

First Gulf Bank
Public Joint Stock Company

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016



Table of Contents

Independent Auditors' Report	6
Consolidated Balance Sheet	6
Consolidated Income Statement	7
Consolidated Statement of Comprehensive Income	8
Consolidated Statement of Cash Flows	9
Consolidated Statement of Changes in Equity.....	10
Notes to the Consolidated Financial Statements.....	11
3 Cash and Balances with Central Banks	27
4 Loans and Advances.....	28
5 Investments.....	29
6 Investment in Associates	31
7 Investment Properties	32
8 Other Assets	33
9 Property and Equipment	34
10 Due to Banks	35
11 Customers' Deposits.....	35
12 Euro Commercial Paper.....	36
13 Term Loans.....	36
14 Sukuk Financing Instruments	40
15 Other Liabilities.....	40
16 Provision for Staff Benefits	40
17 Share Capital	41
18 Capital Notes	41
19 Appropriations	41
20 Interest Income and Income from Islamic Financing	42
21 Interest Expense and Islamic Financing Expense	42
22 Fees and Commission Income, net	43
23 Other Operating Income	43
24 General and Administrative Expenses.....	44
25 Provision for Impairment of Loans and Advances	44
26 Basic and Diluted Earnings per Share	44
27 Cash and Cash Equivalents.....	45
28 Related Party Transactions	45
29 Commitments and Contingent Liabilities	46
30 Derivatives.....	47
31 Segmental Information	49
32 Risk Management.....	50
33 Fair Value of Financial Instruments	66
34 Capital Management.....	69
35 Merger with NBAD	71
36 Comparative Information	71

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 consolidated 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than 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
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)
Total equity		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

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		<u>6,069,800</u>	<u>6,019,224</u>	<u>1,652,546</u>	<u>1,638,776</u>
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
		<u>6,069,800</u>	<u>6,019,224</u>	<u>1,652,546</u>	<u>1,638,776</u>
Basic and diluted earnings per share	26	<u>AED 1.32</u>	<u>AED 1.31</u>	<u>US \$ 0.36</u>	<u>US \$ 0.36</u>

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	<i>AED 000</i>	<i>AED 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
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	<u>(51,000)</u>	<u>(45,000)</u>	<u>(13,885)</u>	<u>(12,252)</u>
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	<u>(29,795)</u>	<u>(125,845)</u>	<u>(8,112)</u>	<u>(34,262)</u>
	<u>(27,643)</u>	<u>(234,298)</u>	<u>(7,527)</u>	<u>(63,789)</u>
Other comprehensive loss for the year	<u>(78,643)</u>	<u>(279,298)</u>	<u>(21,412)</u>	<u>(76,041)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>5,991,157</u>	<u>5,739,926</u>	<u>1,631,134</u>	<u>1,562,735</u>
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	<u>32,343</u>	<u>(42,828)</u>	<u>8,805</u>	<u>(11,660)</u>
	<u>5,991,157</u>	<u>5,739,926</u>	<u>1,631,134</u>	<u>1,562,735</u>

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	<u>4,500,000</u>	<u>4,000,000</u>	<u>8,780,110</u>	<u>2,250,000</u>	<u>120,000</u>	<u>280,601</u>	<u>-</u>	<u>4,500,000</u>	<u>12,469,016</u>	<u>412,790</u>	<u>(88,327)</u>	<u>37,224,190</u>	<u>432,782</u>	<u>37,656,972</u>

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**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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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:

	Activity	Country of incorporation	Percentage of holding	
			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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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 cancellation 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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 or indirectly observable
- 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

Reposessed collateral

Reposessed 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	<u>24,329,648</u>	<u>20,707,528</u>
	<u>24,777,953</u>	<u>21,075,886</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

4 LOANS AND ADVANCES

The composition of loans and advances portfolio is as follows:

	<i>2016</i> <i>AED 000</i>	<i>2015</i> <i>AED 000</i>
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	<u>6,890,562</u>	<u>6,914,875</u>
Total	161,216,385	154,185,637
Less provision for impaired loans and advances	<u>(4,468,060)</u>	<u>(4,419,577)</u>
Total	<u>156,748,325</u>	<u>149,766,060</u>
Representing:		
Conventional loans and advances	143,241,468	137,724,119
Islamic financing	<u>13,506,857</u>	<u>12,041,941</u>
Total	<u>156,748,325</u>	<u>149,766,060</u>

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

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)	<u>(80,439)</u>	<u>(94,470)</u>
At 31 December	<u>4,468,060</u>	<u>4,419,577</u>

Analysis of the provision for impairment is as follows:

Specific provision	1,870,123	1,727,721
Collective provision	<u>2,597,937</u>	<u>2,691,856</u>
Total provision	<u>4,468,060</u>	<u>4,419,577</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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

	<i>2016</i> <i>AED 000</i>	<i>2015</i> <i>AED 000</i>
<i>Carried at fair value through income statement</i>		
Investments in managed funds	50,990	78,339
Investments in equities - Quoted	13,593	40,113
- Unquoted	7,383	19,180
Debt securities	<u>827,558</u>	<u>435,333</u>
	<u>899,524</u>	<u>572,965</u>
<i>Available for sale investments</i>		
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	<u>1,363,431</u>	<u>271,424</u>
	<u>25,942,164</u>	<u>15,513,717</u>
<i>Held to maturity investments</i>		
Debt securities - Quoted	1,519,124	5,421,705
- Unquoted	<u>912,181</u>	<u>1,183,756</u>
	<u>2,431,305</u>	<u>6,605,461</u>
Total	<u>29,272,993</u>	<u>22,692,143</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

5 INVESTMENTS continued

	2016 <i>AED 000</i>	2015 <i>AED 000</i>
Analysis of debt securities:		
Fixed rate	26,295,391	19,673,136
Floating rate	<u>1,088,931</u>	<u>1,235,313</u>
	<u>27,384,322</u>	<u>20,908,449</u>
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	<u>1,752,445</u>	<u>513,518</u>
	<u>29,272,993</u>	<u>22,692,143</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

6 INVESTMENT IN ASSOCIATES

The Bank has the following investments in associates:

	<i>Percentage of holding</i>	
	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
<i>Share of associates’ balance sheets</i>		
Current assets	5,972	5,718
Non-current assets	<u>35,117</u>	<u>34,996</u>
Total assets	<u>41,089</u>	<u>40,714</u>
Current liabilities	1,032	1,136
Non-current liabilities	<u>27</u>	<u>27</u>
Total liabilities	<u>1,059</u>	<u>1,163</u>
Net assets	<u>40,030</u>	<u>39,551</u>
Carrying amount of investment in associates	<u>40,030</u>	<u>39,551</u>
<i>Share of associates’ revenue, profit and losses:</i>		
Revenue	<u>571</u>	<u>1,515</u>
Profit for the year	<u>479</u>	<u>1,568</u>

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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	<u>90,152</u>	<u>(11,896)</u>
At 31 December	<u>6,422,502</u>	<u>8,242,190</u>

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

Rental income derived from investment properties	150,994	156,248
Operating expenses	<u>(55,584)</u>	<u>(56,982)</u>
Net rental income from investment properties	<u>95,410</u>	<u>99,266</u>

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:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

7 INVESTMENT PROPERTIES continued

Reconciliation of fair value for investment properties is as follows:

	<i>Investment properties</i>		
	<i>Land & buildings</i>	<i>Under-development</i>	<i>Total</i>
	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>
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	<u>1,122,574</u>	<u>(1,032,422)</u>	<u>90,152</u>
Closing balance	<u>4,952,270</u>	<u>1,470,232</u>	<u>6,422,502</u>
Unrealised gains/(losses) for the year included in profit or loss (recognised in other operating income)	<u>190,365</u>	<u>(196,016)</u>	<u>(5,651)</u>

Description of valuation techniques used and key inputs to valuation on investment properties as at 31 December 2016 and 2015:

	<i>Valuation technique</i>	<i>Significant unobservable inputs</i>
Buildings	Comparable and Residual Method Sales Comparison Method	Comparable transactions 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

	<i>2016</i>	<i>2015</i>
	<i>AED 000</i>	<i>AED 000</i>
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	<u>1,391,444</u>	<u>1,182,223</u>
	<u>8,902,500</u>	<u>9,097,964</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

9 PROPERTY AND EQUIPMENT

	<i>Land</i> <i>AED 000</i>	<i>Buildings</i> <i>AED 000</i>	<i>Capital</i> <i>work-in</i> <i>progress</i> <i>AED 000</i>	<i>Motor</i> <i>vehicles</i> <i>AED 000</i>	<i>Furniture,</i> <i>fixtures</i> <i>and</i> <i>equipment</i> <i>AED 000</i>	<i>Computer</i> <i>hardware</i> <i>and</i> <i>software</i> <i>AED 000</i>	<i>Total</i> <i>AED 000</i>
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	<u>407,446</u>	<u>747,899</u>	<u>91,754</u>	<u>2,410</u>	<u>192,848</u>	<u>625,587</u>	<u>2,067,944</u>
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	-	<u>98,593</u>	-	<u>2,237</u>	<u>130,227</u>	<u>308,632</u>	<u>539,689</u>
Net book value:							
At 31 December 2016	<u>407,446</u>	<u>649,306</u>	<u>91,754</u>	<u>173</u>	<u>62,621</u>	<u>316,955</u>	<u>1,528,255</u>
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	<u>511,713</u>	<u>772,293</u>	<u>128,817</u>	<u>2,504</u>	<u>155,103</u>	<u>491,298</u>	<u>2,061,728</u>
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	-	<u>197,840</u>	-	<u>2,063</u>	<u>119,043</u>	<u>257,050</u>	<u>575,996</u>
Net book value:							
At 31 December 2015	<u>511,713</u>	<u>574,453</u>	<u>128,817</u>	<u>441</u>	<u>36,060</u>	<u>234,248</u>	<u>1,485,732</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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

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

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

	<i>2016</i> <i>AED 000</i>	<i>2015</i> <i>AED 000</i>
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	<u>33,945,816</u>	<u>24,974,256</u>
	<u>149,233,883</u>	<u>142,462,563</u>

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%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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

	<i>2016</i>	<i>2015</i>
	<i>AED 000</i>	<i>AED 000</i>
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	<u>208,259</u>	<u>208,259</u>
	<u>16,666,304</u>	<u>15,857,504</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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:

No.	2016		2015		Maturity
	Amount US\$ 000	Amount AED 000	Amount US\$ 000	Amount AED 000	
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	<u>9,000</u>	<u>33,057</u>	<u>9,000</u>	<u>33,057</u>	8-April-2019
	<u>56,700</u>	<u>208,259</u>	<u>56,700</u>	<u>208,259</u>	

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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

	<i>2016</i> <i>AED 000</i>	<i>2015</i> <i>AED 000</i>
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	<u>192,436</u>	<u>87,425</u>
	<u>7,533,926</u>	<u>7,930,365</u>

16 PROVISION FOR STAFF BENEFITS

The movement in the provision was as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

17 SHARE CAPITAL

	<i>2016</i>	<i>2015</i>
	<i>AED 000</i>	<i>AED 000</i>
Ordinary shares of AED 1 each	<u>4,500,000</u>	<u>4,500,000</u>

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

19 APPROPRIATIONS continued

Dividends

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

20 INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING

	<i>2016</i> <i>AED 000</i>	<i>2015</i> <i>AED 000</i>
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)	<u>80,439</u>	<u>94,470</u>
Total	8,039,512	7,863,127
Income from Islamic financing	<u>506,160</u>	<u>426,652</u>
Interest income and income from Islamic financing	<u>8,545,672</u>	<u>8,289,779</u>

21 INTEREST EXPENSE AND ISLAMIC FINANCING EXPENSE

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

22 FEES AND COMMISSION INCOME, NET

	<i>2016</i> <i>AED 000</i>	<i>2015</i> <i>AED 000</i>
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	<u>163</u>	<u>8,330</u>
Total fees and commission income	2,137,641	1,998,806
Fees and commission expenses	<u>(288,941)</u>	<u>(298,361)</u>
Fees and commission income, net	<u>1,848,700</u>	<u>1,700,445</u>

23 OTHER OPERATING INCOME

	<i>2016</i> <i>AED 000</i>	<i>2015</i> <i>AED 000</i>
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	<u>4,744</u>	<u>4,113</u>
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	<u>85,081</u>	<u>79,162</u>
Total	<u>1,347,329</u>	<u>1,302,201</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

24 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2016</i> <i>AED 000</i>	<i>2015</i> <i>AED 000</i>
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	<u>994,834</u>	<u>954,557</u>
Total	<u>1,997,740</u>	<u>1,947,403</u>
Number of employees	<u>1,322</u>	<u>1,436</u>

25 PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES

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

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:

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

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:

	<i>2016</i> <i>AED 000</i>	<i>2015</i> <i>AED 000</i>
Cash and balances with Central Banks	24,777,953	21,075,886
Due from banks and financial institutions	<u>17,415,706</u>	<u>15,096,847</u>
	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	<u>(1,849,394)</u>	-
Cash and cash equivalents	<u>22,170,993</u>	<u>18,855,192</u>

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

	<i>2016</i> <i>AED 000</i>	<i>2015</i> <i>AED 000</i>
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	<u>815,624</u>	<u>38,720</u>
	<u>42,193,659</u>	<u>36,172,733</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

28 RELATED PARTY TRANSACTIONS continued

The following transactions have been entered into with related parties:

	2016 AED 000	2015 AED 000
<i>Board members, key management personnel and associated companies</i>		
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
<i>Associates</i>		
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 AED 000	2015 AED 000
<i>Contingent liabilities:</i>		
Letters of credit	14,769,639	14,192,933
Guarantees	<u>45,385,877</u>	<u>49,492,411</u>
	<u>60,155,516</u>	<u>63,685,344</u>
<i>Commitments:</i>		
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	<u>1,049,799</u>	<u>769,398</u>
	<u>6,484,018</u>	<u>8,824,505</u>
Total commitments and contingent liabilities	<u>66,639,534</u>	<u>72,509,849</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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.

	Positive fair value AED 000	Negative fair value AED 000	Notional amount Total AED 000	Notional amounts by term to maturity			
				Within 3 months AED 000	3-12 months AED 000	1-5 years AED 000	More than 5 years AED 000
<i>At 31 December 2016</i>							
<i>Derivatives held for trading:</i>							
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
<i>Derivatives held for hedging:</i>							
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
<i>At 31 December 2015</i>							
<i>Derivatives held for trading:</i>							
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
<i>Derivatives held for hedging:</i>							
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

31 SEGMENTAL INFORMATION continued

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

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

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.

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 GroupRemuneration 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** continuedRisk 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 BankExecutive 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

32 RISK MANAGEMENT continued**32.1 Introduction** continued**Management Level Committees within the Bank** continuedInvestment 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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.

	<i>Notes</i>	<i>Gross maximum exposure 2016 AED 000</i>	<i>Gross maximum exposure 2015 AED 000</i>
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		<u>6,803,400</u>	<u>8,828,340</u>
Total		<u>232,681,401</u>	<u>215,307,224</u>
<i>Derivatives held for trading</i>			
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	<u>674</u>	<u>84</u>
		<u>1,877,755</u>	<u>1,694,701</u>
<i>Derivatives held for hedging:</i>			
Interest rate swaps	30	48,064	26,537
Cross currency swaps	30	<u>27,184</u>	<u>198,951</u>
Total		<u>75,248</u>	<u>225,488</u>
Contingent liabilities	29	60,155,516	63,685,344
Commitments	29	<u>4,941,392</u>	<u>7,502,799</u>
Total		<u>65,096,908</u>	<u>71,188,143</u>
Total credit risk exposure		<u>299,731,312</u>	<u>288,415,556</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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	<u>4,744,283</u>	<u>2,059,092</u>
Financial assets subject to credit risk	234,560,392	215,307,224
Other assets	<u>10,547,872</u>	<u>12,189,149</u>
Total assets	<u>245,108,264</u>	<u>227,496,373</u>
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	<u>2,031,145</u>	<u>3,628,457</u>
Financial assets subject to credit risk	234,560,392	215,307,224
Other assets	<u>10,547,872</u>	<u>12,189,149</u>
Total assets	<u>245,108,264</u>	<u>227,496,373</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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.

	<i>Neither past due nor impaired</i>			<i>Past due or individually impaired</i>	<i>Total</i>
	<i>Pass grade</i>	<i>Watch grade</i>			
	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>	<i>AED 000</i>
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	8,182,288	161,216,385
Other assets	8,681,155	-	-	-	8,681,155
Investments	27,384,322	-	142,764	142,764	27,527,086
Total	227,783,136	3,061,792	8,325,052	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	8,322,196	154,185,637
Other assets	8,828,340	-	-	-	8,828,340
Investments	20,908,449	-	140,002	140,002	21,048,451
Total	207,862,168	3,542,437	8,462,198	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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

	<i>Less than 30 days AED 000</i>	<i>31 to 60 days AED 000</i>	<i>61-90 days AED 000</i>	<i>More than 91 days AED 000</i>	<i>Total AED 000</i>
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					<u>(4,493,806)</u>
Impaired loans and advances					<u>3,688,482</u>
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					<u>(4,028,138)</u>
Impaired loans and advances					<u>4,294,058</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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:

	<i>Less than 3 months AED 000</i>	<i>3 months to 1 year AED 000</i>	<i>1 year to 5 years AED 000</i>	<i>Over 5 years AED 000</i>	<i>Total AED 000</i>
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	<u>8,902,500</u>	-	-	-	<u>8,902,500</u>
Financial assets	90,212,001	35,208,964	67,874,627	43,821,885	237,117,477
Non-financial assets					<u>7,990,787</u>
Total assets					<u>245,108,264</u>
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	<u>7,533,926</u>	-	-	-	<u>7,533,926</u>
Total liabilities	<u>128,733,469</u>	<u>39,954,391</u>	<u>15,566,519</u>	<u>23,196,913</u>	<u>207,451,292</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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:

	<i>Less than 3 months AED 000</i>	<i>3 months to 1 year AED 000</i>	<i>1 year to 5 years AED 000</i>	<i>Over 5 years AED 000</i>	<i>Total AED 000</i>
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	<u>8,828,340</u>	-	-	-	<u>8,828,340</u>
Financial assets	<u>65,570,031</u>	<u>31,326,983</u>	<u>74,038,829</u>	<u>46,523,433</u>	<u>217,459,276</u>
Non-financial assets					<u>10,037,097</u>
Total assets					<u>227,496,373</u>
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	<u>7,930,365</u>	-	-	-	<u>7,930,365</u>
Total liabilities	<u>107,188,838</u>	<u>39,094,733</u>	<u>23,964,107</u>	<u>20,944,624</u>	<u>191,192,302</u>

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.

	<i>Less than 3 months AED 000</i>	<i>3 months to 1 year AED 000</i>	<i>1 year to 5 years AED 000</i>	<i>Over 5 years AED 000</i>	<i>Total AED 000</i>
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	<u>7,533,926</u>	-	-	-	<u>7,533,926</u>
Total liabilities	<u>129,213,060</u>	<u>40,863,043</u>	<u>16,437,986</u>	<u>23,832,208</u>	<u>210,346,297</u>
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	<u>7,930,365</u>	-	-	-	<u>7,930,365</u>
Total liabilities	<u>107,637,101</u>	<u>40,091,744</u>	<u>25,085,130</u>	<u>21,187,109</u>	<u>194,001,084</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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.

	<i>Less than 3 months AED 000</i>	<i>3 months to 1 year AED 000</i>	<i>1 year to 5 years AED 000</i>	<i>Over 5 years AED 000</i>	<i>Total AED 000</i>
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	<u>(91,030)</u>	<u>(28,488)</u>	<u>(332,514)</u>	<u>(55,916)</u>	<u>(507,948)</u>

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

	<i>Less than 3 months AED 000</i>	<i>3 months to 1 year AED 000</i>	<i>1 to 5 years AED 000</i>	<i>Over 5 years AED 000</i>	<i>Total AED 000</i>
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	<u>46,667,787</u>	<u>16,409,284</u>	<u>9,432,778</u>	-	<u>72,509,849</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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 interest 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 interest 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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.

<i>Currency</i>	<i>USD</i>	<i>EUR</i>	<i>GBP</i>	<i>Libyan Dinar</i>
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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.

	<i>Assumed level of change %</i>	<i>Impact on net income 2016 AED 000</i>	<i>Impact on net income 2015 AED 000</i>
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:

	<i>Assumed level of change %</i>	<i>Impact on equity 2016 AED 000</i>	<i>Impact on equity 2015 AED 000</i>
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****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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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:

	<i>Level 1</i> <i>AED 000</i>	<i>Level 2</i> <i>AED 000</i>	<i>Level 3</i> <i>AED 000</i>	<i>Total</i> <i>AED 000</i>
FINANCIAL ASSETS				
<i>INVESTMENTS</i>				
<i>Carried at fair value through income statement</i>				
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
<i>Available for sale investments</i>				
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
<i>For disclosure purposes - Held to maturity investments</i>				
Debt securities - Quoted	1,573,521	-	-	1,573,521
- Unquoted	-	912,549	-	912,549
	<u>25,317,068</u>	<u>2,326,970</u>	<u>1,683,720</u>	<u>29,327,758</u>
<i>DERIVATIVES – Positive fair value</i>				
<i>Derivatives held for trading</i>				
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
<i>Derivatives held for hedging</i>				
Interest rate swaps	-	48,064	-	48,064
Cross currency swaps	-	27,184	-	27,184
	<u>674</u>	<u>1,952,329</u>	<u>-</u>	<u>1,953,003</u>
<i>DERIVATIVES – Negative fair value</i>				
<i>Derivatives held for trading</i>				
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
<i>Derivatives held for hedging</i>				
Interest rate swaps	-	119,443	-	119,443
Cross currency swaps	-	534,232	-	534,232
	<u>-</u>	<u>2,835,008</u>	<u>-</u>	<u>2,835,008</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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:

	<i>Level 1</i> AED 000	<i>Level 2</i> AED 000	<i>Level 3</i> AED 000	<i>Total</i> AED 000
FINANCIAL ASSETS				
<i>INVESTMENTS</i>				
<i>Carried at fair value through income statement</i>				
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
<i>Available for sale investments</i>				
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
<i>For disclosure purposes - Held to maturity investments</i>				
Debt securities - Quoted	5,573,084	-	-	5,573,084
- Unquoted	-	1,143,029	-	1,143,029
	<u>19,644,957</u>	<u>1,494,240</u>	<u>1,663,598</u>	<u>22,802,795</u>
<i>DERIVATIVES – Positive fair value</i>				
<i>Derivatives held for trading</i>				
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
<i>Derivatives held for hedging</i>				
Interest rate swaps	-	26,537	-	26,537
Cross currency swaps	-	198,951	-	198,951
	<u>84</u>	<u>1,920,105</u>	<u>-</u>	<u>1,920,189</u>
<i>DERIVATIVES – Negative fair value</i>				
<i>Derivatives held for trading</i>				
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
<i>Derivatives held for hedging</i>				
Interest rate swaps	-	81,806	-	81,806
Cross currency swaps	-	517,810	-	517,810
	<u>68</u>	<u>2,368,515</u>	<u>-</u>	<u>2,368,583</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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	<u>(2,686)</u>	<u>(100,192)</u>
At 31 December	<u>1,683,720</u>	<u>1,663,598</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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 AED 000	2015 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	<u>(4,500,000)</u>	<u>(4,500,000)</u>
Total	<u>32,030,799</u>	<u>30,712,393</u>
Non-controlling interests	432,782	400,439
Less: Goodwill and intangible assets	<u>(170,399)</u>	<u>(194,517)</u>
Total (a)	<u>32,293,182</u>	<u>30,918,315</u>
Tier II Capital		
Collective impairment provision on loans and advances	2,113,568	2,163,031
Cumulative changes in fair values	<u>185,755</u>	<u>184,787</u>
Total	<u>2,299,323</u>	<u>2,347,818</u>
Eligible Tier II Capital (b)	<u>2,299,323</u>	<u>2,347,818</u>
Total capital base (a) + (b)	<u>34,592,505</u>	<u>33,266,133</u>
Risk-weighted assets:		
Credit risk	169,085,422	173,042,446
Market risk	3,077,212	1,219,712
Operational risk	<u>16,567,283</u>	<u>15,768,783</u>
Total risk-weighted assets (c)	<u>188,729,917</u>	<u>190,030,941</u>
Capital adequacy ratio {(a) + (b) / (c) x 100}	<u>18.3%</u>	<u>17.5%</u>

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.