Other assets	8,828,340	-	-	8,828,340
Investments	20,908,449	-	140,002	21,048,451
Total	207,862,168	3,542,437	8,462,198	219,866,803

Past due loans and advances include those that are only past due by a few days. An analysis of past due loans, by age, is provided below.

32 RISK MANAGEMENT *continued*

32.3 Overview of Enterprise Risk Management Process continued

32.3.1 Credit risk continued

Ageing analysis of past due but not impaired loans

	Less than 30 days	*31 to 60 days*	*61 - 90 days*	*More than 91 days*	*Total*
	AED 000	*AED 000*	*AED 000*	*AED 000*	*AED 000*
31 December 2016					
Past due but not impaired loans and advances	**2,186,041**	**650,345**	**571,782**	**1,085,638**	**4,493,806**
Past due loans and advances					**8,182,288**
Less:					
Past due but not impaired loans and advances					**(4,493,806)**
Impaired loans and advances					**3,688,482**
31 December 2015					
Past due but not impaired loans and advances	1,868,860	812,035	790,026	557,217	4,028,138
Past due loans and advances					8,322,196
Less:					
Past due but not impaired loans and advances					(4,028,138)
Impaired loans and advances					4,294,058

See note 4 for more detailed information with respect to the provision for impairment losses on loans and advances.

Renegotiated loans

The total carrying amount of loans and advances whose terms have been renegotiated as of 31 December 2016 amounted to AED 1,711,799 thousand (2015: AED 1,596,459 thousand).

Impairment assessment

The Bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the borrower;
- A breach of contract such as default of payment;
- If it becomes probable that the customer will enter bankruptcy or other financial reorganization; and
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans.

32 RISK MANAGEMENT *continued*

32.3 Overview of Enterprise Risk Management Process continued

32.3.2 Liquidity risk and funding management

Liquidity risk is defined as the risk to earnings and capital arising from the Bank's inability to meet its obligations when they become due, without incurring unacceptable losses. Liquidity risk often results in risks related to reputation, legal and business continuity as it impacts the ability to fulfill financial obligations and often have a systemic impact.

The Bank monitors several indicators for identification of liquidity risks on its portfolio. These indicators include frequency of treasury accessing money market for funds, illiquidity of trading positions, margin calls on unsettled positions requiring cash outflow, downgrading by external rating agencies, lowering of counterparty limits by other banks, widening of bid-offer spread in case of traded instruments signaling lower liquidity among others.

The Bank has system capabilities to measure the liquidity gaps considering the contractual, as well as the behavioral maturity of various products. These gaps are monitored against certain internal benchmarks for ascertaining sufficiency of liquidity. Apart from undertaking liquidity gap analysis, stress testing is also undertaken on a periodic basis to assess the impact of liquidity risk on the position of the balance sheet. Besides, Basel III and regulatory liquidity ratios are also monitored on a regular basis. Risk management function presents all these risk reports to ALCO for review on a monthly basis for review and deliberations.

The sufficiency of net liquid assets to cover the short term negative gaps based on behavioral maturity is ascertained and remedial actions required, if any, are undertaken. To guard against liquidity risk, the Bank acts actively to diversify its funding sources and maintains a healthy balance of cash and cash equivalents, and readily marketable securities. In addition, the Bank has committed lines of credit that it can access to meet liquidity needs and also maintains mandatory cash reserve deposits with the Central Bank of UAE equal to 1% of customer time deposits and 14% of customer current, call and savings accounts. Also, for extreme cases of stress on liquidity, a contingency funding plan has been put in place.

The Bank has put in place a comprehensive risk reporting mechanism that provides wide array of risk related information to diverse audience. The ALM risk reporting includes the monthly currency wise and geography wise gap reports for liquidity risk presented to ALCO for review.

Analysis of financial assets and financial liabilities by remaining contractual maturities

The maturity profile of the financial assets and liabilities at 31 December 2016 was as follows:

	Less than 3 months	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*	*Total*
	AED 000	*AED 000*	*AED 000*	*AED 000*	*AED 000*
ASSETS					
Cash and balances with Central Banks	**20,327,953**	**2,950,000**	**1,500,000**	**-**	**24,777,953**
Due from banks and financial institutions	**17,415,706**	**-**	**-**	**-**	**17,415,706**
Loans and advances, net	**35,879,179**	**30,845,125**	**50,160,387**	**39,863,634**	**156,748,325**
Investments	**7,686,663**	**1,413,839**	**16,214,240**	**3,958,251**	**29,272,993**
Other assets	**8,902,500**	**-**	**-**	**-**	**8,902,500**
Financial assets	**90,212,001**	**35,208,964**	**67,874,627**	**43,821,885**	**237,117,477**
Non-financial assets					**7,990,787**
Total assets					**245,108,264**
LIABILITIES					
Due to banks	**15,001,102**	**7,162,661**	**-**	**-**	**22,163,763**
Customers' deposits	**96,691,984**	**27,908,564**	**3,436,523**	**21,196,812**	**149,233,883**
Term loans	**-**	**2,536,207**	**12,129,996**	**2,000,101**	**16,666,304**
Sukuk financing instruments	**1,836,500**	**-**	**-**	**-**	**1,836,500**
Euro Commercial Paper	**7,669,957**	**2,346,959**	**-**	**-**	**10,016,916**
Other liabilities	**7,533,926**	**-**	**-**	**-**	**7,533,926**
Total liabilities	**128,733,469**	**39,954,391**	**15,566,519**	**23,196,913**	**207,451,292**

32 RISK MANAGEMENT *continued*

32.3 Overview of Enterprise Risk Management Process continued

32.3.2 Liquidity risk and funding management continued

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

	Less than 3 months	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*	*Total*
	AED 000	*AED 000*	*AED 000*	*AED 000*	*AED 000*
ASSETS					
Cash and balances with Central Banks	12,125,886	6,450,000	2,500,000	-	21,075,886
Due from banks and financial institutions	15,096,847	-	-	-	15,096,847
Loans and advances, net	28,396,542	20,816,402	57,563,891	42,989,225	149,766,060
Investments	1,122,416	4,060,581	13,974,938	3,534,208	22,692,143
Other assets	8,828,340	-	-	-	8,828,340
Financial assets	65,570,031	31,326,983	74,038,829	46,523,433	217,459,276
Non-financial assets					10,037,097
Total assets					227,496,373
LIABILITIES					
Due to banks	11,115,103	6,768,009	-	-	17,883,112
Customers' deposits	84,450,156	29,194,998	9,556,893	19,260,516	142,462,563
Term loans	1,367,460	235,222	12,570,714	1,684,108	15,857,504
Sukuk financing instruments	-	2,387,450	1,836,500	-	4,223,950
Euro Commercial Paper	2,325,754	509,054	-	-	2,834,808
Other liabilities	7,930,365	-	-	-	7,930,365
Total liabilities	107,188,838	39,094,733	23,964,107	20,944,624	191,192,302

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2016 and 2015 based on contractual undiscounted repayment obligations, including cash flows pertaining to principal repayment and interest payable to maturity.

	Less than 3 months	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*	*Total*
	AED 000	*AED 000*	*AED 000*	*AED 000*	*AED 000*
2016					
LIABILITIES					
Due to banks	**15,063,662**	**7,199,010**	**-**	**-**	**22,262,672**
Customers' deposits	**96,955,510**	**28,444,031**	**3,546,581**	**21,198,668**	**150,144,790**
Term loans	**106,924**	**2,862,783**	**12,891,405**	**2,633,540**	**18,494,652**
Sukuk financing instruments	**1,873,652**	**-**	**-**	**-**	**1,873,652**
Euro Commercial Paper	**7,679,386**	**2,357,219**	**-**	**-**	**10,036,605**
Other liabilities	**7,533,926**	**-**	**-**	**-**	**7,533,926**
Total liabilities	**129,213,060**	**40,863,043**	**16,437,986**	**23,832,208**	**210,346,297**
2015					
LIABILITIES					
Due to banks	11,132,206	6,815,323	-	-	17,947,529
Customers' deposits	84,694,045	29,784,796	9,758,591	19,290,172	143,527,604
Term loans	1,471,768	511,586	13,452,886	1,896,937	17,333,177
Sukuk financing instruments	82,478	2,469,928	1,873,653	-	4,426,059
Euro Commercial Paper	2,326,239	510,111	-	-	2,836,350
Other liabilities	7,930,365	-	-	-	7,930,365
Total liabilities	107,637,101	40,091,744	25,085,130	21,187,109	194,001,084

The disclosed financial instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net.

32 RISK MANAGEMENT *continued*

32.3 Overview of Enterprise Risk Management Process continued

32.3.2 Liquidity risk and funding management continued

The following table reflects the future cash flows of derivatives.

	Less than 3 months	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*	*Total*
	AED 000	*AED 000*	*AED 000*	*AED 000*	*AED 000*
2016					
Inflows	**410,250**	**622,154**	**2,150,044**	**778,004**	**3,960,452**
Outflows	**(537,584)**	**(1,156,284)**	**(2,289,719)**	**(750,483)**	**(4,734,070)**
Net	**(127,334)**	**(534,130)**	**(139,675)**	**27,521**	**(773,618)**
2015					
Inflows	339,755	807,023	1,890,464	775,277	3,812,519
Outflows	(430,785)	(835,511)	(2,222,978)	(831,193)	(4,320,467)
Net	(91,030)	(28,488)	(332,514)	(55,916)	(507,948)

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

	Less than 3 months	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*	*Total*
	AED 000	*AED 000*	*AED 000*	*AED 000*	*AED 000*
2016					
Contingent liabilities	**44,332,368**	**6,650,105**	**9,173,043**	**-**	**60,155,516**
Commitments	**137,921**	**5,221,037**	**1,125,060**	**-**	**6,484,018**
TOTAL	**44,470,289**	**11,871,142**	**10,298,103**	-	**66,639,534**
2015					
Contingent liabilities	46,448,506	8,652,896	8,583,942	-	63,685,344
Commitments	219,281	7,756,388	848,836	-	8,824,505
Total	46,667,787	16,409,284	9,432,778	-	72,509,849

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

32.3.3 Interest rate risk in the banking book

Interest rate risk in the banking book is defined as the risk of loss to bank's earnings as well diminution in the value of bank's capital due to adverse changes in interest rates.

The Bank follows a globally accepted approach of recognising all interest bearing / interest sensitive assets and liabilities - both on- and off- balance sheet in order to assess the impact of interest rate risk on its portfolio. Further, the types of interest rate risk are identified (repricing risk, basis risk, yield curve risk) for sound management of interest rate risk. Special care is taken in the identification of risk associated with interest rate derivatives or structured products, where sensitivity to interest rates are often in conjunction with some other underlying risk factors. Positions in such structured products and derivatives are broken down into underlying factors for identification of the interest rate risk type.

The Bank has system capabilities to measure the interest rate sensitive gaps across tenors considering the repricing nature of all its assets and liabilities. The sensitivity analysis i.e. the impact of a parallel shift in the interest rate curves on the Net Interest Income (NII) and Equity is ascertained and presented to ALCO for review on a monthly basis. Hedging decisions required to mitigate this risk, if any, are decided and approved by ALCO and executed by Treasury.

32 RISK MANAGEMENT *continued*

32.3 Overview of Enterprise Risk Management Process continued

32.3.3 Interest rate risk in the banking book continued

The following table estimates the sensitivity to a reasonable possible change in interest rates on the Bank's income statement. The sensitivity of the income statement is the effect of the assumed changes (whether increase or decrease) in interest rates on the net interest income for one year, based on the interest rate sensitive assets and financial liabilities, denominated in various currencies, held at 31 December 2016 and 2015, with all other variables held constant.

Currency	*AED*	*USD*	*EUR*	*GBP*	*OTHERS*
Assumed change in exchange rates	0.50%	0.50%	0.50%	0.50%	0.50%
Impact on net interest income from increase in interest rates:					
2016 (AED 000)	**99,656**	**20,881**	**6,479**	**134**	**12,756**
2015 (AED 000)	30,872	35,810	1,956	(284)	(1,886)
Impact on net interest income from decrease in interest rates:					
2016 (AED 000)	**(99,656)**	**(20,881)**	**(6,479)**	**(134)**	**(12,756)**
2015 (AED 000)	(30,872)	(35,810)	(1,956)	284	1,886

(Amounts in brackets reflect decreases in net interest income)

The sensitivity of equity is calculated by revaluing interest rate sensitive available for sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, for the effects of the assumed changes in interest rates. At 31 December 2016 and 2015, the effect of the assumed changes in interest rates on equity is as follows:

Currency	*USD*	*EUR*	*KWD*	*SGD*	*AED*
Assumed change in exchange rates	0.50%	0.50%	0.50%	0.50%	0.50%
Impact on equity from increase in interest rates:					
2016 (AED 000)	**(243,311)**	**(39,620)**	**(182)**	**(6,895)**	**-**
2015 (AED 000)	(187,919)	(32,238)	(142)	(439)	(120)
Impact on equity from decrease in interest rates:					
2016 (AED 000)	**234,355**	**39,634**	**182**	**(6,897)**	**-**
2015 (AED 000)	187,919	32,238	142	439	120

32.3.4 Market risk

Market risk is the risk that the fair value and future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates (currency risk), equity, bonds and prices for other investment instruments (equity price risk).

Market risk is managed through an effective control framework with three levels of defense. The first level is the Treasury Group that carries out the business in line with comprehensive limit structure on exposures across products and desks (exposure limits), sensitivities (risk limits) as well as stop loss limits. The second level of defense is the Market Risk management unit that establishes this limits framework and monitors these limits on a daily basis. Internal Audit department forms the third level of defense and reviews both the Treasury Group and the Market Risk Management Group on a regular basis for all their functions to check the compliance with documented policies and also check whether the policies are up to date.

32 RISK MANAGEMENT *continued*

32.3 Overview of Enterprise Risk Management Process continued

32.3.4 Market risk continued

For market risk, exposure, risk and stop loss limits are monitored on a daily basis which allows the identification of level of exposure across asset classes, risk factors etc. These limits are checked for adherence prior to sanctioning of any fresh limits and enhancement of existing limits. Monitoring of these limits is undertaken across several dimensions: limit utilization versus the set exposure and delta limits, concentration of exposures, frequency of breaches of limits, size of breaches over the set exposure and stop loss limits, etc. The necessary decisions of exiting from the position or holding are made on the basis of these limits. From a risk control perspective these limits play a crucial role in controlling risk at a transaction level; at the same time FGB Group uses all necessary strategies pertaining to hedging, diversification, reshuffling of portfolio for a portfolio wide risk control.

As part of its market risk management, the Bank uses derivatives and other instruments to manage its market risk exposures. The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate personnel within the Bank. The effectiveness of hedges is assessed and monitored on a regular basis.

A comprehensive risk reporting mechanism has been put in place that provides a wide array of risk related information to concerned audience. These reports reflect daily risk dashboards with detailed desk wise information on exposures / limit / P&L monitoring and monthly risk reports.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2016 and 2015 on its monetary assets and liabilities and its forecast cash flows. The analysis estimates the effect of a reasonably possible movement of AED against other currencies, with all other variables held constant on the consolidated income statement.

Currency	*USD*	*EUR*	*GBP*	*LIBYAN DINAR*
Assumed change in exchange rates	1%	1%	1%	1%
Impact on net income from increase in exchange rates:				
2016 (AED 000)	**(3,784)**	**(867)**	**132**	**(3,060)**
2015 (AED 000)	(81,975)	6,122	249	(3,157)
Impact on net income from decrease in exchange rates:				
2016 (AED 000)	**3,784**	**867**	**(132)**	**3,060**
2015 (AED 000)	81,975	(6,122)	(249)	3,157

(Amounts in brackets reflect decreases in net interest income)

At 31 December 2016 and 2015, the effect of the assumed changes in exchange rates on equity is insignificant.

32 RISK MANAGEMENT *continued*

32.3 Overview of Enterprise Risk Management Process continued

32.3.4 Market risk continued

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

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

	Assumed Level of change	***Impact on net income 2016***	*Impact on net Income 2015*
	%	***AED 000***	*AED 000*
Investments carried at fair value through the income statement			
Reference equity benchmarks:			
Abu Dhabi Securities Exchange Index	5%	**-**	275
Dubai Financial Market Index	5%	**-**	263
Net asset value of managed funds	5%	**2,549**	3,914
Other equity exchanges	5%	**680**	1,470
Unquoted	5%	**369**	959

The effect on equity as a result of a change in the fair value of equity instruments held as available for sale at 31 December 2016 and 2015, due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Assumed Level of change	***Impact on net income 2016***	*Impact on net Income 2015*
	%	***AED 000***	*AED 000*
Available for sale investments			
Reference equity benchmarks:			
Abu Dhabi Securities Exchange Index	5%	**789**	-
Dubai Financial Market Index	5%	**771**	7,900
Net asset value of private equity funds	5%	**76,282**	74,805
Other equity exchanges	5%	**5,458**	2
Unquoted	5%	**7,468**	7,488

Prepayment risk
Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The effect on profit for one year, assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is estimated at AED 431,947 thousand (2015: AED 429,579 thousand).

32 RISK MANAGEMENT *continued*

32.3 Overview of Enterprise Risk Management Process continued

32.3.5 Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, information technology and information security related risks but excludes strategic and reputation risk.

The Bank adopts the methodology of 'Self-Assessment' by various units on a bottom up approach for identification of operational risk. The assessment includes risks assessment on various processes across business and support units as well as setting of Key Risk Indicators (KRIs). The Bank is in the process of undertaking a Risk and Control Self-Assessment exercise wherein all business and support units would be assessing their risks and controls. An internal loss database that stores details pertaining to operational losses is also maintained.

The Bank monitors and controls operational risk across its processes through a framework comprising risk policies, manuals and detailed processes which serve as control points against operational risk, a proper delegation of authority and governance in the form of various committees, three lines of defence for risk management (Businesses, Risk and Audit). The Bank has adopted the "four-eye principle" that advocates the need for a maker and checker for all key transactions performed to limit and control operational risks in bank-wide activities. As a part of the operational risk mitigation process, risk mitigation plans are drawn up for every mismatch noticed in the risk assessment process as well as for breaches in the KRI thresholds.

32.3.6 Country risk
Country risk is the likelihood of economic, social, and political events in a foreign country negatively influencing the willingness or ability of state owned and/or privately owned customers in that country to pay their debts on time.

The Bank undertakes a detailed qualitative analysis pertaining to country risk as a part of the business decision process (credit risk modelling). These factors include economic, social and political stability in each country, the monetary policy, the foreign exchange control measure, the transparency of information, the financial and market structure, banking regulations and supervision, the legal system, and the accounting standards among others. Country risks are monitored and controlled using country limits set by the Bank; these limits are in accordance with overall business strategy, capital adequacy and provisions for potential risks, risk rating of each country, acceptable level of risk, and business opportunities in each country.

32.3.7 Strategic risk
Strategic risk refers to the risk of current or prospective impact on the Bank's earnings, capital, reputation or standing arising from changes in the environment the bank operates in and from adverse strategic decisions, improper implementation of decisions, or lack of responsiveness to industry, economic or technological changes. It is a function of compatibility of Bank's strategic goals, strategies developed to achieve those goals, resources deployed to meet those goals and the quality of implementation.

The Bank uses several factors to identify and assess impact of strategic risk on its books, including level of integration of risk management policies and practices in the strategic planning process, aggressiveness of strategic goals and compatibility with developed business strategies, capital support for the strategic initiatives to take care of earnings volatility, effectiveness of communication and consistency of application of strategic goals, objectives, corporate culture, and behaviour throughout the Bank.

Strategic risks are monitored and controlled as part of the strategic planning process wherein the Bank reviews the progress on strategic initiatives vis-à-vis the plan and considers whether the progress is in line with the plan and the external business environment. The strategic plan is periodically reviewed and updated subject to an approval process which is also a part of the strategic planning process.

32 RISK MANAGEMENT *continued*

32.3 Overview of Enterprise Risk Management Process continued

32.3.8 Compliance risk

Compliance Risk refers to the risk to earnings or capital or reputation or continued business existence arising from violations of or non-conformance with laws, rules, regulations, prescribed practices, or ethical standards.

The Bank, on a continuous basis, identifies and assesses such risks inherent in all new and existing "material" products, activities, processes and systems. The assessment includes risks assessment on non-conformance with laws, rules, regulations, prescribed practices, or ethical standards. The Enterprise Risk Management function has a group wide compliance unit that develops internal controls to manage such risks and it is supported by the Internal Audit and Legal functions.

In order to monitor compliance and anti-money laundering risks, the Bank has set in place the due diligence processes, reviews of policies and procedures across the Bank, implementation of an integrated compliance and AML system which manages name clearance, transaction monitoring and payment monitoring activities, assessment through compliance check-lists etc.

Compliance risk is largely mitigated by way of focused policies and procedures, extensive checklist based and on-spot due diligence and regular training sessions.

32.3.9 Reputation risk

Reputation risk is the risk to earnings or capital arising from negative public opinion. This can be due to external or internal events.

The Bank identifies and assesses reputation risk by clearly defining types of risks to be captured, establishing key sources of reputation risk it may be exposed to, based on individual circumstances, describing the risks identified in terms of the nature of risk and the potential consequences that the risks may bring to its reputation. The Bank also refers to other relevant information for risk identification purposes. Such information may be sourced from media reports, stakeholder analysis reports, internal audit and compliance reports, management exception reports, or other early warning indicators.

For reputation risks, apart from the regular monitoring of external and internal events that can result in possible reputation risks the Bank also has processes to track risks that may affect its reputation. These processes allow the BOD and senior management to take prompt corrective actions to address any anticipated reputation event in advance.

In order to manage reputation risks, the Bank has set in place a mechanism that entails drawing up action plans to identify reputation risk events and facilitate subsequent monitoring of the progress made; for those risks that may be very difficult or too costly to eliminate entirely the mechanism requires development of contingency plans as response actions.

33 FAIR VALUE OF FINANCIAL INSTRUMENTS

While the Bank prepares its consolidated financial statements under the historical cost convention modified for measurement to fair value of investment securities (other than held to maturity investments and certain unquoted investments), investment properties and derivative financial instruments, in the opinion of management, the estimated carrying values and fair values of those financial assets and liabilities, other than the Government deposit referred to in note 11 and related interest-free National Housing loans referred to in note 4, that are not carried at fair value in the consolidated financial statements are not materially different, since assets and liabilities are either short term in nature or in the case of deposits and performing loans and advances, frequently re-priced. For impaired loans and advances, expected cash flows, including anticipated realisation of collateral, were discounted using the original interest rates, considering the time of collection and a provision for the uncertainty of the cash flows.

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33 FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

The carrying value of unquoted investments stated at cost and fair value of held to maturity investments are disclosed in note 5. The fair value of the Government deposit cannot be reliably estimated as this is dependent on the amounts and timing of future loan disbursement under the housing loans scheme. Details of the Government deposit are disclosed in note 11. Details of the National Housing loans are disclosed in note 4.

The following table shows the analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2016:

	Level 1	*Level 2*	*Level 3*	*Total*
	AED 000	*AED 000*	*AED 000*	*AED 000*
FINANCIAL ASSETS				
INVESTMENTS				
Carried at fair value through income statement				
Investments in managed funds	-	50,990	-	50,990
Investments in equities - Quoted	13,593	-	-	13,593
- Unquoted	-	-	7,383	7,383
Debt securities	827,558	-	-	827,558
Available for sale investments				
Investments in equities - Quoted	140,368	-	-	140,368
- Unquoted	-	-	149,353	149,353
Investments in private equity funds	-	-	1,526,984	1,526,984
Debt securities - Quoted	22,762,028	-	-	22,762,028
- Unquoted	-	1,363,431	-	1,363,431
For disclosure purposes - Held to maturity investments				
Debt securities - Quoted	1,573,521	-	-	1,573,521
- Unquoted	-	912,549	-	912,549
	25,317,068	2,326,970	1,683,720	29,327,758
DERIVATIVES – Positive fair value				
Derivatives held for trading				
Forward foreign exchange contracts	-	565,366	-	565,366
Interest rate swaps, caps and collars	-	689,050	-	689,050
Swaptions	-	32,852	-	32,852
Credit default swaps	-	563	-	563
Options	-	589,245	-	589,245
Futures	674	-	-	674
Equity swaps	-	5	-	5
Derivatives held for hedging				
Interest rate swaps	-	48,064	-	48,064
Cross currency swaps	-	27,184	-	27,184
	674	1,952,329	-	1,953,003
DERIVATIVES – Negative fair value				
Derivatives held for trading				
Forward foreign exchange contracts	-	810,433	-	810,433
Interest rate swaps, caps and collars	-	627,500	-	627,500
Swaptions	-	36,777	-	36,777
Credit default swaps	-	3,513	-	3,513
Options	-	703,105	-	703,105
Equity swaps	-	5	-	5
Derivatives held for hedging				
Interest rate swaps	-	119,443	-	119,443
Cross currency swaps	-	534,232	-	534,232
	-	2,835,008	-	2,835,008

33 FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

The following table shows the analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2015:

	Level 1	*Level 2*	*Level 3*	*Total*
	AED 000	*AED 000*	*AED 000*	*AED 000*
FINANCIAL ASSETS				
INVESTMENTS				
Carried at fair value through income statement				
Investments in managed funds	-	78,339	-	78,339
Investments in equities - Quoted	40,113	-		40,113
- Unquoted	--	-	19,180	19,180
Debt securities	435,333	-		435,333
Available for sale investments				
Investments in equities - Quoted	196	-	-	196
- Unquoted	-	1,448	148,320	149,768
Investments in private equity funds	-	-	1,496,098	1,496,098
Debt securities - Quoted	13,596,231	-	-	13,596,231
- Unquoted	-	271,424	-	271,424
For disclosure purposes - Held to maturity investments				
Debt securities - Quoted	5,573,084	-	-	5,573,084
- Unquoted	-	1,143,029	-	1,143,029
	19,644,957	1,494,240	1,663,598	22,802,795
DERIVATIVES – Positive fair value				
Derivatives held for trading				
Forward foreign exchange contracts	-	308,851	-	308,851
Interest rate swaps, caps and collars	-	760,344	-	760,344
Swaptions	-	10,262	-	10,262
Credit default swaps	-	1,242	-	1,242
Options	-	526,008	-	526,008
Futures	84	-	-	84
Equity swaps	-	127	-	127
Commodity linked Swap	-	87,783	-	87,783
Derivatives held for hedging				
Interest rate swaps	-	26,537	-	26,537
Cross currency swaps	-	198,951	-	198,951
	84	1,920,105	-	1,920,189-
DERIVATIVES – Negative fair value				
Derivatives held for trading				
Forward foreign exchange contracts	-	394,839	-	394,839
Interest rate swaps, caps and collars	-	741,990	-	741,990
Swaptions	-	6,887	-	6,887
Credit default swaps	-	1,093	-	1,093
Options	-	560,556	-	560,556
Futures	68	-	-	68
Equity swaps	-	127	-	127
Commodity linked swaps	-	63,407	-	63,407
Derivatives held for hedging				
Interest rate swaps	-	81,806	-	81,806
Cross currency swaps	-	517,810	-	517,810
	68	2,368,515	-	- 2,368,583

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

33 FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

Investments carried at fair value through income statement

Investments carried at fair value through income statement are listed equities in local as well as international exchanges, and hedged funds. Equity valuations are based on market prices as quoted in the exchange while funds are valued on the basis of Net Asset Value (NAV) statements received from fund managers

Available for sale investments

AFS investments, revaluation gain/loss of which is recognised through equity, comprise of long term strategic investments in companies, private equity funds and Eurodollar or AED denominated debt securities. For companies and funds, the consolidated financial statements provide the valuations of these investments which are arrived to primarily by using the discounted cash flow analysis. For debt securities, the applied valuation is quoted prices by key market players.

Derivatives

Derivatives are mainly interest rate and currency swaps, asset swaps, options on equities, swaptions and FX forward contracts. The valuation techniques used are models which use observable market data like FX forward rates, interest rate curves of different currencies, the deduced zero curves and forward rates and volatilities of the underlying factors

Transfers between categories

During the reporting periods ending 31 December 2015 and 31 December 2016, there were no transfers between Level 1 and Level 2 fair value measurements.

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

	2016	*2015*
	AED 000	*AED 000*
At 1 January	**1,663,598**	1,447,537
Total loss recorded in income statement	**(10,093)**	-
Total (loss) gain recorded in equity	**(19,266)**	55,292
Additions	**52,167**	260,961
Disposals	**(2,686)**	(100,192)
At 31 December	**1,683,720**	1,663,598

34 CAPITAL MANAGEMENT

Capital measurement and allocation

Central Bank of the UAE is the supervisor of the Bank and, in this capacity, receives information on capital adequacy and sets minimum capital requirements for banking groups incorporated in the UAE. Moreover, overseas branches and overseas banking subsidiaries are also regulated by their respective regulators, which set and monitor their capital adequacy requirements.

As per Circular No. 27/2009 dated 17 November 2009 issued by the Central Bank of the UAE, banks operating in the UAE are required to calculate their capital adequacy ratio in accordance to the Basel II guidelines as implemented by the Central Bank of the UAE. Banks in the UAE are required to maintain a minimum capital adequacy ratio of 12% as per Central Bank's Notice number 4004/2009.

Bank's regulatory capital comprising of Tier I and Tier II capital is measured in accordance to the Basel II guidelines as implemented by the Central Bank of the UAE.

34 CAPITAL MANAGEMENT *continued*

Capital management

The primary objective of the Bank's capital management is to ensure that the Bank maintains healthy capital ratios in order to support its business to maximise shareholder value and to ensure that the Bank complies with externally imposed capital requirements.

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

The table below shows the regulatory capital and capital charge calculated in accordance with the guidelines of the Central Bank of the UAE under Basel II.

Capital Base:

	2016	*2015*
	AED 000	*AED 000*
Tier I Capital		
Equity attributable to equity holders of the Bank	**37,224,190**	35,903,632
Less: Positive cumulative changes in fair values	**(412,790)**	(410,638)
Less: Revaluation reserve	**(280,601)**	(280,601)
Less: Proposed cash dividends	**(4,500,000)**	(4,500,000)
Total	**32,030,799**	30,712,393
Non-controlling interests	**432,782**	400,439
Less: Goodwill and intangible assets	**(170,399)**	(194,517)
Total (a)	**32,293,182**	30,918,315
Tier II Capital		
Collective impairment provision on loans and advances	**2,113,568**	2,163,031
Cumulative changes in fair values	**185,755**	184,787
Total	**2,299,323**	2,347,818
Eligible Tier II Capital (b)	**2,299,323**	2,347,818
Total capital base (a) + (b)	**34,592,505**	33,266,133
Risk-weighted assets:		
Credit risk	**169,085,422**	173,042,446
Market risk	**3,077,212**	1,219,712
Operational risk	**16,567,283**	15,768,783
Total risk-weighted assets (c)	**188,729,917**	190,030,941
Capital adequacy ratio {(a) + (b) / (c) x 100}	**18.3%**	17.5%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2016

35 MERGER WITH NBAD

On 23 October 2016, The Board of Directors of the Bank invited the shareholders to attend a general assembly meeting on 7 December 2016, to consider the approval of the proposed merger (the "Merger") between the Bank and NBAD which was jointly announced on 3 July 2016 (note 1), in addition to approving the Merger agreement and other items related to the Merger, including the dissolution of the Bank and for NBAD to become the legal successor of the Bank in all its rights and obligations. The related shareholder circular issued jointly by the two banks on 23 October 2016 stated that FGB was identified as the acquirer from an accounting point of view. On 7 December 2016, the shareholders of the Bank and NBAD approved the merger between both banks and for NBAD to become the legal successor of the Bank in all its rights and obligations on the effective date of the merger, subsequent to 31 December 2016. Management assessed the terms of the merger and concluded that no adjustments are required to the amounts of assets and liabilities recognised in the accompanying consolidated financial statements.

On 24 October 2016, the Bank also issued consent solicitations to certain holders of securities of FGB to modify the conditions on some of the Bank's outstanding securities to provide that the security holders (i) acknowledge and approve the Merger between the Bank and NBAD and (ii) agree to release and waive all rights, claims or entitlements against the Bank arising from the implementation of the Merger.

36 COMPARATIVE INFORMATION

Certain comparative information has been reclassified to conform to the presentation of the current period. Such reclassifications relate to investment properties, other assets, due from banks and financial institutions, derivative income, foreign exchange and related derivative income, general and administrative expenses, fees and commission income and related party transactions. These had no impact on the current and prior period profit and loss.

BASEL II PILLAR III REPORTS

31 December 2016

Name of the Report

1 INFORMATION ON SUBSIDIARIES & SIGNIFICANT INVESTMENTS

	Country of Incorporation	% Ownership	Description	Accounting Treatment
Subsidiaries				
Aseel Finance PJSC	UAE	100%	Islamic Financing	Full Consolidation
Dubai First PJSC	UAE	100%	Credit Card Finance	Full Consolidation
First Merchant International LLC	UAE	100%	Real Estate Investments	Full Consolidation
First Gulf Properties LLC	UAE	100%	Management and Brokerage of Real Estate Properties	Full Consolidation
Mismak Properties Company LLC (Mismak)	UAE	100%	Real Estate Investments	Full Consolidation
First Gulf Libyan Bank	Libya	50%	Banking Services	Full Consolidation
FGB Sukuk Company Limited	Cayman Islands	100%	Special Purpose Vehicle	Full Consolidation
FGB Sukuk Company II Limited	Cayman Islands	100%	Special Purpose Vehicle	Full Consolidation
FGB Global Markets Cayman Limited	Cayman Islands	100%	Special Purpose Vehicle	Full Consolidation
First Gulf Information Technology LLC	UAE	100%	Information Technology Services	Full Consolidation
Significant Investments				
Green Emirates Properties PJSC	UAE	40%	Real Estate Management / Investments	Deduction
Midmak Properties LLC	UAE	16%	Real Estate Management / Investments	Deduction

2 CONSOLIDATED CAPITAL STRUCTURE

All numbers in AED 000s

	Summary Terms & Conditions of main features of all Capital Instruments	Amount
Tier 1 Capital		
1. Paid up share capital / common stock	Note 17 of the Financial Statements for 2016	4,500,000
2. Reserves		
a. Statuatory Reserve	Note 19 of the Financial Statements for 2016	8,780,110
b. Special Reserve	Note 19 of the Financial Statements for 2016	2,250,000
c. General Reserve	Note 19 of the Financial Statements for 2016	120,000
d. Retained Earnings		12,469,016
3. Minority Interest in the Equity of Subsidiaries		432,782
Deferred Tax equity		
4. Innovative Capital Instuments		
5. Other Capital Instruments		
a. Mandatory Convertible Bonds		-
b. Interest Paid Convertible Bonds		-
c. Subordinated Perpetual Notes	Note 18 of the Financial Statements for 2016	4,000,000
6. Surplus Capital from Insurance Companies		
Sub Total		**32,551,908**
Less: Deductions from Regulatory Calculation		(170,399)
Less: Deductions from Tier 1 Capital	Foreign Currency Translation Reserve	(88,327)
Tier 1 Capital after deductions		**32,293,182**
Tier 2 Capital	Note 35 of the Financial statements for 2016 (Cumulative Changes in the Fair Value and General Provisions)	**2,299,323**
Less: Other deductions from Capital	Note 6 of the Financial Statements for 2016	-
Tier 3 Capital		
Total eligible Capital after all deductions		**34,592,505**

3 CAPITAL ADEQUACY

All numbers in AED 000s

	Capital Requirements	RWA	Capital Charge
	1. Credit Risk		
	a. Standardised Approach	169,085,422	20,290,251
OR	b. Foundation IRB		
OR	c. Advanced IRB		
	2. Market Risk		
	a. Standardized Approach	3,077,212	369,265
OR	b. Models Approach		
	3. Operation Risk		
	a. Basic Indicator Approach		
OR	b. Standardised Approach/ASA	16,567,283	1,988,074
OR	c. Advanced Measurement Approach		
	Total Risk Weighted Assets	**188,729,917**	
	Total Capital Charge		**22,647,590**
	Capital Ratios		
	a. Total for Top Consolidated Group		**18.3%**
	b. Tier 1 Ratio only for Top Consolidated Group		**17.1%**
	c. Total for each significant Bank Subsidiary		

4(a) QUALITATIVE DISCLOSURES - RISK MANAGEMENT

Definition of past due and impaired (for accounting purposes)

The Bank considers any overdue payment as "Past due" and follows the UAE Central Bank circular 28/2010 on regulations regarding classification of loans and their provisions for the definition of "impaired loans" .

Description of approaches followed for specific and general allowances and statistical methods

Specific

The Bank reviews its impaired loans and advances on a regular basis to assess the amount of specific provision for impairment to be recorded in the consolidated income statement. Provisions for impaired assets are based on UAE Central Bank circular 28/2010. The wholesale banking loan portfolio is categorized across 5 grades as per the circular and specific provisions are taken for 'Substandard', 'Doubtful' and 'Loss' grades as per the circular. For retail and consumer loans, the Bank takes specific provisions based on number of days past due as per the circular. All the regulations in the circular including regulations pertaining to calculation of provisions and collateral value, interest suspension on past due loans, interest suspension on overdraft facilities, provisioning for off balance sheet items, write-backs of provisions and write-off of loans and advances are consistently followed.

General

As per the UAE Central Bank circular 28/2010, general provisions requirement is assessed based on the total Credit Risk Weighted Assets (CRWA) calculation. The provisions requirement of 1.5% of total Credit Risk Weighted Assets (CRWA) has been built up as guided by the circular. CRWA is calculated using the Basel II standardized approach. The Bank is in the process of transitioning towards provisions based on IFRS 9 accounting standards.

Discussion of Bank's credit risk management policy

FGB's Enterprise Risk Management Policy (ERMP) framework aims to accomplish its core values & purpose of being a world class organization maximizing its risk adjusted returns for all stakeholders by establishing an enterprise wide risk management framework across the FGB Group including its local & international branches, subsidiaries, associates and foreign rep offices. Core objective of ERMP is to provide a reasonable degree of assurance to the BoD that the risks threatening the Bank's achievement of its core purpose are being identified, measured, monitored and controlled through an effective integrated risk management system covering credit, market, operational, interest rate, liquidity and all other material risks including Strategic risk, Country risk, Reputation risk, etc. FGB's ERMP framework covers specific policy documents on the following: Enterprise Risks including Strategic risk, Reputation risk, etc., ICAAP, Risk Appetite, Model Governance, New Product Approvals, Wholesale Banking Credit risk, Consumer Banking Credit risk, Market risk, Operational risk, Liquidity and Interest Rate risk, AML and Sanctions risk, Compliance risk, IT and IS risk Business Continuity risks, Fraud risk, etc. In addition to these risk management policies, detailed policies and procedures have also been put in place across all functional areas.

Partial adoption of Foundation IRB / Advanced IRB

Approach	Description of exposures	Plans and timing of migration to implement fully higher approach
Standardized Approach	As per Basel II categorization	FGB is already on Standardized approach.
Foundation IRB	As per Basel II categorization	In addition to the RWA calculations as per the Standardized approach of Basel II, the Bank also undertakes RWA calculations as per IRB approach of Basel II; the Bank has developed necessary credit risk models across its wholesale and consumer banking portfolios and has carried out the model validation process vis-a-vis the Basel II minimum requirements for transition to IRB. This includes use-testing and external validation of credit risk models. In the wholesale banking portfolio, the Bank has developed several PD models which include industry specific Corporate models, FI model, High Networth Individual model, SME model and Specialized Lending models. Independent external validation of part of these models has already been carried out and the validated models are being used in the credit process. Detailed documentation pertaining to model development, testing, validation, use-testing and governance has been prepared to aid the IRB application process. In the consumer banking portfolio, the Bank has developed several product specific scorecard and rating models; these include scorecards for Credit cards and Personal Loans and rating models for SME Loans, Auto Loans, Residential Mortgage Loans. Independent external validation of these models has already been carried out and the validated models are being used for parallel use testing. Detailed documentation pertaining to model development, testing and validation, has been prepared to aid the IRB application process.
Advanced IRB	Planned as per Basel II categorization	FGB has developed generic models for LGD and EAD for the wholesale banking portfolio and consumer banking portfolio. These are yet to be validated and use tested.

4(b) GROSS CREDIT EXPOSURE BY CURRENCY

All numbers in AED 000s

Currency	Loans	Debt Securities	Other Exposures	Total Funded	Commitments		OTC Derivatives			Other Off Balance Sheet Exposures		Total Non Funded	Total
					without ccf	with ccf	Notional Amount	Positive Fair Value	Credit Risk Exposure	without ccf	with ccf	(Credit Risk Exposure)	
Foreign Currency	70,188,535	27,221,322	46,584,958	143,994,815	35,003,334	17,062,266	141,688,700	1,857,716	4,287,734	35,003,334	17,062,266	22,317,728	166,312,543
AED	91,027,850	163,000	3,842,787	95,033,637	25,152,182	12,307,180	17,460,566	95,287	281,638	25,152,182	12,307,180	12,609,368	107,643,005
Provisions	(4,468,060)	-	-	(4,468,060)									(4,468,060)
Total	**156,748,325**	**27,384,322**	**50,427,745**	**234,560,392**	**60,155,516**	**29,369,446**	**159,149,266**	**1,953,003**	**4,569,372**	**60,155,516**	**29,369,446**	**34,927,096**	**269,487,488**

4(c) GROSS CREDIT EXPOSURE BY GEOGRAPHICAL DISTRUBUTION

All numbers in AED 000s

Geographical Region	Loans	Debt Securities	Other Exposures	Total Funded	Commitments		OTC Derivatives			Other Off Balance Sheet Exposures		Total Non Funded	Total
					without ccf	with ccf	Notional Amount	Positive Fair Value	Credit Risk Exposure	without ccf	with ccf	(Credit Risk Exposure)	
United Arab Emirates	136,538,697	7,311,872	30,563,073	174,413,642	3,940,720	788,143	24,529,247	904,917	1,431,999	37,867,690	18,806,473	21,026,615	195,440,257
GCC excluding UAE	6,240,907	3,065,127	2,196,279	11,502,313	-	-	8,619,132	76,243	158,390	3,077,592	1,923,210	2,081,600	13,583,913
Arab League (excluding GCC)	979,332	431,768	3,263,466	4,674,566	-	-	320,456	1,433	4,634	660,717	289,751	294,385	4,968,951
Asia	12,171,705	4,475,231	4,587,871	21,234,807	754,913	150,983	18,098,656	89,235	388,309	11,871,392	5,123,180	5,662,472	26,897,279
Africa	732,327	2,490,233	16,812	3,239,372	21,234,807	21,234,807	-	-	-	481,542	99,945	122,622	3,361,994
North America	657,871	7,542,069	1,832,541	10,032,481	-	-	183,650	-	919	1,156,724	587,282	588,201	10,620,682
South America	861	79,738	1,824	82,423	-	-	-	-	-	2,033	1,016	1,016	83,439
Caribbean	174,783	-	990,639	1,165,422	-	-	16,637,850	194,611	489,275	235,714	111,714	600,989	1,766,411
Europe	3,717,098	1,948,258	6,953,061	12,618,417	21,234,807	21,234,807	89,197,770	657,646	2,050,396	4,365,978	2,207,814	4,284,685	16,903,102
Australia	2,804	40,026	22,179	65,009	-	-	1,562,505	28,918	45,450	436,134	219,061	264,511	329,520
Provisions	(4,468,060)	-	-	(4,468,060)	-	-	-	-	-			-	(4,468,060)
TOTAL	**156,748,325**	**27,384,322**	**50,427,745**	**234,560,392**	**21,234,807**	**21,234,807**	**159,149,266**	**1,953,003**	**4,569,372**	**60,155,516**	**29,369,446**	**34,927,096**	**269,487,488**

4(d) GROSS CREDIT EXPOSURE BY INDUSTRY SEGMENT

All numbers in AED 000s

Industry Segment	Loans	Debt Securities	Other exposures	Total Funded	Commitments		OTC Derivatives			Other Off Balance Sheet Exposures		Total Non Funded	Total
					without ccf	with ccf	Notional Amount	Positive Fair Value	Credit Risk Exposure	without ccf	with ccf	(Credit Risk Exposure)	
Agriculture, Fishing & Related activities	686,921	-	16,639	703,560	58,147	11,629	2,001,581	293,003	393,082	2,118,812	1,064,856	1,469,567	2,173,127
Crude Oil, Gas, Mining & Quarrying	2,166,612	907,438	64,795	3,138,845	204,737	40,947	1,189,340	47,960	58,470	2,242,044	574,217	673,634	3,812,479
Manufacturing	6,891,148	432,354	381,132	7,704,634	36,418	7,284	5,853,520	73,491	199,965	2,861,792	1,352,579	1,559,828	9,264,462
Electricity & Water	-	-	-	-	-	-	-	-	-	-	-	-	-
Real Estate & Construction	22,741,772	900,531	2,295,357	25,937,660	427,462	85,492	3,068,215	107,282	139,052	24,954,735	12,622,315	12,846,859	38,784,519
Trade	11,430,406	-	1,941,236	13,371,642	455,101	91,020	5,858,128	67,954	171,147	6,487,823	2,798,189	3,060,356	16,431,998
Transport, Storage & Communication	1,655,162	160,375	15,345	1,830,882	-	-	2,105,298	151,694	250,045	82,514	45,698	295,743	2,126,625
Financial Services	8,353,259	11,675,081	18,589,405	38,617,745	228,643	45,729	119,620,251	894,377	2,487,264	4,895,912	2,375,493	4,908,486	43,526,231
Other Services	29,938,741	1,446,079	658,119	32,042,939	1,432,220	286,444	10,196,672	138,538	302,829	8,881,884	4,803,780	5,393,053	37,435,992
Government (including public sector)	14,556,801	11,862,464	24,945,901	51,365,166	2,098,664	419,733	3,722,004	154,653	227,098	7,139,022	3,272,884	3,919,715	55,284,881
RETAIL / CONSUMER BANKING	59,241,688	-	676,265	59,917,953	-	-	5,150,094	15,577	328,586	490,620	459,237	787,823	60,705,776
ALL OTHERS	3,553,875	-	843,551	4,397,426	-	-	384,163	8,474	11,834	358	198	12,032	4,409,458
PROVISIONS	(4,468,060)	-	-	(4,468,060)	-	-	-	-	-	-	-	-	(4,468,060)
TOTAL	**156,748,325**	**27,384,322**	**50,427,745**	**234,560,392**	**4,941,392**	**988,278**	**159,149,266**	**1,953,003**	**4,569,372**	**60,155,516**	**29,369,446**	**34,927,096**	**269,487,488**

4(e) GROSS CREDIT EXPOSURE BY RESIDUAL CONTRACT MATURITY

All numbers in AED 000s

Residual Maturity	Loans	Debt Securities	Other exposures	Total Funded	Commitments		OTC Derivatives			Other Off Balance Sheet Exposures		Total Non Funded	Total
					without ccf	with ccf	Notional Amount	Positive Fair Value	Credit Risk Exposure	without ccf	with ccf	(Credit Risk Exposure)	
Less than 3 months	35,879,179	7,324,975	45,977,745	89,181,900	-	-	36,571,435	1,953,003	2,367,914	42,851,444	21,027,450	23,395,364	112,577,264
3 months to one year	30,845,125	1,413,839	2,950,000	35,208,964	4,941,392	988,278	41,135,420		466,690	6,650,105	3,031,897	4,486,865	39,695,830
One to five years	50,160,387	16,214,240	1,500,000	67,874,627	-	-	55,653,808		1,127,128	9,173,043	3,878,963	5,006,091	72,880,717
Over five years	44,331,694	2,431,267		46,762,961	-	-	25,788,603		607,640	1,480,924	1,431,136	2,038,776	48,801,737
Provisions	(4,468,060)	-		(4,468,060)		-	-		-			-	(4,468,060)
Grand Total	**156,748,325**	**27,384,322**	**50,427,745**	**234,560,392**	**4,941,392**	**988,278**	**159,149,266**	**1,953,003**	**4,569,372**	**60,155,516**	**29,369,446**	**34,927,096**	**269,487,488**

4(f) IMPAIRED LOANS BY INDUSTRY SEGMENT

All numbers in AED 000s

Industry Segment	Overdue / Impaired Assets			Provisions		Adjustments		
	Overdue	Impaired Assets	Total Funded	IIS	Specific	General	Writeoffs	Write Backs
Agriculture, Fishing & Related activities	0	-	0	-	-	-	-	-
Crude Oil, Gas, Mining & Quarrying	320	720,728	721,048	-	-	-	-	-
Manufacturing	98,658	86,035	184,693	15,331	41,995	-	1	-
Electricity & Water	-	-	-	-	-	-	-	-
Real Estate & Construction	453,350	707,275	1,160,625	173,033	277,953	-	21,608	-
Trade	256,872	454,095	710,967	74,997	176,831	-	13,525	-
Transport, Storage & Communication	1	1,253	1,254	-	1,253	-	-	-
Financial Services	14,990	107,467	122,457	11,230	57,061	-	-	-
Other Services	192,848	185,185	378,033	38,708	78,371	-	8,235	-
Government (including Public Sector)	1,527	-	1,527	-	-	-	-	-
Retail / Consumer Banking	3,060,963	1,963,103	5,024,066	228,103	1,160,942	392,569	1,279,871	-
All Others	414,277	30,356	444,633	25,612	75,717	2,205,368	-	-
Total	**4,493,806**	**4,255,497**	**8,749,303**	**567,014**	**1,870,123**	**2,597,937**	**1,323,240**	-

4(g) IMPAIRED LOANS BY GEOGRAPHICAL DISTRIBUTION

All numbers in AED 000s

Industry Segment	Overdue / Impaired Assets				Provisions		Adjustments	
	Overdue	Impaired Assets	Total Funded	IIS	Specific	General	Writeoffs	Write Backs
United Arab Emirates	4,386,399	3,338,652	7,725,051	559,386	1,821,375	2,294,843	1,318,212	-
GCC excluding UAE	3,371	23,045	26,416	303	21,687	28,642	-	-
Arab League (excluding GCC)	32,395	21,942	54,337	2	1,272	18,372	804	-
Asia	12,890	871,858	884,748	7,323	25,789	228,688	4,224	-
Africa	0	-	0	-	-	-	-	-
North America	0	-	0	-	-	-	-	-
South America	-	-	-	-	-	-	-	-
Caribbean	57,558	-	57,558	-	-	-	-	-
Europe	1,192	-	1,192	-	-	27,392	-	-
Australia	-	-	-	-	-	-	-	-
Total	4,493,806	4,255,497	8,749,303	567,014	1,870,123	2,597,937	1,323,240	-

4(h) RECONCILIATION OF CHANGES IN PROVISIONS FOR IMPAIRED LOANS

All numbers in AED 000s

	Description	
	Opening Balance of Provisions for Impaired Loans	4,419,577
Add:	Charge for the year	
	• Corporate, Retail Specific provisions	1,469,078
	• Corporate, Retail and International Division General provisions	110,228
Less:	Write-off of impaired loans	(1,323,240)
Less:	Recovery of loan loss provisions	
Less:	Recovery of loans previously written-off	(127,143)
Less:	Notional Interest on Impaired Loans & Advances	(80,439)
Less:	Write-back of provisions for loans	
	Adjustments of loan loss provisions (acquired in business combination)	
	Closing Balance of Provisions for Impaired Loans	**4,468,060**

4(i) BASEL II PORTFOLIO AS PER STANDARDIZED APPROACH

All numbers in AED 000s

ASSET CLASSES	ON BALANCE SHEET			OFF BALANCE SHEET	EXPOSURE BEFORE CRM AFTER CCF*	CREDIT RISK MITIGATION (CRM)				RISK WEIGHTED ASSETS
See Basel II, June 2006, Para 50 to 81, and Central Bank National Discretions	GROSS OUTSTANDING	Interest in Suspense and Specific Provisions	NET OUTSTANDING	NET EXPOSURE AFTER CREDIT CONVERSION FACTORS (CCF)		CRM	CRM AFTER CCF	EXPOSURE AFTER CRM AND CCF	Reduction in RWA through Guarantees held as CRM	
CLAIMS ON SOVEREIGNS	33,214,560	-	33,214,560	609,737	33,824,297	-	-	33,824,297	-	4,046,976
CLAIMS ON NON-CENTRAL GOVERNMENT PUBLIC SECTOR ENTITIES (PSEs)	535,324	-	535,324	918,250	1,453,574	-	-	1,453,574	-	-
CLAIMS ON MULTI LATERAL DEVELOPMENT BANKS	2,939,657	-	2,939,657	-	2,939,657	-	-	2,939,657	-	114,472
CLAIMS ON BANKS	28,169,359	-	28,169,359	3,642,108	31,811,467	1,823,502	1,823,502	29,987,965	1,823,502	13,569,867
CLAIMS ON SECURITIES FIRMS	1,251,061	-	1,251,061	307,181	1,558,242	240,627	240,627	1,317,615	240,627	1,172,502
CLAIMS ON CORPORATES	102,447,876	-	102,447,876	28,737,904	131,185,780	19,996,414	17,284,601	113,901,179	17,284,601	108,062,778
CLAIMS INCLUDED IN THE REGULATORY RETAIL PORTFOLIO	34,508,759	-	34,508,759	323,595	34,832,354	5,389,750	5,385,024	29,447,330	5,385,024	25,398,966
CLAIMS SECURED BY RESIDENTIAL PROPERTY	24,324,644	-	24,324,644	-	24,324,644	21,128,324	21,128,324	3,196,320	21,128,324	1,812,931
CLAIMS SECURED BY COMMERCIAL REAL ESTATE	3,369,667	-	3,369,667	-	3,369,667	223,301	223,301	3,146,366	223,301	3,146,366
PAST DUE LOANS	5,384,248	2,247,966	3,136,282	-	3,136,282	295,629	295,629	2,840,653	295,629	3,766,889
HIGHER-RISK CATEGORIES	1,526,984	-	1,526,984	1,049,799	2,576,783	-	-	2,576,783	-	3,865,174
OTHER ASSETS	12,471,200	189,172	12,282,028	388,321	12,670,349	-	-	12,670,349	-	4,128,501
CLAIMS ON SECURITISED ASSETS	-	-	-	-	-	-	-	-	-	-
CREDIT DERIVATIVES (Banks Selling protection)	-	-	-	-	-	-	-	-	-	-
TOTAL CLAIMS	250,143,339	2,437,138	247,706,201	35,976,895	283,683,097	49,097,547	46,381,008	237,302,089	295,629	169,085,422

5 BASEL II PORTFOLIO AS PER STANDARDIZED APPROACH (RATED / UNRATED)

All numbers in AED 000s

Asset Class	ON BALANCE SHEET				OFF BALANCE SHEET			EXPOSURE BEFORE CRM			CRM	EXPOSURE AFTER CRM			Reduction in RWA through Guarantees held as CRM	RWA		
	GROSS	NET			NET EXPOSURE AFTER CREDIT CONVERSION FACTORS (CCF)													
	Total	Rated	Unrated	Total	Rated	Unrated	Total	Rated	Unrated	Total	Total	Rated	Unrated	Total	Total	Rated	Unrated	Total
CLAIMS ON SOVEREIGNS	33,214,560	29,945,276	3,269,285	33,214,561	238,295	371,442	609,737	30,183,571	3,640,727.00	33,824,298	0	30,183,571	3,640,727	33,824,298	0	777,701	3,269,275	4,046,976
CLAIMS ON NON-CENTRAL GOVERNMENT PUBLIC SECTOR ENTITIES (PSEs)	535,324	315,878	219,448	535,326	0	918,250	918,250	315,878	1,137,698	1,453,576	0	315,878	1,137,698	1,453,576	0	0	0	0
CLAIMS ON MULTI LATERAL DEVELOPMENT BANKS	2,939,657	2,939,656	0	2,939,656	0	0	0	2,939,656	0	2,939,656	0	2,939,656	0	2,939,656	0	114,472	0	114,472
CLAIMS ON BANKS	28,169,359	26,297,011	1,872,349	28,169,360	3,316,773	325,335	3,642,108	29,613,784	2,197,684	31,811,468	1,823,502	29,613,784	374,182	29,987,966	1,823,502	12,611,498	958,369	13,569,867
CLAIMS ON SECURITIES FIRMS	1,251,061	378,403	872,658	1,251,061	150,456	156,725	307,181	528,859	1,029,383	1,558,242	240,627	528,859	788,756	1,317,615	240,627	144,986	1,027,516	1,172,502
CLAIMS ON CORPORATES	102,447,876	13,782,861	88,665,015	102,447,876	1,053,957	27,683,947	28,737,904	14,836,818	116,348,962	131,185,780	17,284,601	14,836,818	99,064,361	113,901,179	17,284,601	9,223,769	98,839,009	108,062,778
CLAIMS INCLUDED IN THE REGULATORY RETAIL PORTFOLIO	34,508,759	0	34,508,759	34,508,759	0	323,595	323,595	0	34,832,354	34,832,354	5,385,024	0	29,447,330	29,447,330	5,385,024	0	25,398,966	25,398,966
CLAIMS SECURED BY RESIDENTIAL PROPERTY	24,324,644	0	24,324,644	24,324,644	0	0	0	≠-0	24,324,644	24,324,644	21,128,324	0	3,196,320	3,196,320	21,128,324	0	1,812,931	1,812,931
CLAIMS SECURED BY COMMERCIAL REAL ESTATE	3,369,667	0	3,369,667	3,369,667	0	0	0	0	3,369,667	3,369,667	223,301	0	3,146,366	3,146,366	223,301	0	3,146,366	3,146,366
PAST DUE LOANS	5,384,248	0	3,136,283	3,136,283	0	0	0	0	3,136,283	3,136,283	295,629	0	2,840,654	2,840,654	295,629	0	3,766,889	3,766,889
HIGHER-RISK CATEGORIES	1,526,984	0	1,526,984	1,526,984	0	1,049,799	1,049,799	0	2,576,783	2,576,783	0	0	2,576,783	2,576,783	0	0	3,865,174	3,865,174
OTHER ASSETS	12,471,200	1,376,380	10,905,645	12,282,025	358,828	29,493	388,321	1,735,208	10,935,138	12,670,346	0	1,735,208	10,935,138	12,670,346	0	47,050	4,081,451	4,128,501
CLAIMS ON SECURITISED ASSETS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CREDIT DERIVATIVES (BANKS SELLING PROTECTION)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Grand Total	**250,143,339**	**75,035,465**	**172,670,737**	**247,706,201**	**5,118,309**	**30,858,586**	**35,976,895**	**80,153,774**	**203,529,323**	**283,683,097**	**46,381,008**	**80,153,774**	**157,148,315**	**237,302,089**	**46,381,008**	**22,919,476**	**146,165,946**	**169,085,422**

6 CREDIT RISK MITIGATION - DISCLOSURES FOR STANDARDIZED APPROACH

All numbers in AED 000s

	Quantitative Disclosures	Exposures	Risk Weighted Assets
	Gross Exposure prior to Credit Risk Mitigation	**283,683,097**	
Less:	Exposure covered by on-balance sheet netting	–	
Less:	Exposures covered by Eligible Financial Collateral	18,761,980	
Less:	Exposures covered by Guarantees	27,619,028	
Less:	Exposures covered by Credit Derivatives	-	
	Net Exposures after Credit Risk Mitigation	**237,302,089**	**169,085,422**

7 CCOUNTERPARTY CREDIT RISK EXPOSURE

All numbers in AED 000s

ASSET CLASSES	FX AND GOLD			IRS			Equities			Precious Metal except Gold			Commoditie			TRS			CDSS		
	GROSS	MTM	Gross Credit Exposure	GROSS	MTM	Gross Credit Exposure	GROSS	MTM	Gross Credit Exposure	GROSS	MTM	Gross Credit Exposure	GROSS	MTM	Gross Credit Exposure	GROSS	MTM	Gross Credit Exposure	GROSS	MTM	Gross Credit Exposure
Claims on Sovereigns	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Claims on Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Claims on Banks	53,582,757	343,187	1,165,391	40,504,840	197,428	537,052	5,320	-	324	-	-	-	2,409,790	20,384	280,169	-	-	-	133,221	222	13,544
Claims on Securities Firms	4,757,772	30,731	233,636	10,088,712	18,283	67,765	-	-	-	-	-	-	4,203	45	466	-	-	-	49,734	341	5,314
Claims on Corporate	12,394,821	581,824	914,721	20,269,739	353,972	519,341	-	-	-	-	-	-	1,690,110	189,324	374,666	-	-	-	-	-	-
Regulatory & Other Retail Exposure	2,162,101	15,543	49,784	-	-	-	5,320	5	329	-	-	-	151,053	1,286	18,548	-	-	-	-	-	-
Residential Retail Exposure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Commercial Real Estate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Past Due Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
High Risk Category	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	7,868,931	28	155,346	2,937,365	200,283	217,344	-	-	-	-	-	-	133,477	117	15,632	-	-	-	-	-	-
Claims on Securitised Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit Derivatives (Banks selling protection)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grand Total	**80,766,382**	**971,313**	**2,518,878**	**73,800,656**	**769,966**	**1,341,502**	**10,640**	**5**	**653**	**-**	**-**	**-**	**4,388,633**	**211,156**	**689,481**	**-**	**-**	**-**	**182,955**	**563**	**18,858**

8 MARKET RISK - CAPITAL REQUIREMENTS UNDER STANDARDIZED APPROACH

All numbers in AED 000s

Market Risk	Amount
Interest rate risk	36,476
Equity position risk	17,272
Foreign exchange risk	302,591
Commodity risk	-
Options Risk	12,926
Total Capital Requirement	**369,265**

9 EQUITY POSITION

All numbers in AED 000s

As at 31 December 2016, the bank's total equity investment portfolio amounted to AED 1,889 M, 8.2% of which represents quoted investments. For details of the accounting policies and valuation methodology, please refer to Note 2 to the consolidated financial statements under 'Significant Accounting Policies'. Details of cost, market and fair value are reported in Note 5 to the consolidated financial statements under "Investments".

b) Quantitative Disclosures

1. QUANTITATIVE DETAILS OF EQUITY POSITION:

TYPE	CURRENT YEAR		PREVIOUS YEAR	
	Publicly Traded	**Privately Traded**	**Publicly Traded**	**Privately Held**
Equities	153,961	156,736	40,309	168,948
Collective investment schemes		1,577,974		1,574,437
Any other investment				
Total	**153,961**	**1,734,710**	**40,309**	**1,743,385**

2. REALISED, UNREALISED AND LATENT REVALUATION GAINS (LOSES) DURING THE YEAR:

Gains (Losses)	AMOUNT
Realised gains (losses) from sales and liquidations	142,453
*Unrealised gains (losses) recognised in the balance sheet but not through profit and loss account	(21,327)
**Latent revaluation gains (losses) for investment recorded at cost but not recognised in balance sheet or profit and loss account	
Total	**121,126**

3. ITEMS IN (2) ABOVE INCLUDED IN TIER 1/TIER 2 CAPITAL:

Tier Capital	AMOUNT
Amount included in Tier I capital	142,453
Amount included in Tier II capital	(9,597)
Total	**132,856**

4. CAPITAL REQUIREMENTS BY EQUITY GROUPINGS:

Grouping	AMOUNT
Strategic investments	
Available for sale	309,624
Held for trading	17,272
Total capital requirement	**326,896**

10 INTEREST RATE RISK IN THE BANKING BOOK

All numbers in AED 000s

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of interest rate sensitive assets and interest rate sensitive liabilities and off balance sheet instruments that mature or reprice in a given period. Interest rate risks in the Bank are managed under a framework comprising Risk Governance and Risk Appetite. The Risk Governance includes the ALM policy (approved by the Board) within the ambit of ERM policy framework. The Bank uses a combination of duration gap analysis and scenario analysis pertaining to impact of changes in interest rates on Net Interest Income and Value of Equity to manage these risks which are reviewed and monitored by ALCO.

Interest rate risk is also assessed by measuring the impact of defined movements in interest yield curves on the Bank's net interest income. The following impact on the net interest income and regulatory capital is for the year in case of an immediate and permanent movement in interest yield curves.

Shift in Yield Curves	Net Interest Income	Regulatory Capital
+200 basis point	559,624	(600,408)
- 200 basis point	(559,624)	600,408

The above interest rate sensitivities are illustrative only and adopt simplified scenarios. The sensitivities do not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

PRO FORMA REPORT

PRO FORMA PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following pro forma preliminary condensed consolidated financial information and related notes ("Pro forma financial information") illustrates the effects on the statement of financial position and financial performance of the combination (Merger) between National Bank of Abu Dhabi and its subsidiaries (together referred to as "NBAD") and First Gulf Bank and its subsidiaries (together referred to as "FGB"). The closing of the Merger is subject to the occurrence or waiving of certain conditions precedent and is expected to occur in the first quarter of 2017.

The Pro forma financial information consists of the Unaudited Pro Forma Condensed Consolidated Statement of Financial Position of NBAD and FGB (together referred to as "the Group") as at 31 December 2016, as if the Merger has taken place as at 31 December 2016, and its Unaudited Pro forma Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the financial year ended 31 December 2016 and Notes to the Unaudited Pro Forma Financial Information.

The purpose of the Pro forma financial information is to show the material effects that the Merger of NBAD and FGB would have had on the historical consolidated statement of financial position if the Group had already existed in the structure created by the Merger as at 31 December 2016 and on the historical consolidated statement of profit or loss and other comprehensive income for the financial year ended 31 December 2016. They are not representative of the financial situation and performance that could have been observed if the indicated business combination had been undertaken at an earlier date.

The presentation of the Pro forma financial information of the Group is based on certain pro forma assumptions and has been prepared for illustrative purposes only and, because of its nature, the pro forma consolidated statement of financial position and financial performance addresses a hypothetical situation and, therefore, does not represent and may not give a true picture of the financial position and financial performance of the Group. Furthermore, the Pro forma financial information is only meaningful in conjunction with the historical consolidated financial statements of NBAD and FGB as at and for the financial year ended 31 December 2016.

The Pro forma financial information has been prepared on figures extracted from the audited consolidated financial statements of NBAD, and the audited consolidated financial statements of FGB as at 31 December 2016, both prepared on the basis of International Financial Reporting Standards.

The Pro forma financial information have been compiled based on the accounting policies of FGB being the accounting acquirer. Those accounting policies are disclosed in the consolidated financial statements as at 31 December 2016 of FGB. The principles/criteria used in the compilation of these pro forma financial information and assumptions used are explained in this document (Notes).

The Pro forma financial information does not take into consideration the effects of expected synergies or costs incurred to achieve these synergies as a result of the Merger. The Pro forma financial information gives no indication of the results and future financial situation of the activities of the Group.

Under IFRS 3 Business Combinations, the Group accounts for the Merger as an acquisition by FGB of NBAD ("reverse acquisition") and is required to fair value the assets, liabilities and contingent liabilities acquired at the date of acquisition and to reflect the difference between their fair value and the purchase consideration as goodwill or gain on acquisition. The fair value exercise ("purchase price allocation") has not been completed as at the date of this document and may result in different values being attributed to the assets, liabilities and contingent liabilities acquired than those that are shown in the Pro forma financial information.

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	NBAD	FGB	Pro forma adjustments	Notes	Pro forma Consolidated
	AED 000	AED 000	AED 000		AED 000
ASSETS					
Cash and balances with central banks	98,664,599	24,777,953	-		123,442,552
Investments at fair value through profit or loss	14,525,506	899,524	(4,043,179)	i	11,381,851
Due from banks and financial institutions	8,523,107	12,936,687	(4,147,419)	i	17,312,375
Reverse repurchase agreements	9,566,579	5,449,019	(736,756)	i	14,278,841
Derivative financial instruments	12,019,406	1,953,003	(175,640)	i	13,796,769
Loans and advances	200,531,811	155,778,326	(64,070)	i	356,246,067
Non-trading investments	64,441,924	28,373,469	-		92,815,393
Other assets	9,545,979	6,819,129	(68,827)	i	16,296,281
Investment properties	45,604	6,422,502	-		6,468,106
Property and equipment	2,848,985	1,528,255	216,990	ii	4,594,230
Goodwill and intangible assets	-	170,398	13,713,791	iv	13,884,189
Total assets	420,713,500	245,108,264	4,694,890		670,516,654
LIABILITIES					
Due to banks and financial institutions	40,963,741	11,585,628	(4,147,419)	i	48,401,949
Repurchase agreements	17,222,136	13,109,155	(736,756)	i	29,594,535
Euro commercial paper	7,372,911	10,016,916	(3,663,930)		13,725,897
Derivative financial instruments	13,380,789	2,835,008	(175,640)	i	16,040,157
Customer accounts and other deposits	253,382,492	146,911,122	-		400,293,614
Term borrowings	28,915,650	16,458,045	(379,250)	i	44,994,445
Other liabilities	12,614,291	4,698,918	(132,897)	i	17,180,312
Sukuk financing instruments	-	1,836,500	-		1,836,500
Subordinated notes	355,987	-	-		355,987
Total liabilities	374,207,997	207,451,292	(9,235,891)		572,423,398
EQUITY					
Share capital	5,254,546	4,500,000	1,143,000	iii, v	10,897,546
Additional paid-in capital	307,885	-	52,463,799	iii, v	52,771,684
Treasury shares	(48,746)	-	-	iii, v	(48,746)
Legal reserve	5,254,546	11,030,110	(11,030,110)	iii, v	5,254,546
Tier 1 capital notes	6,754,750	4,000,000	-	iv, v	10,754,750
Share option scheme	228,349	-	-	iv, v	228,349
Convertible notes-equity component	108,265	-	-	iv, v	108,265
Revaluation reserve	-	280,601	-		280,601
Other reserves	21,196,859	444,463	(21,196,859)	v	444,463
Retained earnings	7,449,049	16,969,016	(7,449,049)	v	16,969,016
Equity attributable to equity holders of the Bank	46,505,503	37,224,190	13,930,781		97,660,474
Non-controlling interests	-	432,782	-		
Total equity	46,505,503	37,656,972	13,930,781		98,093,256
Total liabilities and equity	**420,713,500**	**245,108,264**	**4,694,890**		**670,516,654**

See notes to the Pro forma financial information.

PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED

31 DECEMBER 2016

	NBAD	FGB	Pro forma adjustments	Notes	Pro forma Consolidated
	AED 000	AED 000	AED 000		AED 000
Interest income	9,656,957	8,039,512	(158,601)	i	17,537,868
Interest expense	(2,836,654)	(1,951,322)	158,601	i	(4,629,375)
Net interest income	**6,820,303**	**6,088,190**	**-**		**12,908,493**
Income from Islamic financing contracts	509,473	506,160	-		1,015,633
Islamic financing expense	(24,969)	(208,458)	-		(233,427)
Net income from Islamic financing contracts	**484,504**	**297,702**	**-**		**782,206**
Net interest and Islamic financing income	**7,304,807**	**6,385,892**	**-**		**13,690,699**
Net fees and commission income	2,178,104	1,848,700	-		4,026,804
Net foreign exchange gain	961,286	194,022	-		1,155,308
Net gain on investments and derivatives	327,816	377,067	-		704,883
Other operating income	36,171	776,719	-		812,890
Operating income	**10,808,184**	**9,582,400**	**-**		**20,390,584**
General, administration and other operating expense	(4,012,759)	(1,997,740)	-		(6,010,499)
Profit before net impairment charge and taxation	**6,795,425**	**7,584,660**	**-**		**14,380,085**
Net impairment charge	(1,190,677)	(1,473,014)	-		(2,663,691)
Profit before taxation	**5,604,748**	**6,111,646**	**-**		**11,716,394**
Overseas income tax expense	(308,706)	(41,846)	-		(350,552)
Net profit	**5,296,042**	**6,069,800**	**-**		**11,365,842**
Other comprehensive income	548,125	(78,643)	-		469,482
Total comprehensive income	**5,844,167**	**5,991,157**	**-**		**11,835,324**

See notes to the Pro forma financial information

NOTES TO THE PRO FORMA FINANCIAL INFORMATION BASIS OF PRO FORMA FINANCIAL INFORMATION PRESENTATION

The Group has adopted the acquisition method of accounting under IFRS 3 Business Combinations. IFRS 3 requires that an acquirer be identified in any business combination and acquisition accounting principles be applied. For the purposes of this Pro forma financial information, FGB has been identified as the acquirer. The Merger however is to be effected by a capital issuance of 5,643 million shares of AED 1 by NBAD to the shareholders of FGB, in a share swap transaction at the exchange rate of 1.254 shares of NBAD for each share of FGB. Accordingly, the transaction is accounted for as a reverse acquisition.

The consolidated statement of financial position of NBAD at 31 December 2016 has been extracted from the audited consolidated financial statements of NBAD. The consolidated statement of financial position of FGB at 31 December 2016 has been extracted from the audited consolidated financial statements of FGB.

The consolidated statement of profit or loss and other comprehensive income of NBAD for the financial year ended 31 December 2016 has been extracted from the audited consolidated financial statements of NBAD. The consolidated statement of profit or loss and other comprehensive income of FGB for the financial year ended 31 December 2016 has been extracted from the audited consolidated financial statements of FGB.

The Pro forma financial information has been prepared and are presented on the basis of accounting policies of FGB as disclosed in its consolidated financial statements for the year ended 31 December 2016. The accounting policies used by FGB as described in its financial statements for the year ended 31 December 2016 do not materially differ from those used by NBAD except for the following:

a. Lands classified under property and equipment are measured by FGB under the revaluation model compared to the cost model adopted by NBAD and thus carried at fair value in the statement of financial position. Based on the fair value of land properties provided by NBAD, an increase of AED217 million has been recognised.

b. Investment properties are measured at fair value by FGB compared to cost model as adopted by NBAD. However, as disclosed in NBAD's audited financial statements as at 31 December 2016, the fair value of investment properties approximates its carrying amounts and thus no adjustment has been recognised.

The following presentation adjustments have been made to ensure consistency of presentation with the consolidated statement of financial position between NBAD and FGB, in particular:

a. FGB's investments have been separately presented as investments at fair value through profit or loss and non-trading investments;
b. FGB's investments in associates have been presented under other assets;
c. FGB's derivative financial assets and liabilities have been separately presented out of other assets and other liabilities, respectively;
d. FGB's repurchase agreements have been separately presented out of due to banks and financial institutions, customer accounts and other deposits, and term borrowings;
e. FGB's reverse repurchase agreements have been separately presented out of loans and advances, and due from banks;
f. FGB's goodwill and intangible assets have been separately presented out of other assets; and
g. FGB's foreign currency translation reserve and cumulative change in fair value reserve have been presented as part of other reserves.

BASIS OF PRO FORMA FINANCIAL INFORMATION PRESENTATION *(continued)*

The following presentation adjustments have been made to ensure consistency of presentation with the consolidated statement of profit or loss and other comprehensive income between NBAD and FGB, in particular:

a. FGB's income from Islamic financing contracts have been separately presented and reclassified from 'Interest income and income from Islamic financing' in its financial statements; and
b. FGB's expense from Islamic financing have been separately presented and reclassified from 'Interest expense and Islamic financing expense' in its financial statements; and
c. FGB's net foreign exchange gain and net gain on investments and derivatives have been separately presented out of other operating income.

PRO FORMA ADJUSTMENTS

The pro forma adjustments made for purposes of the Pro forma financial information are based on information available and on preliminary estimates, as well as certain pro forma assumptions of the Group as described in these pro forma notes. The Pro forma financial information neither contains any potential synergies or cost savings nor any normalisation adjustments or any additional future expenses that could result from the Merger. Furthermore, the Pro forma financial information does not contain any potential or future effects resulting from any possible remedies imposed on the Group by authorities or regulators in connection with the Merger. The Pro forma financial information has not been adjusted for acquisition-related costs.

For purposes of the Pro forma financial information, it is assumed that the closing of the Merger occurred as at 31 December 2016. The pro forma financial information has not been adjusted for acquisition-related costs.

The pro forma adjustments included in the Pro forma financial information are as follows:

1. To record elimination of intercompany balances between FGB and NBAD. Intercompany balances for accounts under statements of financial position (assets and liabilities) and statements of profit or loss and other comprehensive income (income and expenses) between FGB and NBAD have been reconciled against each other.

2. To record the adjustments relating to the fair valuation of NBAD land within property and equipment as follows:

	AED'000
Carrying value	1,100,695
Fair value	1,317,685
Difference	216,990

The following is the journal entry to record the above adjustment:

	AED'000	AED'000
Land (Dr.)	216,990	
Retained earnings (Dr.)	185,997	
Revaluation reserve (Cr.)		402,987

PRO FORMA ADJUSTMENTS *(continued)*

3. To record the issuance of shares of NBAD to FGB shareholders. For the Pro forma financial information purposes, the consideration for the acquisition has been calculated on the basis of a share swap transaction at the rate of 1.254 shares in NBAD for each share in FGB which would result to 52.01% ownership interest of FGB shareholders in the Group and a 47.99% ownership interest of NBAD shareholders, as shown below:

	Units 000	%
Outstanding shares of FGB	**4,500,000**	
Exchange ratio	1.254	
Number of shares to be issued by NBAD to FGB	5,643,000	
Par value of shares issued by NBAD to FGB	5,643,000	*52.01%*
Outstanding share capital of NBAD		
(net of treasury shares)	**5,205,800**	*47.99%*
Total shares of NBAD post combination (net of treasury shares)	**10,848,800**	***100.00%***

Accordingly, NBAD's share capital post-Merger amount to AED10,849 million which is presented as follows:

	AED'000
Share capital	10,897,546
Treasury shares	(48,746)
Total share capital	**10,848,800**

Applying the rules of IFRS 3 for reverse acquisitions, the consideration for FGB's acquisition of NBAD is the fair value of the equivalent number of shares that FGB would have to issue to NBAD shareholders that would give FGB shareholders and NBAD shareholders the same percentage of equity ownership of 52.01% and 47.99%, respectively, in the Group. The purchase consideration has been calculated on the basis of FGB's closing price of AED12.85 per share on Abu Dhabi Securities Exchange on 29 December 2016. The purchase consideration is an indicative cost, and will be revised to reflect the market price of the shares of FGB as on the date of acquisition.

The consideration is computed as follows:

Outstanding shares of FGB (units'000)	4,500,000
Divided by: FGB's percentage ownership in the Group	*52.01%*
Total number of shares of the Group (units'000)	**8,651,356**
Multiplied by: NBAD's percentage ownership in the Group	*47.99%*
Number of shares to be issued by FGB to NBAD (units'000)	**4,151,356**
Multiplied by: Share price of FGB	12.85
Total consideration (AED'000)	**53,344,920**

A share premium of AED47,702 million arises on NBAD issuance of the new shares for this transaction computed as follows:

	AED'000
Total consideration	53,344,920
Less: Par value of shares issued by NBAD to FGB	5,643,000
Share premium	**47,701,920**

NOTES TO THE PRO FORMA FINANCIAL INFORMATION
(continued)

PRO FORMA ADJUSTMENTS *(continued)*

4. To record AED13,714 million excess of total consideration over the net assets of NBAD as at 31 December 2016 after adjustments for other equity items. This amount has not been bifurcated between goodwill and intangible assets pending the results of the purchase price allocation exercise. Moreover, the Pro forma financial information does not include any adjustments to the fair value of the assets, liabilities and contingent liabilities of NBAD as required by IFRS 3. A full fair value exercise will be undertaken as on the date of acquisition.

	AED'000
Total consideration	53,344,920
Less: Adjusted net assets of NBAD as at 31 December 2016	(39,631,129)
Goodwill / intangible	**13,713,791**

The adjusted net assets of NBAD has been computed by deducting other equity items which represents NBAD's continuing interest in the Group and thus were excluded from computation of goodwill.

	AED'000
Net assets of NBAD as at 31 December 2016	46,722,493
Less: Other equity items	
Tier 1 capital notes	(6,754,750)
Share option scheme	(228,349)
Convertible notes-equity component	(108,265)
Adjusted net assets of NBAD as at 31 December 2016	**39,631,129**

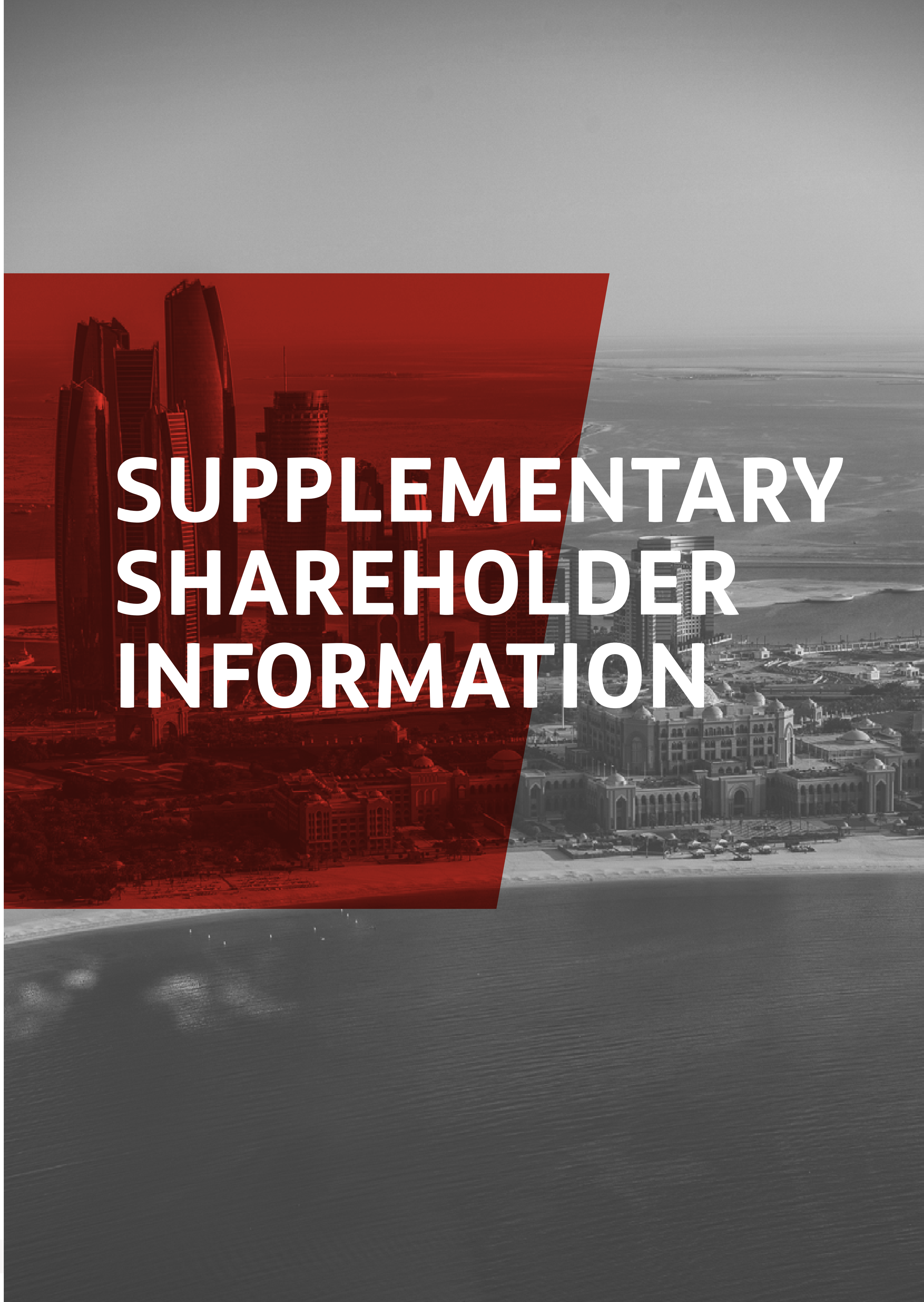
5. The consolidated retained earnings and other equity balances at the date of the pro forma combination represents FGB's pre-combination balances with the exception of the following:
   a. The legal reserve represents NBAD total legal reserve being the legal surviving entity;
   b. Tier 1 capital represents both NBAD and FGB's balances as NBAD tier 1 capital has been excluded from the acquired net assets (see note iv); and
   c. NBAD share option reserve and equity component of convertible notes has been retained as these represent non-controlling continuing interest in the Group.

Accordingly, the total paid-in capital of NBAD post combination is presented below:

	AED'000
FGB's capital pre combination	4,500,000
Total consideration	53,344,920
Capital post combination	**57,844,920**
Adjustment to retain NBAD's legal reserve	5,775,564
Total paid-in capital	**63,620,484**

The following shows the breakdown of total paid-in capital:

	AED'000
Share capital	10,897,546
Additional paid-in capital	52,771,684
Treasury Shares	(48,746)
Total paid-in capital	**63,620,484**



SUPPLEMENTARY SHAREHOLDER INFORMATION

SUPPLEMENTARY SHAREHOLDER INFORMATION

A. 2016/2017 Financial Calendar

Date	Event
27/04/2016	Q1'2016 Financial Results Announcement
27/07/2016	Q2/H1'2016 Financial Results Announcement
26/10/2016	Q3/9M'2016 Financial Results Announcement
31/01/2017	FY2016 Financial Results Announcement
28/02/2017	Annual General Meeting
09/03/2017	Ex-Dividend Date

B. 2016/2017 Financial Calendar

Listing date	2002
Exchange	Abu Dhabi
Symbol	FGB
ISIN	AEF000201010
Number of shares outstanding	4,500,000,000
Closing Price as of Dec 31st, 2016	AED 12.85
Market cap as of Dec 31st, 2016	AED 57.8Bn (USD 15.7Bn)
Foreign Ownership Limit	25%

C. OWNERSHIP STRUCTURE AS OF DECEMBER-END 2016

As of 31 December 2016, FGB's share capital stood at AED 4,500,000,000 divided into 4,500,000,000 shares at AED 1 each.

87.0%
UAE companies and individuals

11.0%
Foreign investors

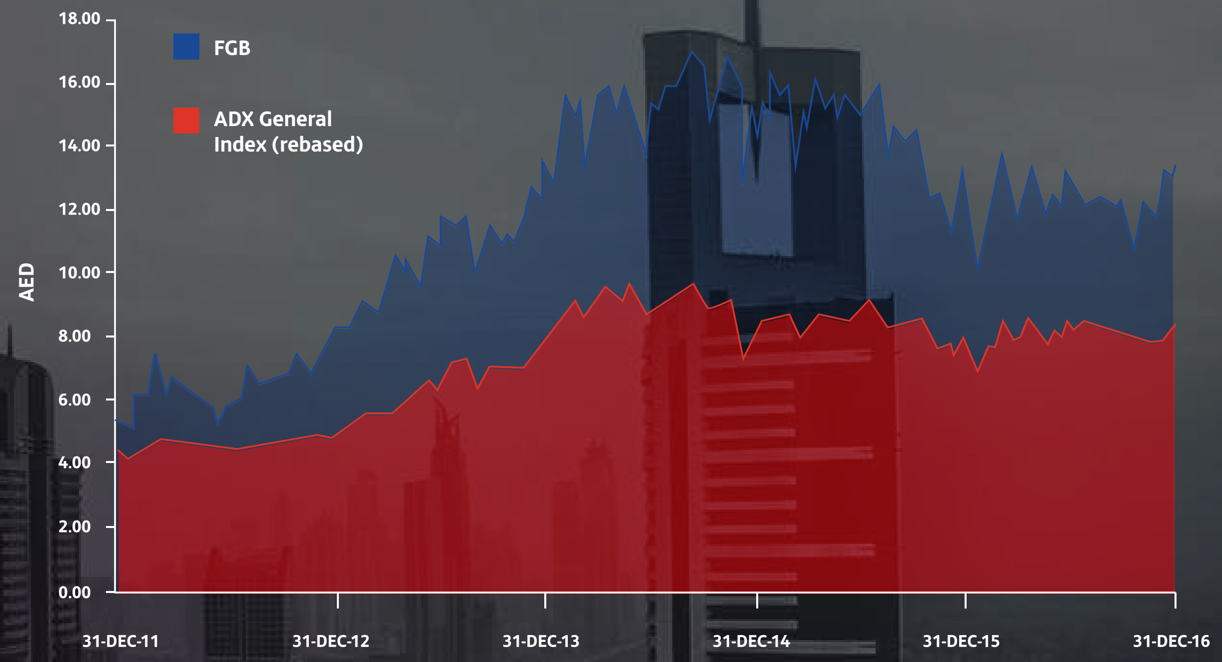
2.0%
GCC (ex-UAE)

D. KEY SHAREHOLDER DATA

	2016	2015	2014	2013	2012
NET PROFIT (AED MN)	6,026	6,006	5,656	4,774	4,152
CASH DIVIDEND (AED MN)	4,500	4,500	3,900	3,000	2,500
CASH DIVIDEND (% OF CAPITAL)	100%	100%	100%	100%	83%
BONUS SHARES (% OF CAPITAL)	-	-	15.38%	30%	-
DIVIDEND PAYOUT RATIO (% OF NET PROFIT)	75%	75%	69%	63%	60%
BASEL II CAPITAL ADEQUACY AFTER DIVIDEND DISTRIBUTION[1]	18.3%	17.5%	17.5%	17.4%	18.7%

1 *CAR adjusted from Tier 2 MoF Loan*

E. FGB 5-YEAR SHARE PRICE PERFORMANCE vs. ADSMI



SOURCE: EUROLAND

PERFORMANCE

	1 YEAR	3-YEAR CAGR	5-YEAR CAGR
FGB	2%	1%	20%
ADX	6%	2%	14%

SOURCE: EUROLAND

F. FGB-NBAD MERGER

On 7 December 2016, shareholders in FGB and NBAD approved the merger of the two banks at separate quorate general assembly meetings held in Abu Dhabi. The approval of at least 75 percent by value of the shares represented at each meeting was required to proceed with the merger. During the meetings, FGB and NBAD shareholders also ratified the combined bank's Board of Directors, once the merger becomes effective.

While the transaction has received regulatory consent from the Central Bank of the UAE, further approvals from international regulators and the Securities & Commodities Authority (SCA) are required before the banks are legally combined into a single entity.

Upon the effective date of the merger, assets and liabilities of FGB will be automatically vested in NBAD in consideration for the issue of shares in the new NBAD entity to existing FGB shareholders. In addition, all FGB shares will be de-listed from the Abu Dhabi Securities Exchange.

بنك الخليج الأول

FGB