EMIRATES NBD BANK PJSC

GROUP CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

These Audited Preliminary Financial Statements are subject to Central Bank of UAE Approval and adoption by Shareholders at the Annual General Meeting

EMIRATES NBD BANK PJSC

GROUP CONSOLIDATED FINANCIAL STATEMENTS

Contents	**Page**
Independent auditors’ report on the Group consolidated financial statements	1 – 7
Group consolidated statement of financial position	8
Group consolidated income statement	9
Group consolidated statement of comprehensive income	10
Group consolidated statement of cash flows	11 – 12
Group consolidated statement of changes in equity	13 – 14
Notes to the Group consolidated financial statements	15 – 125

Ernst & Young
P.O. Box 9267
28th Floor, Al Saqr Business Tower
Sheikh Zayed Road
Dubai, United Arab Emirates

Tel: +971 4 332 4000
Fax: +971 4 332 4004
dubai@ae.ey.com
ey.com/mena

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMIRATES NBD BANK PJSC

Report on the audit of the consolidated financial statements

Opinion
We have audited the consolidated financial statements of Emirates NBD Bank PJSC (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity 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 Group 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

Basis of opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with ethical requirements that are relevant to our audit of the consolidated financial statements 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 Auditor's 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.

EY
Building a better working world

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMIRATES NBD BANK PJSC (continued)

Key audit matters (continued)

(a) Impairment of loans and advances

Due to the inherently judgmental nature of the computation of impairment provisions for loans and advances and Islamic financing receivables, there is a risk that the amount of impairment may be misstated. The impairment of loans and advances is estimated by management through the application of judgment and the use of subjective assumptions. Due to the significance of loans and advances and Islamic financing receivables and related estimation uncertainty, this is considered a key audit risk. The corporate loan portfolio generally comprises larger loans that are monitored individually by management. The assessment of loan loss impairment is therefore based on management's knowledge of each individual borrower. However, consumer loans generally comprises much smaller value loans to a much greater number of customers. Provisions are not calculated on an individual basis, but are determined by grouping by product into homogeneous portfolios. The portfolios are then monitored through delinquency statistics, which drive the assessment of loan loss provision. The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from collective models, are unsecured or are subject to potential collateral shortfalls.

The risks outlined above were addressed by us as follows:

- For corporate customers, we tested the key controls over the credit grading process, to assess if the risk grades allocated to the counterparties were appropriate. We then performed detailed credit assessment of all loans in excess of a defined threshold and loans in excess of a lower threshold in the watch list category and impaired category together with a selection of other loans.

- For consumer customers, the impairment process is based on projecting losses based on prior historical payment performance of each portfolio, adjusted for current market conditions. We have tested the accuracy of key data from the portfolio used in the models and reperformed key provision calculations.

- We compared the Group's assumptions for collective impairment allowances to externally available industry, financial and economic data. As part of this, we critically assessed the Group's estimates and assumptions, specifically in respect to the inputs to the impairment models and the consistency of judgement applied in the use of economic factors, loss emergence periods and the observation period for historical default rates. We have made use of specialists to assess the appropriateness of the collective impairment calculation methodology.

(b) Provision for legal cases

The recognition and measurement of the provision and the measurement and disclosure of contingent liabilities in respect of litigation require significant judgement. Due to the significance of these matters and the difficulty in assessing and quantifying resulting obligations, this is considered to be a key audit risk.

EY

Building a better working world

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMIRATES NBD BANK PJSC (continued)

Key audit matters (continued)

(b) Provision for legal cases (continued)

For ongoing legal cases, we have assessed whether an obligation exists and the appropriateness of provisioning and disclosure requirements based on the facts and circumstances available. We obtained and reviewed litigation documents, obtained legal confirmations from external lawyers and interviewed the Group's internal legal counsel. We also critically assessed the assumptions made and key judgements applied and considered possible alternative outcomes based on our own experience and knowledge of market information. In addition, we have assessed whether the Group's disclosures of the application of judgement in estimating provisions and contingent liabilities adequately reflected the uncertainties associated with legal matters.

(c) Impairment of goodwill

Goodwill impairment testing of cash generating units ('CGUs') relies on estimates of value-in-use based on estimated future cash flows. Due to the uncertainty of forecasting and discounting future cash flows, this is deemed significant risk.

We assessed the reasonableness of cash flow projections and compared key inputs, such as discount rates and growth rates, to externally available industry, economic and financial data and the Group's own historical data and performance. We used our own valuation specialists to test the assumptions used in valuation.

(d) Concentration to related party balances

Under IFRS 7 Financial Instruments: Disclosures, specific disclosures are required for each type of risk arising from financial instruments. These include qualitative disclosures around how exposures arise and how they are measured and managed, summary quantitative data about an entity's exposure to each type of risk, and information about an entity's credit risk exposure, including significant credit risk concentrations ("concentration risk"). In addition, for government-controlled entities such as Emirates NBD Bank PJSC, disclosure is required under IAS 24 Related Party Disclosures of a qualitative or quantitative indication of the extent of transactions with the government or related entities.

Note 42 to the consolidated financial statements, Related Party Transactions, describes group exposure to the majority shareholder of the parent, the Investment Corporation of Dubai. Significant management judgment is involved in determining the disclosures required by IFRS 7 and IAS 24 to address the concentration and related risks and related party disclosures arising from this balance and the income arising from it. As such, we consider this to be a key audit matter.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMIRATES NBD BANK PJSC (continued)

Key audit matters (continued)

(d) Concentration to related party balances (continued)

To audit the balances due from the related parties and the related income, we performed a combination of tests of controls, analytical review procedures and specific substantive audit procedures to test related parties and transactions. Key controls in the loan and overdraft granting, booking and monitoring processes were identified, documented and tested. Balances were confirmed by the borrower. The calculation of income was re-performed on a sample basis to determine whether it had been recognized in accordance with International Financial Reporting Standards. We reviewed minutes of meetings of management, the Board of Directors and shareholders, and compared identified related party transactions with those identified by management. We assessed the adequacy of these disclosures by assessing whether a reasonable user of the consolidated financial statements could understand the exposure of the Bank to concentration and related risks, and by considering the ability of such a user to reasonably estimate the extent of transactions with the majority shareholder of the parent, including the income arising from the balance due from them, based on the disclosures provided.

Other information

Management is responsible for the other information. Other information consists of the information included in the Group's 2016 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's 2016 Annual Report after the date of our auditors' report.

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 auditor's 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 International Financial Reporting Standards and in compliance with the applicable provisions of the Bank's Memorandum and Articles of Association 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.

Building a better working world

Responsibilities of management and those charged with governance for the consolidated financial statements (continued)

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 Group'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 Group'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 Group to cease to continue as a going concern.

Building a better
working world

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMIRATES NBD BANK PJSC (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- 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 Group 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 auditor's 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 UAE Federal Law No. (2) of 2015, we report that:

- the Group has maintained proper books of account;

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

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

- the consolidated financial information included in the Directors' report is consistent with the books of account and records of the Group;

- investments in shares and stocks during the year ended 31 December 2016 are disclosed in note 6 and 7 to the consolidated financial statements;

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMIRATES NBD BANK PJSC (continued)

Report on other legal and regulatory requirements (continued)

- note 42 reflects the disclosures relating to related party transactions and the terms under which they were conducted;
- 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 Memorandum and Articles of Association which would materially affect its activities or its consolidated financial position as at 31 December 2016; and
- note 51 reflects the social contributions made during the year.

Ernst & Young

Signed by:
Joseph Murphy
Partner
Registration No.: 492

15 January 2017

Dubai, United Arab Emirates

GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Notes	2016 AED 000	2015 AED 000
ASSETS			
Cash and deposits with Central Bank	4	57,214,660	54,974,670
Due from banks	5	57,082,148	39,836,584
Trading securities	6	1,575,279	1,678,869
Investment securities	7	13,573,622	15,926,581
Loans and receivables	8	242,612,617	226,696,541
Islamic financing receivables	10	47,783,692	43,884,317
Investments in associates and joint ventures	11	1,680,362	1,615,021
Positive fair value of derivatives	37	3,153,972	2,669,079
Investment properties	12	553,812	805,937
Customer acceptances	41	6,941,585	3,712,749
Property and equipment	13	2,397,196	2,396,314
Goodwill and intangibles	14	5,827,150	6,030,825
Other assets	15	7,607,917	6,332,688
TOTAL ASSETS		**448,004,012**	**406,560,175**
LIABILITIES			
Due to banks	16	18,856,571	18,822,719
Customer deposits	17	254,698,202	224,385,213
Islamic customer deposits	18	56,054,237	62,846,692
Repurchase agreements with banks	19	45,906	248,334
Debt issued and other borrowed funds	20	38,695,734	31,287,342
Sukuk payable	21	7,368,138	3,672,500
Negative fair value of derivatives	37	2,824,708	2,610,205
Customer acceptances	41	6,941,585	3,712,749
Other liabilities	22	8,658,013	8,225,894
TOTAL LIABILITIES		**394,143,094**	**355,811,648**
EQUITY			
Issued capital	23	5,557,775	5,557,775
Treasury shares		(46,175)	(46,175)
Tier I capital notes	24	9,477,076	9,477,076
Share premium reserve	23	12,270,124	12,270,124
Legal and statutory reserve	25	2,778,888	2,778,888
Other reserves	25	2,869,533	2,869,533
Fair value reserve	25	110,791	476,375
Currency translation reserve	25	(1,103,009)	(207,411)
Retained earnings		21,938,659	17,566,680
TOTAL EQUITY ATTRIBUTABLE TO EQUITY AND NOTE HOLDERS OF THE GROUP		**53,853,662**	**50,742,865**
Non-controlling interest		7,256	5,662
TOTAL EQUITY		**53,860,918**	**50,748,527**
TOTAL LIABILITIES AND EQUITY		**448,004,012**	**406,560,175**

The attached notes 1 to 51 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 7.

15 JAN 2017

Chairman — Vice Chairman — Chief Executive Officer

GROUP CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 AED 000	2015 AED 000
Interest and similar income	26	12,397,749	11,077,468
Interest and similar expense	26	(3,882,240)	(2,518,718)
Net interest income		**8,515,509**	**8,558,750**
Income from Islamic financing and investment products	27	2,547,068	2,197,678
Distribution on Islamic deposits and profit paid to Sukuk holders	28	(951,482)	(515,164)
Net income from Islamic financing and investment products		**1,595,586**	**1,682,514**
Net interest income and income from Islamic financing and investment products net of distribution to depositors		**10,111,095**	**10,241,264**
Fee and commission income		3,747,262	3,534,664
Fee and commission expense		(885,881)	(741,375)
Net fee and commission income	29	**2,861,381**	**2,793,289**
Net gain /(loss) on trading securities	30	165,277	80,434
Other operating income	31	1,610,215	2,113,079
Total operating income		**14,747,968**	**15,228,066**
General and administrative expenses	32	(4,887,687)	(4,719,437)
Operating profit before impairment		**9,860,281**	**10,508,629**
Net impairment loss on financial assets	33	(2,607,935)	(3,406,465)
Operating profit after impairment		**7,252,346**	**7,102,164**
Share of profit of associates and joint ventures	11	135,138	166,357
Group profit for the year before tax		**7,387,484**	**7,268,521**
Taxation charge	35	(148,321)	(144,753)
Group profit for the year after tax		**7,239,163**	**7,123,768**
Attributable to:			
Equity holders of the Group		7,239,047	7,123,032
Non-controlling interest		116	736
Group profit for the year after tax		**7,239,163**	**7,123,768**
Earnings per share	36	**1.20**	**1.18**

The attached notes 1 to 51 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 7.

GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 AED 000	2015 AED 000
Group profit for the year after tax	7,239,163	7,123,768
Items that may be reclassified subsequently to Income statement:		
Other comprehensive income		
Cash flow hedges:		
- Effective portion of changes in fair value	33,485	(21,757)
Fair value reserve (available-for-sale financial assets):		
- Net change in fair value	(180,359)	(229,423)
- Net amount transferred to income statement	(218,710)	(163,735)
Currency translation reserve	(895,598)	(135,672)
Other comprehensive income for the year	(1,261,182)	(550,587)
Total comprehensive income for the year	**5,977,981**	**6,573,181**
Attributable to:		
Equity holders of the Bank	5,977,865	6,572,445
Non-controlling interest	116	736
Total comprehensive income for the year	**5,977,981**	**6,573,181**

The attached notes 1 to 51 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 7.

GROUP CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 AED 000	2015 AED 000
OPERATING ACTIVITIES		
Group profit before tax for the year	7,387,484	7,268,521
Adjustment for non cash items		
Impairment loss on loans and receivables	1,481,521	2,198,658
Impairment loss on Islamic financing receivables	1,022,251	937,879
Impairment loss on investment securities	121,511	80,950
Amortisation of fair value	97,382	33,574
Discount on Investment securities	56,107	56,786
Unrealised foreign exchange gain	(32,726)	(151,570)
Amortisation of intangibles	63,990	81,000
Depreciation of property and equipment / Investment property	324,768	352,589
Share of profit of associates and joint ventures	(135,138)	(166,357)
Unrealized (gain)/loss on investments	(42,933)	33,756
Unrealized (gain)/loss on FV Hedged item	(5,833)	(382,942)
Gain on sale of fixed assets	-	(28,491)
Gain on sale of Investment properties	(100,593)	(142,889)
Gain on sale of properties (inventories)	(29,368)	(83,698)
Operating profit before changes in operating assets and liabilities	**10,208,423**	**10,087,766**
(Increase)/decrease in interest free statutory deposits	915,929	(5,750,157)
(Increase)/decrease in certificate of deposits with Central Bank maturing after three months	(2,917,975)	(4,452,201)
(Increase)/decrease in amounts due from banks maturing after three months	(5,723,480)	450,000
Increase/(decrease) in amounts due to banks maturing after three months	79,104	1,894,143
Increase/(decrease) in deposits under repurchase agreements	(202,428)	212,965
(Increase)/decrease in other assets	(4,568,721)	2,194,071
Increase/(decrease) in other liabilities	2,904,227	1,408,793
(Increase)/decrease in positive fair value of derivatives	(466,976)	(1,354,342)
Increase/(decrease) in negative fair value of derivatives	230,072	938,389
Increase/(decrease) in customer deposits	30,312,989	20,413,755
Increase/(decrease) in islamic customer deposits	(6,792,455)	8,559,521
(Increase)/decrease in trading securities	101,898	(847,021)
(Increase)/decrease in loans and receivables	(17,397,597)	(16,875,600)
(Increase)/decrease in Islamic financing receivables	(4,921,626)	(10,868,054)
	1,761,384	**6,012,028**
Taxes paid	(182,171)	(125,208)
Net cash flows from/(used in) operating activities	**1,579,213**	**5,886,820**

GROUP CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 AED 000	2015 AED 000
INVESTING ACTIVITIES		
(Increase)/decrease in investment securities	1,821,125	(2,014,932)
(Increase)/decrease in investments in associates and joint ventures	52,152	326,015
Acquisition of Investment Properties	-	(32,652)
Disposal of Investment Properties	326,800	537,962
Addition of property and equipment	(805,791)	(718,755)
Disposal of property and equipment	480,144	702,849
Net cash flows from/(used in) investing activities	**1,874,430**	**(1,199,513)**
FINANCING ACTIVITIES		
Issuance of debt issued and other borrowed funds	16,709,587	10,563,141
Repayment of debt issued and other borrowed funds	(9,243,619)	(5,651,375)
Issuance of Sukuk borrowing	3,696,948	-
Interest on Tier I capital notes	(590,530)	(590,731)
Dividends paid	(2,220,749)	(1,943,155)
Net cash flows from/(used in) financing activities	**8,351,637**	**2,377,880**
Increase/(decrease) in cash and cash equivalents (refer Note 45)	**11,805,280**	**7,065,187**

The attached notes 1 to 51 form an integral part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 7.

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	ATTRIBUTABLE TO EQUITY AND NOTE HOLDERS OF THE GROUP											
	Issued capital (a)	Treasury shares	Tier I capital notes (b)	Share premium reserve (a)	Legal and statutory reserve (c)	Other reserves (c)	Fair value reserve (c)	Currency translation reserve (c)	Retained earnings	Total	Non-controlling interest	Group Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2016	5,557,775	(46,175)	9,477,076	12,270,124	2,778,888	2,869,533	476,375	(207,411)	17,566,680	50,742,865	5,662	50,748,527
Total comprehensive income for the year	-	-	-	-	-	-	(365,584)	(895,598)	7,239,047	5,977,865	116	5,977,981
Interest on Tier 1 capital notes	-	-	-	-	-	-	-	-	(590,530)	(590,530)	-	(590,530)
Increase in non-controlling interest	-	-	-	-	-	-	-	-	-	-	1,478	1,478
Dividends paid	-	-	-	-	-	-	-	-	(2,220,749)	(2,220,749)	-	(2,220,749)
Directors' fees (refer note 34)	-	-	-	-	-	-	-	-	(20,650)	(20,650)	-	(20,650)
Zakat	-	-	-	-	-	-	-	-	(35,139)	(35,139)	-	(35,139)
Balance as at 31 December 2016	**5,557,775**	**(46,175)**	**9,477,076**	**12,270,124**	**2,778,888**	**2,869,533**	**110,791**	**(1,103,009)**	**21,938,659**	**53,853,662**	**7,256**	**53,860,918**

In accordance with the Ministry of Economy interpretation, Directors' fees have been treated as an appropriation from equity.

The attached notes 1 to 51 form an integral part of these Group consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 7.

Notes:

(a) For further details refer to Note 23

(b) For further details refer to Note 24

(c) For further details refer to Note 25

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	ATTRIBUTABLE TO EQUITY AND NOTE HOLDERS OF THE GROUP											
	Issued capital (a)	**Treasury shares**	**Tier I capital notes (b)**	**Share premium reserve (a)**	**Legal and statutory reserve (c)**	**Other reserves (c)**	**Fair value reserve (c)**	**Currency translation reserve (c)**	**Retained earnings**	**Total**	**Non-controlling interest**	**Group Total**
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2015	5,557,775	(46,175)	9,477,076	12,270,124	2,778,888	2,869,533	891,290	(71,739)	13,031,219	46,757,991	4,926	46,762,917
Total comprehensive income for the year	-	-	-	-	-	-	(414,915)	(135,672)	7,123,032	6,572,445	736	6,573,181
Interest on Tier 1 capital notes	-	-	-	-	-	-	-	-	(590,731)	(590,731)	-	(590,731)
Dividends paid	-	-	-	-	-	-	-	-	(1,943,155)	(1,943,155)	-	(1,943,155)
Directors' fees (refer note 34)	-	-	-	-	-	-	-	-	(20,650)	(20,650)	-	(20,650)
Zakat	-	-	-	-	-	-	-	-	(33,035)	(33,035)	-	(33,035)
Balance as at 31 December 2015	5,557,775	(46,175)	9,477,076	12,270,124	2,778,888	2,869,533	476,375	(207,411)	17,566,680	50,742,865	5,662	50,748,527

In accordance with the Ministry of Economy interpretation, Directors' fees have been treated as an appropriation from equity.

The attached notes 1 to 51 form an integral part of these Group consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on pages 1 to 7.

Notes:

(a) For further details refer to Note 23

(b) For further details refer to Note 24

(c) For further details refer to Note 25

1 CORPORATE INFORMATION

Emirates NBD Bank PJSC (the "Bank") was incorporated in the United Arab Emirates on 16 July 2007 consequent to the merger between Emirates Bank International PJSC ("EBI") and National Bank of Dubai PJSC ("NBD"), under the Commercial Companies Law (Federal Law Number 8 of 1984 as amended) as a Public Joint Stock Company. The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the existing Federal Law No. 8 of 1984. The Bank is currently assessing the impact of the new law and expects to be fully compliant on or before the end of grace period on 30 June 2017.

The consolidated financial statements for the year ended 31 December 2016 comprise the financial statements of the Bank and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures.

The Bank is listed on the Dubai Financial Market (TICKER: "EMIRATESNBD"). The Group's principal business activities are corporate banking, consumer banking, treasury and Islamic banking. The Bank's website is www.emiratesnbd.com. For details of activities of subsidiaries, refer to Note 39.

The registered address of the Bank is Post Box 777, Dubai, United Arab Emirates ("UAE").

The parent company of the Group is Investment Corporation of Dubai, a company in which the Government of Dubai is the majority shareholder.

2 BASIS OF PREPARATION

(a) Statement of compliance:

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and applicable requirements of the laws of the UAE.

The principal accounting policies adopted in the preparation of the Group consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

These Group consolidated financial statements were approved for issue by the Board of Directors on 15 January 2017.

(b) Basis of measurement:

The Group consolidated financial statements have been prepared under the historical cost basis except for the following:

- derivative financial instruments are measured at fair value;
- financial instruments classified as trading and at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value; and
- recognised assets and liabilities that are hedged are measured at fair value in respect of the risk that is hedged.

2 BASIS OF PREPARATION (continued)

(b) Basis of measurement (continued):

The presentation currency of the consolidated financial statements is the United Arab Emirates Dirham (AED). The functional currency for a significant proportion of the Group's assets, liabilities, income and expenses is also AED. However, certain subsidiaries have functional currencies other than AED and the AED is the presentation currency.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group consolidated financial statements are disclosed in Note 3 (a).

(c) Principles of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control.

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group 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. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The list of the Group's subsidiary companies is shown in Note 39.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Bank with the exception of Emirates Financial Services PSC, an insignificant subsidiary, whose year end is 31 March and hence the Group uses their reviewed 12 months accounts as at 31 December. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated.

2 BASIS OF PREPARATION (continued)

(c) Principles of consolidation (continued)

(a) Subsidiaries (continued)

Basis of consolidation (continued)

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

When the Group 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.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 in profit or loss. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are restated to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group’s previously held equity interest in the acquiree (if any), over the net fair value of the acquiree’s identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in Note 3. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group’s accounting policy for financial instruments depending on the level of influence retained.

2 BASIS OF PREPARATION (continued)

(c) Principles of consolidation (continued)

(b) Special Purpose Entities

Special Purpose Entities (SPEs) are entities that are created to accomplish a well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if the Group is exposed to variable returns from its involvement in the SPE and has the ability to affect those returns through its power over the SPE based on an evaluation of the substance of its relationship with the Group.

The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation;
- The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE; or
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Group has control over an SPE is carried out at inception and reassessed at each period end date.

Information about the Group's securitisation activities is set out in Note 9.

(c) Fund Management

The Group manages and administers funds on behalf of investors. The financial statements of these funds are not included in these consolidated financial statements. Information about the Group's fund management activity is set out in Note 47.

(d) Fiduciary activities

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in these consolidated financial statements (refer Note 48).

(e) Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Bank and is presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from equity attributable to owners of the Bank.

2 BASIS OF PREPARATION (continued)

(c) Principles of consolidation (continued)

(e) Transactions with non-controlling interests (continued)

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

(f) Joint Ventures

The Group has interests in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

The consolidated financial statements include the Group's share of the total recognised gains and losses of its jointly controlled entities on an equity accounted basis, from the date that joint control commences until the date that joint control ceases. When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported as nil and recognition of losses is discontinued except to the extent of the Group's commitment (if any).

The carrying amounts of the jointly controlled entities are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount is estimated and an impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. The impairment loss is charged to income statement.

Upon loss of joint control, the Group measures any retained investment at its fair value. Any difference between the carrying amount of the former joint venture entity upon loss of joint venture control and the aggregate of the fair value of the retained investment and proceeds from disposal is recognised in the income statement.

(g) Associates

Associates are the entities over which the Group has significant influence but not control, generally accompanying a shareholding of over 20% of the voting rights, not being a subsidiary or a joint venture.

An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

2 BASIS OF PREPARATION (continued)

(c) Principles of consolidation (continued)

(g) Associates (continued)

Under the equity method, the investment in associate is measured in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate.

The profit or loss reflects the share of the results of operations of the associates. Where there has been a change recognised in other comprehensive income by the associates, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associates.

The Group's share of the profit or loss of its associates is shown on the face of the consolidated income statement.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

The financial statements of the associates are prepared as of the same reporting date as for the Group. Where necessary, adjustments are made in the Group financial statements to align the accounting policies of the Associates in line with those of the Group.

Upon loss of significant influence over the associate, the Group measures 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 aggregate of the retained investment and proceeds from disposal is recognised in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Use of estimates and judgements

The preparation of the Group consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. 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 allowances required for impaired loans and receivables as well as allowances for impairment provision for unquoted investment securities. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

Significant items where the use of estimates and judgments are required are outlined below:

(i) Allowances for impairment of loans and receivables and Islamic financing receivables

The Group reviews its loans and receivables portfolio and Islamic financing receivables to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the contractual future cash flows from a loan or homogenous group of loans or Islamic financing receivables. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss.

In addition to specific allowance against individually significant loans and receivables and Islamic financing receivables, the Group also makes a collective impairment allowance to recognise that at any reporting date, there will be an amount of loans and receivables and Islamic financing receivables which are impaired even though a specific trigger point for recognition of the loss has not yet been evidenced (known as the “emergence period’).

(ii) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from quoted prices, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not possible, a degree of judgment is required in establishing fair values. The judgments include consideration of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Fair values are subject to a control framework designed to ensure that they are either determined or validated, by a function independent of the risk taker.

(iii) Impairment of available-for-sale investment securities

The Group determines the impairment of available-for-sale investment securities when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates several market and non-market factors.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Use of estimates and judgements (continued)

(iv) Impairment of goodwill

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

(v) Impairment loss on investment in associates and jointly controlled entities

Management reviews its share of investments in associates and jointly controlled entities to assess impairment on a regular basis. In determining the assessment, management compares the recoverable amount with the carrying value of the investment. Estimating recoverable amount using value in use requires the Group to make an estimate of the expected future cash flows from the associates and jointly controlled entities and choosing a suitable discount rate in order to calculate the present value of those cash flows.

.

(vi) Contingent liability arising from litigations

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

(b) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market 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 principal market, in the most advantageous market for the asset and liabilities.

If an asset or a liability measured at fair value has a ‘Bid’ price and an ‘Ask’ price, then the Group measures assets and long positions at a ‘Bid’ price and liabilities and short positions at an ‘Ask’ price.

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

Fair value is applicable to both financial and non-financial instruments.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments

(i) Classification

Financial assets:

- Trading securities:

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

  Trading securities are initially recorded at fair value. Gains and losses arising from changes in fair values are included in the consolidated income statement in the year in which they arise. Interest earned and dividends received are included in interest income and other operating income respectively.

- Investment securities:

  (1) Held-to-maturity

  Held-to-maturity assets are non-derivative financial assets, with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These assets are debt instruments.

  Held-to-maturity ("HTM") investments are carried at amortised cost (less impairment, if any).

  Sale of HTM assets is allowed only under the following circumstances:

  - The investment is close enough to maturity as to have no impact on fair value;
  - The principal is substantially received;
  - Isolated events beyond the Group's control;
  - Significant credit deterioration;
  - Major business combination or disposal; or
  - Increase in regulatory capital requirements.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(i) Classification (continued)

(2) Available-for-sale

Available-for-sale assets are financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity. Available-for-sale assets include certain debt and equity investments. These assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale (AFS) financial assets may be freely sold or hedged. The differences between cost and fair value is taken to the Consolidated Statement of Other Comprehensive Income and recognised as a separate component in the statement of financial position, except in the case of impairment where the cumulative loss is taken to the income statement. When the financial asset is sold, the full quantum of the difference between the fair value and cost, posted previously to the Consolidated Statement of Other Comprehensive Income, is transferred to the income statement.

(3) Designated at fair value through profit or loss

The Group designates financial assets and liabilities at fair value through profit or loss in the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

- Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are carried at amortised cost (less impairment) and include:

- Originated loans and syndicated loans funded on origination; and
- Other debt securities acquired (purchased) by the Group either from the issuer or another source, provided that they are not quoted in an active market.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(i) Classification (continued)

Financial liabilities:

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

- Held for trading

  The Group classifies financial liabilities as held for trading when they have issued primarily for short term profit making through trading activities or form part of a portfolio of financial instruments that are managed together for which there is evidence of a recent pattern of short-term profit taking.

  Gains and losses arising from changes in fair values are included in the consolidated income statement in the year in which they arise.

- Debt issued and other borrowed funds:

  Financial instruments issued by the Group that are not held for trading or designated at FVPL, are classified as liabilities under Debt issued and other borrowed funds, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

  Debt issued and other borrowings are subsequently measured at amortised cost using the EIR.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Group becomes a party to contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets or liabilities designated at fair value through profit or loss or available-for-sale assets are recognised. Loans and receivables are recognised on the day they are transferred to or acquired by the Group.

All sales and purchases of financial assets and liabilities and resultant gains and losses are recognised and derecognised on the trade date (the date that the Bank becomes a party to the contractual provisions of the instrument).

(iii) Reclassification

Reclassification of financial assets is done at the election of management, and is determined on an instrument-by-instrument basis.

For financial assets reclassified out of the available-for-sale category, any previous gain or loss recognised in equity is amortised to profit or loss over the remaining life of the asset, using the Effective Interest Rate (“EIR”). Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the income statement.

Reclassification of non derivative financial assets out of held for trading category are recorded at the fair value at the date of reclassification.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(iv) Derecognition

Financial assets

The Group derecognises financial assets when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of the ownership of the financial assets are transferred. Any interest in derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending, repurchase transactions and asset-backed securitisations.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Group retains all or substantially all the risks and rewards of ownership of such assets.

Financial liabilities

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

(v) Measurement

A financial asset or a financial liability is recognised initially at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be measured reliably is stated at cost, including transaction costs, less impairment allowances.

All other financial assets and non-trading financial liabilities are measured at amortised cost less impairment allowances.

(vi) Embedded derivatives

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(vii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques and option pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

(viii) Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in the Consolidated Statement of Other Comprehensive Income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in the Consolidated Statement of Other Comprehensive Income is recognized in the Income Statement.

(ix) Impairment

Impairment of loans and advances

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of impairment allowance accounts.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(ix) Impairment (continued)

Individually assessed loans and advances

For all loans that are considered individually significant, the Group assesses on a case-by-case basis each quarter and more frequently when circumstances require whether there is any objective evidence of impairment. The criteria used by the Group to determine that there is such objective evidence include:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- decline in the realisable value of the security;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- a significant downgrading in credit rating by an external credit rating agency.

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- the Group's aggregate exposure to the customer;
- the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the Group and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the ability of the borrower to obtain, and make payments in, the currency of the loan if not denominated in local currency; and
- when available, the secondary market price of the debt.

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(ix) Impairment (continued)

Collectively assessed loans and advances

Impairment is assessed on a collective basis in two circumstances:

- to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- for homogeneous groups of loans that are not considered individually significant.

Incurred but not yet identified impairment (Corporate loans)

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group has incurred as a result of events occurring before the balance sheet date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- management’s experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by management for each identified portfolio.

Homogeneous groups of loans and advances (Consumer loans)

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans that are not considered individually significant, because individual loan assessment is impracticable.

Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group.

Write-off of loans and advances

Loans (and the related impairment allowance) are normally written off, in full, when there is no realistic prospect of recovery. Where loans are secured, this is after receipt of any proceeds from the realisation of security, if any.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(ix) Impairment (continued)

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the income statement.

Impairment of Available for sale securities

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

Reversals of impairment

Once an impairment loss has been recognised on an available for- sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

Available-for-sale debt securities

A subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value.

Available-for-sale equity securities

Subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Customer loyalty programme

The Group operates a rewards programme which allows customers to accumulate points when they purchase products on the Group's credit cards. The points can then be redeemed for shopping rewards, cash back or air miles, subject to a minimum number of points being obtained. While some aspects of the programme are administered in-house, third party providers are used for certain other aspects of the programme.

In the case of the in-house administered aspects, the sale proceeds received are allocated between the products sold and the points issued. The proceeds allocated to the points are equal to their fair value. Fair value is determined by applying statistical techniques. The fair value of the points issued is deferred and recognised as revenue when the points are redeemed.

For aspects where third party providers are used, the consideration allocated to the awards credits collected on behalf of the third party are charged to the income statement at the time of supplying the rewards.

(e) Property related income

Property related income includes rental income, which is recognised on a straight line basis over the term of the lease.

(f) Revenue recognition

Interest and similar income and expense are recognised in the consolidated income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. The carrying amount of the financial asset or financial liability is adjusted if the Group 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.

The calculation of the effective interest rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest and similar income and expense presented in the consolidated income statement include:

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

Fee income is earned from a diverse range of services provided by the Group to its customers. Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of a transaction for a third-party, such as an arrangement for the acquisition of shares or other securities);

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Revenue recognition (continued)

- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and

- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in 'Interest income'.

Other fees and commission income and expense are recognised as the related services are performed or received. Dividend income is recognised when the Group's right to receive the dividend is established.

(g) Foreign currencies

Monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. The resulting gain / loss on Monetary items is taken to the 'Other operating income' in the Income statement. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the Group consolidated financial statements, assets and liabilities in foreign operations are translated into UAE Dirhams at rates of exchange ruling at the reporting date, and the resulting gains and losses are taken to the Group consolidated translation reserve.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the exchange rate at the reporting date.

Forward exchange contracts are valued at market rates applicable to their respective maturities.

Exchange differences arising from the translation of the net investment in overseas operations are taken directly to currency translation reserve.

(h) Property, equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land and fixed assets not commissioned are not depreciated. The estimated useful life of fixed assets for the Group is as follows:

Freehold premises	25 - 60 years
Freehold improvements	10 years
Leasehold improvements	7 years
Furniture, fixtures and office equipment	5 years
Computer hardware and software	4 - 5 years
Core banking software	5 - 7 years
Motor vehicles	3 - 5 years

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property, equipment and depreciation (continued)

Assets are depreciated on a straight-line basis over their estimated useful lives as given above.

Fixed assets not commissioned are stated at cost. When commissioned, they are transferred to the appropriate property and equipment category and depreciated in accordance with the Group's policies.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Group consolidated income statement.

(i) Inventory

Properties acquired in settlement of debt are held as inventory and are stated at lower of cost or net realisable value. Directly attributable costs incurred in the acquisition of inventory is included as part of cost of the inventory.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date.

(j) Income taxes and deferred taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Bank and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be settled with the tax authorities.

Deferred tax is accounted for using the asset and liability method. Deferred tax assets and liabilities are recognised for the full tax consequences of all temporary differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Recognition of deferred tax assets are, however, restricted to the extent that it is probable that sufficient taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured using tax rates that are expected to apply to the period in which the asset is expected to realise or the liability is expected to settle.

Deferred tax assets are reviewed at the end of each year to reduce the carrying amount by the extent to which it is no longer probable that sufficient taxable profits will be available to utilise the differences.

(k) Investment properties

The Group holds certain properties as investments to earn rental income, for capital appreciation, or both. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less depreciation and impairment (if any).

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 income statement in 'Other operating income' in the year of retirement or disposal.

Transfers to and from investment properties are made only when there is a change in use based on the business model.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. The financial guarantee liability is initially recognized in the financial statements at fair value.

(m) Employee benefits

(i) Pension obligations

The Group operates a pension scheme in respect of eligible UAE national employees in compliance with the UAE Federal Law on Pensions and Social Security. Arrangements for benefits for overseas employees is made in accordance with local regulations and customs. Full provision is made for all accrued benefits.

The Group also pays contributions to trustee administered funds on a contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

(ii) Termination gratuity benefit scheme

In compliance with UAE labour law, the Group has a termination gratuity benefit scheme covering all of its expatriate salaried employees who have been employed with the Group for more than one year. The provision for gratuity is recorded through the income statement.

(n) Hedging instruments

Hedging instruments include futures, forwards, options and swaps in the interest rate and foreign exchange markets. The Group utilises these instruments to satisfy the requirements of its customers, for proprietary trading purposes and to hedge its own exposure to interest rates and currency risk.

Where there is a hedging relationship as defined by IAS 39 between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value, with any resultant gains and losses being accounted as set out below.

The fair value of derivative hedging instruments is calculated in the same way as the fair value of financial instruments (refer Note 3 (a) (ii)).

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Hedging instruments (continued)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the exposure to changes in fair value of recognised assets or liabilities or firm commitments (fair value hedge);
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge); or
- Hedge of net investment in a foreign operation.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

(i) Fair value hedge

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of derivative is recognised in other comprehensive income within ‘Cash flow hedges – fair value gains/(losses)’. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement.

The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income are removed from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting or the hedge designation is revoked, then hedge accounting is discontinued prospectively, any cumulative gain or loss recognised in other comprehensive income at that time remains in equity until the forecast transaction is eventually recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Hedging instruments (continued)

(iii) Net investment hedges

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

(iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(o) Cash and cash equivalents

Cash and cash equivalents consist of cash, balances with the Central Bank of the UAE and balances with banks and financial institutions with an original maturity of three months or less, less balances due to banks and financial institutions with an original maturity of three months or less.

(p) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the Group consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(q) Sale and repurchase agreements

Securities sold subject to repurchase agreements (‘repos’) are disclosed in the notes to the Group consolidated financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included as a separate deposit. Securities purchased under agreements to resell (‘reverse repos’) are recorded as loans and receivables to either banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(r) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the Group consolidated income statement over the period of the borrowings using the effective interest method.

(s) Leases

The total payments made under operating leases, such as leases for premises, are charged to the Group consolidated income statement on a straight line basis over the period of the lease.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Islamic financing receivables

Islamic financing receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These products are carried at amortised cost less impairment.

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

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

Istissna'a

An agreement between the Group and a customer whereby the Group would sell to the customer a developed property according to agreed upon specifications. The Group would develop the property either on its own or through a subcontractor and then hand it over to the customer on a fixed date at an agreed price.

Ijara

An agreement, whereby the Group (lessor) leases an asset to a customer (lessee), for a specific period and against certain rent installments. Ijara could end by transferring the ownership of the asset to the lessee at the end of the agreement or substantially all the risks and returns related to the ownership.

Mudaraba

An agreement between two parties; wherein one of them provides the funds and is called Rab-Ul-Mal and the other provides efforts and expertise and is called the Mudarib and he is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudaraba income. In case of normal loss; the Rab-Ul-Mal would bear the loss of his funds while the Mudarib would bear the loss of his efforts. However, in case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, only the Mudarib would bear the losses. The Group may act as Mudarib when accepting funds from depositors and as Rab-Ul-Mal when investing such funds on a Mudaraba basis.

Wakala

An agreement whereby the Group provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Islamic financing receivables (continued)

(ii) Revenue recognition

Revenue is recognised on the above Islamic products as follows:

Murabaha

The profit is quantifiable and contractually determined at the commencement of the contract. Profit is recognised as it accrues over the life of the contract using an effective profit method on the balance outstanding.

Istissna'a

Istissna'a revenue and the associated profit margin (difference between the cash price to the customer and the bank's total Istissna'a cost) are accounted for on a time proportion basis.

Ijara

Income from Ijara is recognised on an accrual basis over the period of the contract.

Mudaraba

Income on Mudaraba financing is recognised on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

Wakala

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

(u) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries.

Goodwill on acquisitions

Goodwill acquired in a business combination represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, including intangibles, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the Group consolidated income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Intangible assets (continued)

(i) Goodwill (continued)

Measurement

Goodwill is initially measured at cost. Following 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 Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the income statement. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss of disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

(ii) Capitalised software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. For estimated useful life of software, refer note 3(h).

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Intangible assets (continued)

(iii) Other intangible assets

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

(v) Impairment of non financial assets

The carrying amounts of the Group's non-financial assets, other than investment properties and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit (group or units) on a pro rata basis.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Assets held for sale

Assets and liabilities are classified as held for sale if their carrying amount is to be primarily recovered through a sale transaction that is highly probable to complete within one year from the date of classification, rather than through continuing use. Such assets and liabilities are not netted. In the period where an asset or liability is recognised for the first time as held for sale, these assets and liabilities are shown separately on the face of the statement of financial position. However, the statement of financial position for the comparative prior period presented is not restated.

These assets and liabilities held for sale are measured at the lower of the carrying amount and fair value less cost to sell. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

(x) Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries,

(i) controls, is controlled by, or is under common control with, the Group;
(ii) has an interest in the Group that gives it significant influence over the Group; or
(iii) has joint control over the Group;

(b) the party is an associate;
(c) the party is a jointly-controlled entity;
(d) the party is a member of the key management personnel of the Group;
(e) the party is a close member of the family of any individual referred to in (a) or (d); or
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(y) Operating segments

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge.

The segment managers report directly to the management of the Group who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 38.

(z) Dividend on shares

Dividends on shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders in the Annual General Meeting. Dividends approved after the year end are recognised as a liability in the subsequent period.

(aa) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) New standards and interpretations effective after 01 January 2016

The following new and revised IFRSs have been applied in the current period in these consolidated financial statements. Their adoption had no significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Standard	**Description**	**Effective date (early adoption permitted)**
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 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.	1 January 2016
Amendments to IFRS 11 – Accounting for acquisition of interests in Joint Operations	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 re-measured.	1 January 2016
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.	1 January 2016
Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortization	The amendment clarifies 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.	1 January 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) New standards and interpretations effective after 01 January 2016 (continued)

IFRS 10 Consolidated Financial Statements and IAS 28 - Investments in Associates & Joint Ventures	The amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows: (a) require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations). (b) require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.	1 January 2016

(ac) New standards and interpretations not yet effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, with the Group not opting for early adoption. These have, therefore, not been applied in preparing these consolidated financial statements.

IFRS 15, 'Revenue from contracts with Customers'.	This is the converged standard on revenue recognition. It replaces IAS 11, 'Construction contracts', IAS 18,'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.	1 January 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ac) New standards and interpretations not yet effective (continued)

IAS 12, “Income taxes”	The amendments clarify the following (a) Recognition of a deferred tax asset if the loss is unrealized is allowed, if certain conditions are met; and (b) The bottom line of the tax return is **not** the ‘future taxable profit’ for the recognition test. The IASB amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The current approach of using the expected bottom line on the tax return – i.e. future taxable income less tax-deductible expenses, will no longer be appropriate instead the taxable income before the deduction will be used, to avoid double counting.	1 January 2017
IAS 7, “Statement of cash flows”	The amendments issued are as follows: (a) introduce additional disclosure requirements intended to address investors’ concerns as currently they are not able to understand the management of an entity’s financing activities; (b) require disclosure of information enabling users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes; (c) do not prescribe a specific format for disclosures but indicates that we can fulfil the requirement by providing a reconciliation between opening and closing balances for liabilities arising from financing activities; and (d) are also applicable to financial assets that hedge liabilities arising from financing activities.	1 January 2017

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ac) New standards and interpretations not yet effective (continued)

IFRS 9, 'Financial instruments'	The complete version of IFRS 9 replaces most of the guidance in IAS 39. 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 other comprehensive income (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 Group 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.	1 January 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ac) New standards and interpretations not yet effective (continued)

IFRS 16, 'Leases'	The IASB issued the new standard for accounting for leases in January 2016. (a) 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. (b) 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. (c) 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 statement of profit or loss. 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.	1 January 2019

The Group is in the process of analyzing the impact of IFRS 9. The Group has assessed the impact of other standards, amendments to standards, revisions and interpretations. Based on the assessment, the above standards, amendments to standards, revisions and interpretations have no material impact on the consolidated financial statements of the Group as at the reporting date.

4 CASH AND DEPOSITS WITH CENTRAL BANK

	2016 AED 000	2015 AED 000
Cash	3,076,809	3,694,925
Interest free statutory deposits with Central Banks	29,477,318	30,393,247
Interest bearing placements with Central Banks	895,770	3,214,873
Murabahas and Interest bearing certificates of deposits with Central Banks	23,764,763	17,671,625
	57,214,660	54,974,670

The reserve requirements which are kept with the Central Banks of the countries in which the Group operates are not available for use in the Group's day to day operations and cannot be withdrawn without the approval of the Central Banks. The level of reserves required changes periodically in accordance with the directives of the Central Banks.

5 DUE FROM BANKS

31 December 2016	Local (UAE) AED 000	Foreign AED 000	Total AED 000
Time loans	10,108,393	34,934,507	45,042,900
Overnight, call and short notice	1,450,552	10,612,808	12,063,360
Gross due from banks	11,558,945	45,547,315	57,106,260
Specific allowances for impairment	-	(24,112)	(24,112)
	11,558,945	45,523,203	57,082,148

31 December 2015	Local (UAE) AED 000	Foreign AED 000	Total AED 000
Time loans	2,876,763	21,707,558	24,584,321
Overnight, call and short notice	2,212,432	13,064,032	15,276,464
Gross due from banks	5,089,195	34,771,590	39,860,785
Specific allowances for impairment	-	(24,201)	(24,201)
	5,089,195	34,747,389	39,836,584

The average yield on these placements was 1.36% p.a. (2015: 2.1% p.a.)

6 TRADING SECURITIES

31 December 2016	*DOMESTIC AED 000	**REGIONAL AED 000	***INTERNATIONAL AED 000	Total AED 000
Government bonds	100,733	91,173	106,755	298,661
Corporate bonds	344,127	100,071	786,239	1,230,437
Others	46,181	-	-	46,181
	491,041	191,244	892,994	1,575,279

31 December 2015	*DOMESTIC AED 000	**REGIONAL AED 000	***INTERNATIONAL AED 000	Total AED 000
Government bonds	1,156	1,347	8,203	10,706
Corporate bonds	404,291	9,327	1,136,058	1,549,676
Others	118,487	-	-	118,487
	523,934	10,674	1,144,261	1,678,869

*Domestic: These are securities issued within UAE.
**Regional: These are securities issued within Middle East.
***International: These are securities issued outside the Middle East region.

7 INVESTMENT SECURITIES

31 December 2016	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
HELD TO MATURITY:				
Government bonds	11,156	1,048,108	-	1,059,264
Corporate bonds	145,543	14,882	-	160,425
	156,699	1,062,990	-	1,219,689
AVAILABLE-FOR-SALE:				
Government bonds	605,260	5,187,454	868,087	6,660,801
Corporate bonds	1,332,958	891,164	1,942,655	4,166,777
Equity	281,356	667,940	84,685	1,033,981
Others	72,992	57,189	204,179	334,360
	2,292,566	6,803,747	3,099,606	12,195,919
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Others	76,393	137	81,484	158,014
	76,393	137	81,484	158,014
	2,525,658	7,866,874	3,181,090	13,573,622

7 INVESTMENT SECURITIES (continued)

31 December 2015	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
HELD TO MATURITY:				
Government bonds	11,485	75,056	-	86,541
Corporate bonds	146,520	15,225	-	161,745
	158,005	90,281	-	248,286
AVAILABLE-FOR-SALE:				
Government bonds	548,044	5,985,288	1,953,925	8,487,257
Corporate bonds	1,562,779	687,668	2,922,051	5,172,498
Equity	547,821	808,241	74,062	1,430,124
Others	68,560	64,710	306,909	440,179
	2,727,204	7,545,907	5,256,947	15,530,058
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Others	72,560	1,651	74,026	148,237
	72,560	1,651	74,026	148,237
	2,957,769	7,637,839	5,330,973	15,926,581

During the year the Group has transferred investments amounting to AED 1,037 Million (2015: Nil) from Available for Sale (AFS) to held to maturity due to change in the intention. These investments were transferred at fair value at the date of transfer and measured at amortised cost after the date of transfer. The AFS reserve balance in the OCI relating to these investments will be recycled to income statement over the life of these instruments.

Included in available-for-sale investment securities is an amount of AED 46 million (2015: AED 248 million), pledged under repurchase agreements with banks (refer Note 19).

8 LOANS AND RECEIVABLES

(a) By Type

	2016 AED 000	2015 AED 000
Overdrafts	112,410,660	101,438,537
Time loans	133,066,809	127,828,462
Loans against trust receipts	8,169,257	8,244,741
Bills discounted	2,652,915	2,640,618
Credit card receivables	5,218,498	4,493,159
Others	624,025	606,838
Gross loans and receivables	262,142,164	245,252,355
Other debt instruments	63,649	114,314
Total loans and receivables	262,205,813	245,366,669
Less: Allowances for impairment	(19,593,196)	(18,670,128)
	242,612,617	226,696,541
Total of impaired loans and receivables	14,773,140	15,091,904

(b) By Business Units

	2016 AED 000	2015 AED 000
Corporate banking	208,775,767	196,935,369
Consumer banking	33,733,742	29,602,250
Treasury	12,111	33,238
Others	90,997	125,684
	242,612,617	226,696,541

8 LOANS AND RECEIVABLES (continued)

	2016 AED 000	2015 AED 000
Movement in allowances for specific impairment		
Balance as at 1 January	13,139,731	13,186,654
Allowances for impairment made during the year	2,338,126	1,852,459
Write back /recoveries made during the year	(1,569,187)	(1,500,540)
Amounts written off during the year	(547,267)	(391,487)
Exchange and other adjustments	(5,513)	(7,355)
Balance as at 31 December	13,355,890	13,139,731
Movement in allowances for collective impairment		
Balance as at 1 January	5,530,397	3,684,329
Allowances for impairment made during the year	712,582	1,846,739
Exchange and other adjustments	(5,673)	(671)
Balance as at 31 December	6,237,306	5,530,397
Total	19,593,196	18,670,128

9 LOANS SECURITISATION

(a) Incorporation of Emirates NBD Asset Finance Companies in Ireland and Cayman Islands for asset securitisation

On 8 June 2012, ENBD Asset Finance Company No.1 Limited and on 1 June 2012, ENBD Asset Finance Company No.2 Limited were incorporated under the respective Companies Law (Ireland and Cayman Islands) as Special Purpose Entities (SPEs). The principal activities of these companies are to purchase portfolios of loans through issuance of notes.

On 9 October 2012, the Group transferred corporate loans and receivables amounting to AED 1,876 million to ENBD Asset Finance Company No.1 Limited (incorporated under Ireland companies law). However, the Group is exposed to all the credit risk and rewards associated with the transferred assets and hence the Group continues to recognise these assets within loans and receivables and the transfers are accounted for as secured financing transactions. The associated liability of AED 1,876 million, secured by these assets, is included under debt issued and other borrowed funds and is carried at amortised cost. Further, the Group through ENBD Asset Finance Company No.2 Limited (incorporated under Cayman Islands companies law), entered into a total return swap contract referencing these notes' liability, thereby retaining all the risks and rewards associated with the loan exposures.

On 28th October 2014, the Group transferred out loans and receivables amounting to AED 918 million and through ENBD Asset Finance Company No.2 Limited (incorporated under Cayman Islands companies law), entered into a total return swap contract referencing such loans and receivables thereby retaining all the risks and rewards associated with the loan exposure. The funding of AED 918 million secured by these assets is included under debt issued and other borrowed funds carried at amortised cost.

Since the Group is exposed to variable returns from its involvement in the SPEs and has the ability to affect those returns through its power over the SPEs, these SPEs are consolidated in compliance with IFRS 10.

As at 31 December 2016, the corporate loans and receivables balance transferred to Ireland and Cayman SPEs is AED 1,313 million [2015: AED 2,282 million] and the associated liability secured by these assets and included under debt issued and other borrowed funds is AED 1,313 million [2015: AED 2,282 million].

(b) Securitisation of Islamic Financing Receivables

During 2012, the Group issued sukuk amounting to AED 3.7 billion. Further sukuk issuance of AED 3.7 billion was made during the year 2016 to raise US Dollar denominated medium term finance via a Sharia'a compliant sukuk financing arrangement. As at December 2016 the total outstanding sukuk payable is AED 7.4 billion.

The Group transferred certain identified Ijara and Murabaha assets totaling to AED 7.4 billion (the "co-owned assets") of its Subsidiary, Emirates Islamic Bank, to EIB Sukuk company limited – (the "Issuer"), a special purpose vehicle formed for the issuance of these sukuk. This medium term finance is carried at amortised cost.

In substance, the co-owned assets remain in control of the Group; accordingly these assets continue to be recognised by the Group. In case of any default, the Group has provided an undertaking to make good all losses to the sukuk holders. The assets are in the control of the Group and shall continue to be serviced by the Group.

The Issuer will pay a semi-annual distribution amount from returns received in respect of the co-owned assets. Such proceeds are expected to be sufficient to cover the semi-annual distribution amount payable to the sukuk holders on the semi-annual distribution dates. Upon maturity of the sukuk, the Group has undertaken to repurchase the assets at the exercise price.

10 ISLAMIC FINANCING RECEIVABLES

	2016 AED 000	2015 AED 000
Murabaha	31,667,600	31,180,923
Ijara	18,696,462	15,124,343
Credit cards receivable	1,096,076	896,408
Wakala	1,306,991	1,676,497
Istissna'a	1,909,133	1,180,460
Others	550,445	928,030
Total Islamic financing receivables	55,226,707	50,986,661
Less: Deferred income	(2,688,915)	(2,533,031)
Less: Allowances for impairment	(4,754,100)	(4,569,313)
	47,783,692	43,884,317
Total of impaired Islamic financing receivables	5,492,156	5,750,107

Corporate Ijara assets amounting to AED 5.9 billion [2015: 3.7 billion] and Murabaha assets amounting to AED 1.5 billion [2015: Nil] were securitised for the purpose of issuance of Sukuk liability (refer Note 21).

10 ISLAMIC FINANCING RECEIVABLES (continued)

	2016 AED 000	2015 AED 000
Movement in allowances for specific impairment		
Balance as at 1 January	4,029,366	3,642,639
Allowances for impairment made during the year	2,282,065	1,412,178
Write back / recoveries made during the year	(1,502,252)	(504,412)
Amounts written off during the year	(837,524)	(521,050)
Exchange and other adjustments	54	11
Balance as at 31 December	3,971,709	4,029,366
Movement in allowances for collective impairment		
Balance as at 1 January	539,947	509,834
Allowances for impairment made during the year	242,438	30,113
Exchange and other adjustments	6	-
Balance as at 31 December	782,391	539,947
Total	4,754,100	4,569,313

11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	2016 AED 000	2015 AED 000
Investments in associates	173,725	200,467
Investments in joint ventures	1,506,637	1,414,554
Total	1,680,362	1,615,021

The Group's share of profit of associates and joint venture is as below:

	2016 AED 000	2015 AED 000
Share of profit	135,138	166,357

11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

The following is the aggregated financial information of the associate and joint venture:

	2016 AED 000	2015 AED 000
Assets	4,376,355	9,484,977
Liabilities	2,826,197	7,314,419
Revenue	1,432,390	1,307,641
Profit/(Loss)	275,735	328,880

12 INVESTMENT PROPERTIES

The movement in investment properties during the year is as follows:

	2016 AED 000	2015 AED 000
Balance as at 1 January	805,937	1,213,077
Additions	-	32,652
Disposal	(225,824)	(395,073)
Impact of change in accounting policy	-	(21,079)
Depreciation	(26,301)	(23,640)
Balance as at 31 December	553,812	805,937

Investment properties comprise freehold land and buildings. Rental income from investment properties recorded in other income is AED 56.8 million (2015: AED 54.7 million).

The fair value of investment properties as at 31 December 2016 is not materially different from their carrying value.

13 PROPERTY AND EQUIPMENT

	Freehold land and property	Leasehold premises and improvements	Others (a)	Fixed assets not commissioned (b)	Total
	AED 000	AED 000	AED 000	AED 000	AED 000
COST					
Balance as at 1 January 2016	2,207,049	389,108	1,489,355	296,577	4,382,089
Additions	39,985	44,680	345,444	375,682	805,791
Disposals / Transfers	(27,782)	(20,844)	(9,247)	(450,592)	(508,465)
As at 31 December 2016	2,219,252	412,944	1,825,552	221,667	4,679,415
ACCUMULATED DEPRECIATION					
Balance as at 1 January 2016	510,149	304,839	1,170,787	-	1,985,775
Charge for the year	78,385	31,383	215,000	-	324,768
Disposals	(10,735)	(15,368)	(2,221)	-	(28,324)
As at 31 December 2016	577,799	320,854	1,383,566	-	2,282,219
Net book value as at 31 December 2016	1,641,453	92,090	441,986	221,667	2,397,196

Notes:

(a) Others represent furniture, office equipment, motor vehicles, computer systems and hardware.
(b) Fixed assets not commissioned represent expenditure incurred on assets and projects which are under development and are not ready for use.

13 PROPERTY AND EQUIPMENT (continued)

	Freehold land and property	Leasehold premises and improvements	Others (a)	Fixed assets not commissioned (b)	Total
	AED 000	AED 000	AED 000	AED 000	AED 000
COST					
Balance as at 1 January 2015	2,463,912	389,407	1,308,146	315,704	4,477,169
Additions	154,810	31,560	214,634	317,751	718,755
Disposals / Transfers	(411,673)	(31,859)	(33,425)	(336,878)	(813,835)
As at 31 December 2015	2,207,049	389,108	1,489,355	296,577	4,382,089
ACCUMULATED DEPRECIATION					
Balance as at 1 January 2015	523,628	286,676	1,007,078	-	1,817,382
Charge for the year	76,217	39,767	191,886	-	307,870
Disposals	(89,696)	(21,604)	(28,177)	-	(139,477)
As at 31 December 2015	510,149	304,839	1,170,787	-	1,985,775
Net book value as at 31 December 2015	1,696,900	84,269	318,568	296,577	2,396,314

Notes:

(a) Others represent furniture, office equipment, motor vehicles, computer systems and hardware.
(b) Fixed assets not commissioned represent expenditure incurred on assets and projects which are under development, and are not ready for use.

14 GOODWILL AND INTANGIBLES

	Goodwill	Intangibles on Acquisition				Total
		Banking license	Software	Customer relationships	Core deposit intangibles	
31 December 2016	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Cost:						
Balance as at 1 January	5,621,200	318,320	9,281	157,490	659,392	6,765,683
Foreign exchange movement*	(39,522)	(100,163)	-	-	-	(139,685)
	5,581,678	**218,157**	**9,281**	**157,490**	**659,392**	**6,625,998**
Less: Amortisation and impairment						
Balance as at 1 January	4,903	-	9,281	156,174	564,500	734,858
Amortisation and impairment for the year	-	-	-	1,316	62,674	63,990
Balance as at 31 December	**4,903**	**-**	**9,281**	**157,490**	**627,174**	**798,848**
Net Goodwill and Intangibles	**5,576,775**	**218,157**	**-**	**-**	**32,218**	**5,827,150**
31 December 2015						
Cost	5,621,200	318,320	9,281	157,490	659,392	6,765,683
Less: Amortisation and impairment	4,903	-	9,281	156,174	564,500	734,858
Net Goodwill and Intangibles	5,616,297	318,320	-	1,316	94,892	6,030,825

*Foreign exchange movement relates to translation of acquired Goodwill and intangibles pertaining to Emirates NBD Egypt using the period end exchange rate.

Impairment testing of goodwill

The goodwill acquired through business combinations with indefinite life is reviewed annually for impairment by comparing the recoverable amount based on value-in-use calculations for cash generating units (CGUs) to which goodwill has been allocated with its carrying value.

The goodwill has been allocated to four cash-generating units:

- Corporate banking
- Consumer banking
- Treasury
- Emirates NBD Egypt

14 GOODWILL AND INTANGIBLES (continued)

Key assumptions used in impairment testing for goodwill

The recoverable amount of the cash-generating units has been determined based on a value in use calculation, using cash flow projections covering a five-year period and by applying a terminal growth rate thereafter.

The calculation of value in use in the cash-generating units is most sensitive to the following assumptions:

- Interest margins;
- Discount rates;
- Market share during the projection period;
- Projected growth rates used to extrapolate cash flows beyond the projection period;
- Current local Gross Domestic Product ("GDP"); and
- Local inflation rates.

Interest margins

Interest margins are based on prevailing market rates at the start of the budget period. These are changed over the budget period for anticipated market conditions.

Discount rates

Discount rates reflect management's estimate of return on capital employed ("ROCE") required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital ("WACC").

Projected growth rate, GDP and local inflation rates

Assumptions are based on published industry research.

At 31 December 2016, the goodwill allocated to Corporate Banking was AED 3,589 million (2015: AED 3,589 million), the goodwill allocated to Consumer Banking was AED 1,700 million (2015: AED 1,700 million) and the goodwill allocated to Treasury was AED 206 million (2015: AED 206 million).

The recoverable amount of goodwill of CGUs, determined on the basis of value in use calculation, uses cash flow projections covering a five year period, with an appropriate terminal growth rate applied thereafter. The forecast cash flows have been discounted using the WACC in the jurisdiction where the CGU operates. A one percentage point change in the discount rate or the terminal growth rate would reduce the recoverable amount of the CGUs as mentioned in the table below:

Cash generating units (CGUs)	One percentage change in discount rate (AED million)	One percentage change in terminal growth rate (AED million)
Corporate Banking	30,624	26,768
Consumer Banking	29,135	25,466
Treasury	2,267	1,982
Emirates NBD Egypt S.A.E	208	140

14 GOODWILL AND INTANGIBLES (continued)

Intangibles:

Acquired intangibles are recognised at their “fair value” upon initial recognition.

The specific criteria which needs to be satisfied for an intangible asset to be recognised separately from goodwill in an acquisition is that the intangible asset must be clearly identifiable, in that it either;

- Be separable, that is, be capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or

- Arise from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangibles excluding banking license are amortised using the straight-line method over the useful life of the asset, which is estimated to be between 3 and 11 years. If an indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised if the recoverable amount is lower than the carrying amount.

The banking license has an indefinite life and is tested for impairment annually. For impairment testing purposes, the banking license is allocated to the relevant cash generating unit.

15 OTHER ASSETS

	2016 AED 000	2015 AED 000
Accrued interest receivable	1,444,469	1,368,182
Islamic Profit receivable	94,023	111,030
Prepayments and other advances	242,947	217,282
Sundry debtors and other receivables	1,028,472	772,539
Inventory	1,595,633	1,697,821
Fair value of deposit (a)	216,659	286,342
Others	2,985,714	1,879,492
	7,607,917	6,332,688

(a) On acquisition of Dubai Bank in October 2011, the Group received a deposit from the Ministry of Finance of the UAE amounting to AED 2.8 billion at a discount compared to the market available interest rate. As per the Group policy, the financial liability should be recognised initially at its fair value plus the transaction costs that are directly attributable to the acquisition or issue of the financial liability. Since the deposit was received at an interest rate which is below the market available interest rate, a fair value gain of AED 543 million was recognised in the financial statements in 2011, which will be amortised over the term of the deposit (8 years) at the effective interest rate.

16 DUE TO BANKS

	2016 AED 000	2015 AED 000
Demand and call deposits	1,164,273	950,866
Balances with correspondent banks	1,949,580	1,881,510
Time and other deposits	15,742,718	15,990,343
	18,856,571	18,822,719

The interest rates paid on the above averaged 1.21% p.a. (2015: 1.3% p.a).

17 CUSTOMER DEPOSITS

(a) By Type	2016 AED 000	2015 AED 000
Demand, call and short notice	117,527,354	111,115,942
Time	106,367,410	83,812,177
Savings	24,082,248	23,240,420
Others	6,721,190	6,216,674
	254,698,202	224,385,213

(b) By Business Units	2016 AED 000	2015 AED 000
Corporate banking	94,171,993	94,507,561
Consumer banking	143,353,560	115,913,904
Treasury	17,172,649	13,963,748
	254,698,202	224,385,213

The interest rates paid on the above deposits averaged 1.09% p.a. (2015: 0.7% p.a.).

18 ISLAMIC CUSTOMER DEPOSITS

		2016 AED 000	2015 AED 000
(a)	By Type		
	Demand, call and short notice	17,234,711	16,392,969
	Time	28,131,838	37,043,425
	Savings	10,223,609	9,066,927
	Others	464,079	343,371
		56,054,237	62,846,692

		2016 AED 000	2015 AED 000
(b)	By Business Units		
	Corporate banking	18,140,237	24,351,443
	Consumer banking	37,179,740	38,155,927
	Treasury	734,260	339,322
		56,054,237	62,846,692

19 REPURCHASE AGREEMENTS WITH BANKS

Deposits under repurchase agreements represent borrowings from banks and are secured by a portfolio of investment securities and cash collateral as follows:

	2016 AED 000	2015 AED 000
Available-for-sale investment securities	45,906	248,334
	45,906	248,334

20 DEBT ISSUED AND OTHER BORROWED FUNDS

	2016 AED 000	2015 AED 000
Medium term note programme*	31,139,525	26,067,612
Term loans from banks	6,243,250	2,938,000
Borrowings raised from loan securitisations (refer Note 9)	1,312,959	2,281,730
	38,695,734	31,287,342

*Includes Tier 2 notes amounting to AED 3,752 million (2015: AED 4,341 million) raised through public and private placements.

	2016 AED 000	2015 AED 000
Balance as at 1 January	31,287,342	26,697,691
New issues	16,709,587	10,563,141
Repayments	(9,243,619)	(5,651,375)
Other movements*	(57,576)	(322,115)
Balance at end of period	38,695,734	31,287,342

*Represents exchange rate movement on debts issued in foreign currency. The Group hedges the foreign currency risk on public issuances through derivative financial instruments.

As at 31 December 2016, the outstanding medium term borrowings totalling AED 38,696 million (2015: AED 31,287 million) is falling due as below:

	2016 AED millions	2015 AED millions
2016	-	9,123
2017	9,176	5,261
2018	1,826	1,199
2019	12,666	5,173
2020	4,745	1,596
2021	1,358	-
2022	4,027	4,552
2023	3,642	3,605
2024	1,065	583
2025	114	115
2026	77	80
	38,696	**31,287**

The interest rate paid on the above averaged 3.1% p.a in 2016 (2015: 3.1% p.a.).

21 SUKUK PAYABLE

	2016 AED 000	2015 AED 000
Balance as at 1 January	3,672,500	3,673,000
New issues	3,696,948	-
Other movements	(1,310)	(500)
Balance at end of period	7,368,138	3,672,500

As at 31 December 2016, the outstanding Sukuk payable totaling AED 7,368 million (31 December 2015: AED 3,673 million) is falling due as below:

	2016 AED millions	2015 AED millions
2017	1,836	1,836
2018	1,836	1,837
2021	3,696	-
	7,368	3,673

22 OTHER LIABILITIES

	2016 AED 000	2015 AED 000
Accrued interest payable	1,518,050	764,628
Profit payable to Islamic depositors	259,376	214,605
Managers' cheques	1,164,080	1,476,011
Trade and other payables	1,557,161	1,764,068
Staff related liabilities	1,029,034	1,043,050
Provision for taxation (refer Note 35)	55,666	89,516
Others	3,074,646	2,874,016
	8,658,013	8,225,894

23 ISSUED CAPITAL AND SHARE PREMIUM RESERVE

Authorised, issued and fully paid: 5,557,774,724 ordinary shares of AED 1 each (2015: 5,557,774,724 ordinary shares).

Movement of ordinary shares in issue during the year is made up as follows:

	Number of shares	Share capital AED 000	Share premium reserve AED 000
As at 1 January 2016	5,557,774,724	5,557,775	12,270,124
Issue of bonus shares	-	-	-
As at 31 December 2016	5,557,774,724	5,557,775	12,270,124
As at 1 January 2015	5,557,774,724	5,557,775	12,270,124
Issue of bonus shares	-	-	-
As at 31 December 2015	5,557,774,724	5,557,775	12,270,124

At the forthcoming Annual General Meeting which will be held on 12 February 2017, the Group is proposing a cash dividend of AED 0.40 per share for the year (2015: AED 0.40 per share) amounting to AED 2,223 million (2015: AED 2,223 million).

24 TIER I CAPITAL NOTES

The Group has issued a number of regulatory Tier 1 capital notes with details mentioned in the table below. The notes are perpetual, subordinated and unsecured. The Group can elect not to pay a coupon at its own discretion. Note holders will not have a right to claim the coupon and such event will not be considered an event of default. The notes carry no maturity date and have been classified as equity.

Issuance Month/year	Issued Amount	Coupon rate
September 2014	USD 500 million (AED 1.83 billion)	Fixed interest rate with a reset after six years
May 2013	USD 1 billion (AED 3.67 billion)	Fixed interest rate with a reset after six years
June 2009	AED 4 billion	Fixed interest rate for the first five years and on a floating rate basis thereafter.

25 RESERVES

Legal and statutory reserves

In accordance with the Bank’s Articles of Association, and in compliance with Article 82 of Union Law No.10 of 1980, a minimum of 10% of profit should be transferred to a non-distributable legal and statutory reserve until such time as this reserve equals 50% of the Bank's issued capital. Since the legal reserve is equal to 50% of the Bank’s issued capital profit was not appropriated to the legal reserve during the year.

10% of the profit is also transferable to a non-distributable regular reserve until such time as this reserve equals 10% of the Bank's issued capital.

	Legal and statutory reserve AED 000	Regular reserve AED 000	Other reserves AED 000	Total AED 000
At 1 January 2016	2,778,888	555,800	2,313,733	5,648,421
Transfer from retained earnings	-	-	-	-
At 31 December 2016	2,778,888	555,800	2,313,733	5,648,421

Prior year comparatives are shown in the statement of changes in equity.

Fair value reserve

Fair value reserve includes the net change in fair value of available-for-sale financial assets and the net effective portion of changes in fair value of cash flow hedges.

Currency translation reserve

Currency translation reserve represents the exchange differences arising from re-translating the opening net investment in foreign operations.

26 NET INTEREST INCOME

	2016 AED 000	2015 AED 000
Interest and similar income		
Loans and receivables to customers	10,874,682	9,902,794
Loans and receivables to banks	550,790	348,735
Other debt securities	3,492	2,267
Available-for-sale investment securities	832,865	680,660
Held to maturity investment securities	44,224	3,710
Trading securities and designated at fair value through profit or loss investment securities	57,036	48,275
Others	34,660	91,027
Total interest income	12,397,749	11,077,468
Interest and similar expense		
Deposits from customers	(2,479,891)	(1,384,311)
Borrowings from banks and financial institutions	(177,969)	(130,676)
Securities lent and repurchase agreements	(1,958)	(3,287)
Others	(1,222,422)	(1,000,444)
Total interest expense	(3,882,240)	(2,518,718)
Net interest income	8,515,509	8,558,750

27 INCOME FROM ISLAMIC FINANCING AND INVESTMENT PRODUCTS

	2016 AED 000	2015 AED 000
Murabaha	1,570,891	1,371,086
Ijara	739,908	662,074
Istissna'a	40,739	31,485
Wakala	39,131	29,279
Others	156,399	103,754
	2,547,068	2,197,678

28 DISTRIBUTION ON ISLAMIC DEPOSITS AND PROFIT PAID TO SUKUK HOLDERS

	2016 AED 000	2015 AED 000
Distribution to depositors	723,459	349,121
Profit paid to sukuk holders	228,023	166,043
	951,482	515,164

Distribution on Islamic deposits represents the share of income between depositors and equity holders. The allocation and distribution to depositors is approved by the Fatwa and Sharia’a Supervisory Board of the Islamic banking subsidiaries.

Profit paid to sukuk holders represents the distribution of returns received in respect of leased assets transferred to the EIB Sukuk Company Limited which was specifically formed for this transaction.

29 NET FEE AND COMMISSION INCOME

	2016 AED 000	2015 AED 000
Commission income on Trade finance products / services	660,078	719,327
Fee income	2,894,480	2,582,651
Brokerage fees	82,652	60,805
Portfolio and other management fees	110,052	171,881
Total fee and commission income	3,747,262	3,534,664
Fee and commission expense	(885,881)	(741,375)
	2,861,381	2,793,289

30 NET GAIN (LOSS) ON TRADING SECURITIES

	2016 AED 000	2015 AED 000
Realised gain / (loss) on trading securities	(6,358)	(407)
Unrealised gain / (loss) on trading securities	171,635	80,841
	165,277	80,434

31 OTHER OPERATING INCOME

	2016 AED 000	2015 AED 000
Dividend income	40,464	63,059
Gain from sale of available-for-sale investment securities	218,710	163,735
Gain / (loss) from investment securities designated at fair value through profit or loss	(667)	(25,164)
Rental income	79,975	94,210
Gain on sale of properties (investment properties / inventories)	129,961	226,587
Foreign exchange income*	936,559	1,010,626
Derivative income	40,916	107,534
Other income (net)	164,297	472,492
	1,610,215	2,113,079

*Foreign exchange income comprises trading and translation gain and gain on dealings with customers.

32 GENERAL AND ADMINISTRATIVE EXPENSES

	2016 AED 000	2015 AED 000
Staff cost	3,220,947	3,082,824
Occupancy cost	381,911	358,471
Equipment and supplies	131,412	139,544
Information technology cost	151,080	147,730
Communication cost	153,496	148,562
Service, legal and professional fees	111,756	122,018
Marketing related expenses	115,442	104,706
Depreciation	324,768	307,870
Amortisation of intangibles	63,990	81,000
Others	232,885	226,712
	4,887,687	4,719,437

33 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

The charge to the income statement for the net impairment loss on financial assets is made up as follows:

	2016 AED 000	2015 AED 000
Net impairment of loans and receivables (refer note 8)	1,481,521	2,198,658
Net impairment of Islamic financing receivables (refer note 10)	1,022,251	937,879
Net impairment of investment securities	121,511	80,950
Net impairment of due from banks / other assets	(64)	11,329
Bad debt written off / (recovery) - net	(17,284)	177,649
	2,607,935	3,406,465

34 DIRECTORS FEES

This comprises of fees payable to the directors of the Group of AED 20.65 million (2015: AED 20.65 million).

35 TAXATION

At 31 December 2016 provisions for tax on overseas branch operations and subsidiary amount to AED 148 million (2015: AED 145 million) (refer Note 22).

36 EARNINGS PER SHARE

The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders (further adjusted for interest expense on tier I capital notes) of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all diluted potential ordinary shares, if any.

	2016 AED 000	2015 AED 000
Profit for the year attributable to equity holders	7,239,047	7,123,032
Deduct : Interest on Tier 1 capital notes	(590,530)	(590,731)
Net profit attributable to equity holders	6,648,517	6,532,301
Weighted average number of equity shares in issue ('000)	5,557,775	5,557,775
Earnings per share* (AED)	1.20	1.18

*The diluted and basic Earnings per share were the same at the year end.

37 DERIVATIVES

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

31 December 2016 notional amounts by term to maturity

	Positive fair value AED 000	Negative fair value AED 000	Notional amount AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	713,573	(733,496)	155,735,066	81,912,198	58,984,007	13,667,261	983,856	187,744
Foreign exchange options	63,621	(63,621)	33,114,165	4,983,768	6,793,172	21,337,225	-	-
Interest rate swaps/caps	2,291,500	(1,605,753)	219,641,514	27,855,538	38,672,232	83,038,741	42,321,285	27,753,718
Commodity options	12,818	(12,819)	1,097,002	-	233,130	863,872	-	-
	3,081,512	(2,415,689)	409,587,747	114,751,504	104,682,541	118,907,099	43,305,141	27,941,462
Derivatives held as cash flow hedges:								
Interest rate swaps	69,027	(31,573)	8,532,333	-	1,634,145	2,317,250	2,456,838	2,124,100
Derivatives held as fair value hedges:								
Interest rate swaps	3,433	(377,446)	3,191,316	110,175	-	1,474,910	336,577	1,269,654
Total	3,153,972	(2,824,708)	421,311,396	114,861,679	106,316,686	122,699,259	46,098,556	31,335,216

37 DERIVATIVES (continued)

31 December 2015 notional amounts by term to maturity

	Positive fair value AED 000	Negative fair value AED 000	Notional amount AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	450,755	(476,605)	193,848,721	103,662,454	77,102,962	13,083,305	-	-
Foreign exchange options	649,022	(649,022)	61,188,538	1,731,223	6,213,411	53,243,904	-	-
Interest rate swaps/caps	1,482,289	(1,010,647)	151,180,913	8,904,923	22,337,607	68,085,465	36,166,422	15,686,496
Commodity options	35,685	(35,684)	298,700	-	40,099	258,601	-	-
	2,617,751	(2,171,958)	406,516,872	114,298,600	105,694,079	134,671,275	36,166,422	15,686,496
Derivatives held as cash flow hedges:								
Interest rate swaps	51,110	(47,142)	6,148,631	-	300,000	2,850,000	800,000	2,198,631
Derivatives held as fair value hedges:								
Interest rate swaps	218	(391,105)	2,980,844	-	77,854	110,175	1,508,203	1,284,612
Total	2,669,079	(2,610,205)	415,646,347	114,298,600	106,071,933	137,631,450	38,474,625	19,169,739

The hedged forecast cash flows which are expected to occur over the future years and are expected to affect profit or loss are insignificant.

37 DERIVATIVES (continued)

Derivative product types

Forwards 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, the underlying amounts are exchanged in different currencies.

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.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favorable to the Group and potential future fluctuations. The majority of the fair value of favorable contracts (and therefore credit risk) is exposure to financial institutions. All credit exposure is managed under approved facilities, and in many cases are collateralized under Credit Support Annex (CSA). The Group takes a Credit Value Adjustment (CVA) on outstanding derivative transactions. The methodology for CVA calculation relies on three components: the probability of default of the counterparty, the expected positive exposure and the recovery rate. CVA is computed on all asset classes including Foreign Exchange, Interest Rates and Commodities.

Derivatives held or issued for trading purposes

Most of the Group’s derivative trading activities relate to sales and position coverage. Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Interest rate derivatives trading is conducted under Board approved limits.

Derivatives held or issued for hedging purposes

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures.

The Group uses interest rate swaps and forward rate agreements to hedge against the cash flow risks arising on certain floating rate customer deposits and medium term borrowings. The Group also uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate loans and receivables. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as cash flow hedges.

The Group also uses interest rate swaps to hedge against changes in value of investment securities due to interest rate movements. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

38 OPERATING SEGMENTS

The Group is organised into the following main businesses:

(a) Corporate banking represents structured financing, current and savings accounts, customer deposits, overdrafts, trade finance and term loans for government, corporate, commercial customers, investment banking and Islamic products under Al Watani Al Islami;

(b) Consumer banking represents retail loans and deposits, private banking and wealth management, equity broking services, asset management and consumer financing;

(c) Treasury activities comprises of managing the Group's portfolio of investments, funds management, and interbank treasury operations;

(d) Islamic banking activities represent the income and fees earned and expenses paid by the Islamic banking subsidiaries; and

(e) Other operations of the Group include Emirates NBD Egypt, Tanfeeth, property management, operations and support functions.

38 OPERATING SEGMENTS (continued)

31 December 2016	Corporate banking AED 000	Consumer banking AED 000	Treasury AED 000	Islamic Banking AED 000	Others AED 000	Total AED 000
Net interest income and income from Islamic products net of distribution to depositors	3,092,385	3,783,190	(83,424)	1,736,628	1,582,316	10,111,095
Net Fees, commission and other income	1,205,969	2,387,898	463,749	690,221	(110,964)	4,636,873
Total operating income	4,298,354	6,171,088	380,325	2,426,849	1,471,352	14,747,968
General and administrative expenses	(417,672)	(1,963,479)	(126,975)	(1,092,634)	(1,286,927)	(4,887,687)
Net impairment loss on financial assets	(339,938)	(852,466)	(21,067)	(1,206,493)	(187,971)	(2,607,935)
Share of profit of associates and joint ventures	-	-	-	-	135,138	135,138
Taxation charge	(8,719)	(7,398)	2,310	-	(134,514)	(148,321)
Group profit for the year	3,532,025	3,347,745	234,593	127,722	(2,922)	7,239,163
Segment Assets	249,515,730	54,019,000	58,423,376	53,895,578	32,150,328	448,004,012
Segment Liabilities and Equity	112,006,173	146,661,610	31,291,641	57,480,884	100,563,704	448,004,012

38 OPERATING SEGMENTS (continued)

31 December 2015	Corporate banking AED 000	Consumer banking AED 000	Treasury AED 000	Islamic Banking AED 000	Others AED 000	Total AED 000
Net interest income and income from Islamic products net of distribution to depositors	3,611,082	3,538,497	(276,147)	1,675,432	1,692,400	10,241,264
Net Fees, commission and other income	1,317,389	2,152,348	475,624	739,651	301,790	4,986,802
Total operating income	4,928,471	5,690,845	199,477	2,415,083	1,994,190	15,228,066
General and administrative expenses	(344,840)	(1,942,345)	(131,357)	(983,195)	(1,317,700)	(4,719,437)
Net impairment loss on financial assets	(1,983,480)	(477,975)	11,387	(904,722)	(51,675)	(3,406,465)
Share of profit of associates and joint ventures	-	-	-	853	165,504	166,357
Taxation charge	(19,993)	(4,417)	(9,362)	-	(110,981)	(144,753)
Group profit for the year	2,580,158	3,266,108	70,145	528,019	679,338	7,123,768
Segment Assets	238,166,170	53,897,825	41,959,068	49,571,277	22,965,835	406,560,175
Segment Liabilities and Equity	116,145,755	121,330,083	27,968,543	53,600,883	87,514,911	406,560,175

39 SUBSIDIARIES ASSOCIATES AND JOINT VENTURES

The direct subsidiaries, associates and joint ventures of the Group are as follows:

	Group % Share-holding	Nature of business	Country of incorporation
As at 31 December 2016			
Subsidiaries:			
Buzz Contact Centre Solutions LLC	100	Call centre management services	Dubai, U.A.E.
Dubai Bank PJSC	100	Islamic Banking	Dubai, U.A.E.
E.T.F.S. LLC	100	Trade finance services	Dubai, U.A.E.
Emirates Financial Services PSC	100	Funds management	Dubai, U.A.E.
Emirates Funds Managers (Jersey) Limited	100	Asset management	Jersey
Emirates NBD Global Funding Limited	100	Medium term borrowing and money market transactions	Cayman Islands
Emirates NBD Properties LLC	100	Real estate	Dubai, U.A.E.
Emirates NBD Securities LLC	100	Brokerage services	Dubai, U.A.E.
Emirates NBD Asset Management Limited	100	Asset management	Dubai, U.A.E.
Emirates Islamic Bank PJSC	99.9	Islamic banking	Dubai, U.A.E.
Emirates Money Consumer Finance LLC	100	Consumer Finance	Dubai, U.A.E.
Emirates Funds LLC	100	Asset Management	Dubai, U.A.E.
Emirates NBD Capital (KSA) LLC	100	Investment Services	KSA
Emirates NBD Trust Company (Jersey) Limited	100	Trust administration services	Jersey
Tanfeeth LLC	100	Shared services organization	Dubai, U.A.E.
KSA Mortgage Company	100	Nominee Company for Mortgage Business	KSA
ENBD London Branch Nominee Company	100	Asset Management	England
Emirates NBD Egypt S.A.E	100	Banking	Egypt
Associate:			
National General Insurance Company PSC	36.7	General and life insurance	Dubai, U.A.E.
Joint venture:			
Network International LLC	51	Card processing services	Dubai, U.A.E.

Other entities consolidated by the Group based on an assessment of control are as follows:

	Nature of business
Group tranche of Emblem Finance Company No. 2 Limited	SPE for asset securitization
Emirates NBD Global Markets Limited	SPE for asset securitization
ENBD Asset Finance Company No.1 Limited	SPE for asset securitization
ENBD Asset Finance Company No.2 Limited	SPE for asset securitization
Emirates NBD Tier 1 Limited	SPE for asset securitization
Emirates NBD 2014 Tier 1 Limited	SPE for asset securitization
EIB Sukuk Company Limited	SPE for asset securitization

40 OPERATING LEASES

At 31 December, the Group's non-cancellable operating lease rentals are payable as follows:

	2016 AED 000	2015 AED 000
Less than one year	46,676	72,584
Between one and five years	120,227	108,826
More than five years	93,787	12,443
	260,690	193,853

41 COMMITMENTS AND CONTINGENCIES

(a) At 31 December, the Groups commitments and contingencies are as follows:

	2016 AED 000	2015 AED 000
Letters of credit	9,726,912	9,578,127
Guarantees	47,168,713	45,249,694
Liability on risk participations	256,183	498,516
Irrevocable loan commitments*	29,099,863	23,550,505
	86,251,671	78,876,842

* Irrevocable loan commitments represent a contractual commitment to permit draw downs on a facility within a defined period subject to conditions precedent and termination clauses. Since commitments may expire without being drawn down, and as conditions precedent to draw down have to be fulfilled the total contract amounts do not necessarily represent exact future cash requirements.

(b) Acceptance

Under IAS 39, acceptances are recognised on balance sheet with a corresponding liability. Accordingly, there is no off balance sheet commitment for acceptances.

(c) Capital Commitments

The Group has commitments as at 31 December 2016 for branch refurbishments and automation projects of AED 335.7 million (2015: AED 391 million).

42 RELATED PARTY TRANSACTIONS

Emirates NBD Group is partly owned by Investment Corporation of Dubai (55.8%), a company in which the Government of Dubai is the majority shareholder.

Deposits from and loans to government related entities, other than those that have been individually disclosed, amount to 6% (2015: 9%) and 6% (2015: 7%) respectively, of the total deposits and loans of the Group. These entities are independently run business entities, and all financial dealings with the Group are on normal commercial terms.

The Group has also entered into transactions with certain other related parties who are non government related entities. Such transactions were also made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with third parties and do not involve more than a normal amount of risk.

Related party balances and transactions are carried out on normal commercial terms and are as follows:

	2016 AED 000	2015 AED 000
Loans and receivables:		
To majority shareholder of the parent	130,578,874	120,747,984
To parent	1,470,482	1,469,561
To directors and related companies	148,073	1,608,377
To associates and joint ventures	-	26,466
	132,197,429	123,852,388

	2016 AED 000	2015 AED 000
Customer and Islamic deposits:		
From majority shareholder of the parent	2,356,193	3,828,527
From parent	3,955,674	6,686,481
From associates and joint ventures	238,662	195,222
	6,550,529	10,710,230

42 RELATED PARTY TRANSACTIONS (continued)

	2016 AED 000	2015 AED 000
Investment in Government of Dubai bonds	36,122	5,913
Loans to and investment in funds managed by the Group	235,942	290,802
Commitments to associates	9,836	9,468
Payments made to associates and joint ventures	155,077	287,794
Payments received from associates and joint ventures	4,915	4,915
Payments made to other related parties	49,580	44,017
Fees received in respect of funds managed by the Group	59,393	70,482
Interest paid to funds managed by the Group	11,882	11,566
Interest (paid by) / paid to joint ventures	3,851	(552)
Directors sitting fee	9,208	8,183
Key management compensation:		
Short term employment benefits	64,550	65,816
Post employment benefits	1,221	1,461
	65,771	67,277

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

No impairment losses have been recorded against balances outstanding during the year with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relations at the year end.

43 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

The Group's financial position, before taking into amount any collateral held or other credit enhancement, can be analysed by the following regions:

31 December 2016	UAE	Other GCC	International	Total
	AED 000	AED 000	AED 000	AED 000
ASSETS				
Cash and deposits with Central Bank	55,041,222	1,004,454	1,168,984	57,214,660
Due from banks	11,558,945	12,345,072	33,178,131	57,082,148
Trading securities	491,041	58,724	1,025,514	1,575,279
Investment securities	2,525,658	3,665,457	7,382,507	13,573,622
Loans and receivables	229,786,638	3,419,783	9,406,196	242,612,617
Islamic financing receivables	43,327,371	4,410,700	45,621	47,783,692
Investments in associates and joint ventures	1,680,362	-	-	1,680,362
Positive fair value of derivatives	1,486,023	131,103	1,536,846	3,153,972
Investment properties	553,812	-	-	553,812
Customer acceptances	5,232,315	617,149	1,092,121	6,941,585
Property and equipment	2,078,416	29,728	289,052	2,397,196
Goodwill and intangibles	5,532,528	-	294,622	5,827,150
Other assets	6,345,849	816,830	445,238	7,607,917
TOTAL ASSETS	**365,640,180**	**26,499,000**	**55,864,832**	**448,004,012**
LIABILITIES				
Due to banks	4,099,864	2,565,749	12,190,958	18,856,571
Customer deposits	209,420,751	9,497,935	35,779,516	254,698,202
Islamic customer deposits	49,085,722	5,947,209	1,021,306	56,054,237
Repurchase agreements with banks	45,906	-	-	45,906
Debt issued and other borrowed funds	-	-	38,695,734	38,695,734
Sukuk payable	7,368,138	-	-	7,368,138
Negative fair value of derivatives	686,536	189,209	1,948,963	2,824,708
Customer acceptances	5,232,315	617,149	1,092,121	6,941,585
Other liabilities	8,100,333	194,665	363,015	8,658,013
Total equity	53,860,918	-	-	53,860,918
TOTAL LIABILITIES AND EQUITY	**337,900,483**	**19,011,916**	**91,091,613**	**448,004,012**
Geographical distribution of letters of credit and guarantees	46,390,080	6,277,373	4,228,172	56,895,625
31 December 2015				
Geographical distribution of assets	329,408,879	15,547,207	61,604,089	406,560,175
Geographical distribution of liabilities and equity	302,002,162	22,157,149	82,400,864	406,560,175
Geographical distribution of letters of credit and guarantees	38,744,690	6,488,527	9,594,604	54,827,821

44 FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and carrying values:

The table below sets out the Group's classification of each class of financial assets and liabilities, and their carrying values.

31 December 2016	Designated at fair value through profit or loss AED 000	Held-to-maturity AED 000	Available-for-sale AED 000	Loans and receivables AED 000	Amortised cost AED 000	Hedging instruments AED 000	Total carrying value* AED 000
Financial assets							
Due from banks	-	-	-	-	57,082,148	-	57,082,148
Trading securities	1,575,279	-	-	-	-	-	1,575,279
Investment securities	158,014	1,219,689	12,195,919	-	-	-	13,573,622
Loans and receivables	-	-	-	242,612,617	-	-	242,612,617
Islamic financing receivables	-	-	-	47,783,692	-	-	47,783,692
Investments in associates and joint ventures	-	-	-	-	1,680,362	-	1,680,362
Positive fair value of derivatives	3,081,512	-	-	-	-	72,460	3,153,972
Others	-	-	-	-	67,091,720	-	67,091,720
	4,814,805	1,219,689	12,195,919	290,396,309	125,854,230	72,460	434,553,412
Financial liabilities							
Due to banks	-	-	-	-	18,856,571	-	18,856,571
Customer deposits	-	-	-	-	254,698,202	-	254,698,202
Islamic customer deposits	-	-	-	-	56,054,237	-	56,054,237
Repurchase agreements with banks	-	-	-	-	45,906	-	45,906
Debt issued and other borrowed funds	-	-	-	-	38,695,734	-	38,695,734
Sukuk payable	-	-	-	-	7,368,138	-	7,368,138
Negative fair value of derivatives	2,415,689	-	-	-	-	409,019	2,824,708
Others	-	-	-	-	15,599,598	-	15,599,598
	2,415,689	-	-	-	391,318,386	409,019	394,143,094

*The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different to their fair values.

44 FINANCIAL ASSETS AND LIABILITIES (continued)

31 December 2015	Designated at fair value through profit or loss	Held-to-maturity	Available-for-sale	Loans and receivables	Amortised cost	Hedging instruments	Total carrying value*
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Financial assets							
Due from banks	-	-	-	-	39,836,584	-	39,836,584
Trading securities	1,678,869	-	-	-	-	-	1,678,869
Investment securities	148,237	248,286	15,530,058	-	-	-	15,926,581
Loans and receivables	-	-	-	226,696,541	-	-	226,696,541
Islamic financing receivables	-	-	-	43,884,317	-	-	43,884,317
Investments in associates and joint ventures	-	-	-	-	1,615,021	-	1,615,021
Positive fair value of derivatives	2,617,751	-	-	-	-	51,328	2,669,079
Others	-	-	-	-	59,627,361	-	59,627,361
	4,444,857	248,286	15,530,058	270,580,858	101,078,966	51,328	391,934,353
Financial liabilities							
Due to banks	-	-	-	-	18,822,719	-	18,822,719
Customer deposits	-	-	-	-	224,385,213	-	224,385,213
Islamic customer deposits	-	-	-	-	62,846,692	-	62,846,692
Repurchase agreements with banks	-	-	-	-	248,334	-	248,334
Debt issued and other borrowed funds	-	-	-	-	31,287,342	-	31,287,342
Sukuk payable	-	-	-	-	3,672,500	-	3,672,500
Negative fair value of derivatives	2,171,958	-	-	-	-	438,247	2,610,205
Others	-	-	-	-	11,938,643	-	11,938,643
	2,171,958	-	-	-	353,201,443	438,247	355,811,648

* The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different to their fair values.

44 FINANCIAL ASSETS AND LIABILITIES (continued)

Fair Value of financial instruments

The table below analyses financial instruments measured at fair value on a recurring basis. The different levels in the fair value hierarchy have been defined as follows:

- Level 1: quoted prices (unadjusted) in principal markets for identified assets or liabilities.
- Level 2: valuation using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: valuation using inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

31 December 2016	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
Trading securities				
Debt Securities	1,472,944	56,154	-	1,529,098
Others	25,245	20,936	-	46,181
	1,498,189	77,090	-	1,575,279
Investment Securities				
AVAILABLE-FOR-SALE:				
Debt Securities	7,929,599	2,714,165	183,814	10,827,578
Investment in equities	182,637	150,826	700,518	1,033,981
Others	27	112,086	222,247	334,360
	8,112,263	2,977,077	1,106,579	12,195,919
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Others	151,046	6,968	-	158,014
	151,046	6,968	-	158,014
Derivatives held for trading				
Positive fair value of derivatives	-	3,081,512	-	3,081,512
Derivatives held as cash flow hedges:				
Interest rate swaps	-	69,027	-	69,027
Derivatives held as fair value hedges:				
Interest rate swaps	-	3,433	-	3,433
	-	3,153,972	-	3,153,972
Derivatives held for trading				
Negative fair value of derivatives	-	(2,415,689)	-	(2,415,689)
Derivatives held as cash flow hedges:				
Interest rate swaps	-	(31,573)	-	(31,573)
Derivatives held as fair value hedges:				
Interest rate swaps	-	(377,446)	-	(377,446)
	-	(2,824,708)	-	(2,824,708)
	9,761,498	3,390,399	1,106,579	14,258,476

44 FINANCIAL ASSETS AND LIABILITIES (continued)

Valuation of financial instruments (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy.

	Available for sale financial assets AED 000	Financial assets designated at fair value through profit or loss AED 000	Financial assets held for trading AED 000	TOTAL AED 000
Balance as at 1 January 2016	1,270,578	-	177,669	1,448,247
Total gains or losses:				
- in profit or loss	-	-	-	-
- in other comprehensive income	15,814	-	-	15,814
Purchases	-	-	-	-
Issues	-	-	-	-
Settlements and other adjustments	(207,889)	-	(177,669)	(385,558)
Transfers into Level 3	28,076	-	-	28,076
Transfers out of Level 3	-	-	-	-
Balance as at 31 December 2016	1,106,579	-	-	1,106,579

The fair value of financial instruments classified as level 3 are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by the prices from observable current market transactions in the same instrument and are not based on observable market data. The Group employs valuation techniques, depending on the instrument type and available market data. For example, in the absence of active market, an investment's fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile and other factors. Favourable and unfavourable changes in the value of financial instruments are determined on the basis of changes in the value of the instruments as a result of varying the levels of the unobservable parameters, quantification of which is judgemental.

There have been no transfers between Level 1 and Level 2 during the years ended 31 December 2016 and 31 December 2015.

44 FINANCIAL ASSETS AND LIABILITIES (continued)

Valuation of financial instruments (continued)

31 December 2015	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
Trading securities				
Debt Securities	1,381,556	1,157	177,669	1,560,382
Others	42,729	75,758	-	118,487
	1,424,285	76,915	177,669	1,678,869
Investment Securities				
AVAILABLE-FOR-SALE:				
Debt Securities	8,311,699	5,170,387	177,669	13,659,755
Investment in equities	410,935	228,347	790,842	1,430,124
Others	-	138,112	302,067	440,179
	8,722,634	5,536,846	1,270,578	15,530,058
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Others	134,582	13,655	-	148,237
	134,582	13,655	-	148,237
Derivatives held for trading				
Positive fair value of derivatives	-	2,617,751	-	2,617,751
Derivatives held as cash flow hedges:				
Interest rate swaps	-	51,110	-	51,110
Derivatives held as fair value hedges:				
Interest rate swaps	-	218	-	218
	-	2,669,079	-	2,669,079
Derivatives held for trading				
Negative fair value of derivatives	-	(2,171,958)	-	(2,171,958)
Derivatives held as cash flow hedges:				
Interest rate swaps	-	(47,142)	-	(47,142)
Derivatives held as fair value hedges:				
Interest rate swaps	-	(391,105)	-	(391,105)
	-	(2,610,205)	-	(2,610,205)
	10,281,501	5,686,290	1,448,247	17,416,038

44 FINANCIAL ASSETS AND LIABILITIES (continued)

Valuation of financial instruments (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy.

	Available for sale financial assets	Financial assets designated at fair value through profit or loss	Financial assets held for trading	TOTAL
	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2015	1,228,199	-	-	1,228,199
Total gains or losses:				
- in profit or loss	(64,680)	-	(3,202)	(67,882)
- in other comprehensive income	(74,851)	-	-	(74,851)
Purchases	185,585	-	180,871	366,456
Issues	-	-	-	-
Settlements and other adjustments	(84,272)	-	-	(84,272)
Transfers into Level 3	80,597	-	-	80,597
Transfers out of Level 3	-	-	-	-
Balance as at 31 December 2015	1,270,578	-	177,669	1,448,247

45 NOTES TO THE GROUP CONSOLIDATED CASH FLOW STATEMENT

	2016	2015
	AED 000	AED 000
(a) Analysis of changes in cash and cash equivalents during the year		
Balance at beginning of year	31,828,539	24,763,352
Net cash inflow	11,805,280	7,065,187
Balance at end of year	43,633,819	31,828,539
(b) Analysis of cash and cash equivalents		
Cash and deposits with Central Bank	57,214,660	54,974,670
Due from banks	57,082,148	39,836,584
Due to banks	(18,856,571)	(18,822,719)
	95,440,237	75,988,535
Less : deposits with Central Bank for regulatory purposes	(29,477,318)	(30,393,247)
Less : certificates of deposits with Central Bank maturing after three months	(9,217,975)	(6,300,000)
Less : amounts due from banks maturing after three months	(18,931,017)	(13,207,537)
Add : amounts due to banks maturing after three months	5,819,892	5,740,788
	43,633,819	31,828,539

46 CAPITAL MANAGEMENT AND ALLOCATION

The Central Bank of UAE supervises the Group on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. The capital is computed at a Group level using the Basel II framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the Central Bank of UAE, within national discretion. The Basel II framework is structured around three 'pillars': minimum capital requirements (Pillar I); supervisory review process (Pillar II); and market discipline (Pillar III).

Minimum Capital Requirements

Per current capital requirements, the Central Bank of UAE requires the Group to maintain a prescribed minimum ratio of total capital to total risk-weighted assets of 12% (of which Tier I to be 8%).

The tiered components of Bank's regulatory capital comprise of:

- Tier I capital includes share capital, Tier I capital notes, share premium, legal, statutory and other reserves, retained earnings, non-controlling interest after deductions for goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and

- Tier II capital includes qualifying subordinated debt, undisclosed reserve, and fair value reserve.

The Group is compliant with the Standardised Approach for Credit, Market and Operational Risk (Pillar I) with effect from 31st December 2007.

The capital adequacy ratio as per Basel II framework is given below:

	2016 AED 000	2015 AED 000
Tier I capital		
Issued capital	5,557,775	5,557,775
Share premium reserve	12,270,124	12,270,124
Legal and statutory reserve	2,778,888	2,778,888
Other reserves	1,766,524	2,662,122
Retained earnings	21,938,659	17,566,680
Tier I capital notes	9,477,076	9,477,076
Non-controlling interest	7,256	5,662
Total tier I capital	53,796,302	50,318,327
Less : Goodwill and intangibles	(5,827,150)	(6,030,825)
Less : Treasury shares	(46,175)	(46,175)
Less : Significant investment in insurance entities	(86,863)	-
Total	47,836,114	44,241,327

46 CAPITAL MANAGEMENT AND ALLOCATION (continued)

	2016 AED 000	2015 AED 000
Tier II capital		
Undisclosed reserves / general provisions	7,019,697	6,070,344
Fair value reserve	49,856	214,369
Hybrid (debit/equity) capital instruments	-	-
Subordinated debt	3,752,068	3,752,068
Less : Significant investment in insurance entities	(86,863)	-
Total	10,734,758	10,036,781
Of which: Eligible tier II capital	6,532,725	6,681,459
Total regulatory capital	54,368,839	50,922,786

RISK WEIGHTED EXPOSURE

	2016 AED 000	2015 AED 000
Credit risk	225,413,053	217,201,778
Market risk	5,048,821	4,192,234
Operational risk	25,706,714	24,110,440
Total	256,168,588	245,504,452

Capital Ratio:		
Total regulatory capital as a percentage of total risk weighted assets	21.22%	20.74%
Total tier I regulatory capital as a percentage of total risk weighted assets	18.67%	18.02%

47 FUND MANAGEMENT

The Group manages a number of funds which are not consolidated in the financial statements. The funds have no recourse to the general assets of the Group and further the Group has no recourse to the assets of the funds. Third party funds managed by the Group were AED 14,138 million at 31 December 2016 (2015: AED 11,013 million).

48 ASSETS HELD IN FIDUCIARY CAPACITY

The Group holds assets in a fiduciary capacity and provides custodian services for some of its customers. The underlying assets held in a custodial or fiduciary capacity are excluded from the Group consolidated financial statements.

49 RISK MANAGEMENT

The management of risk is at the core of Emirates NBD Group's (the Group) business philosophy. The primary risks we undertake arise from extending credit to wholesale banking and retail customers. We are also exposed to a range of other risk types such as market, liquidity, operational, country, reputational, legal that drive the direction of our risk management strategy, product range and risk diversification strategies. Our business and risk management strategy is tailored and regularly reviewed in consideration of our risk exposures relative to our risk appetite.

Risk management framework:

Effective risk management is fundamental in ensuring our ability to operate profitably and is thus a central part of the financial and operational management of the group. There is clear accountability for and ownership of risk within each business unit. Through our risk management framework we manage group-wide risks, with the objective of maximizing returns while remaining within our risk appetite.

The key features of the Group's risk management framework are:

- Risk is taken in line with risk appetite and business strategy is aligned to risk appetite. Business primarily owns the risk that it underwrites and is equally responsible for designing and implementing necessary controls to mitigate risks emanating from the activities.
- Ensuring that all employees of the group are sufficiently trained and have access to appropriate tools to ensure risk-taking is controlled and in line with risk appetite.
- Risk taking is within approved authorities considering infrastructure and resource across geographies giving consideration to compliance with regulatory requirements.
- Anticipate future risks and ensure awareness of all known risks across the management chain.
- Appropriate controls are designed and implemented with adequate reporting in place to monitor their ongoing effectiveness to safeguard group's interests.
- Achieve competitive advantage through efficient and effective risk management and implementation of appropriate controls supplemented by infrastructure and analytics.

Risk governance

The risk governance structure of the group ensures central oversight and control with clear accountability for and ownership of risk.

The Board of Directors ("the Board") has the ultimate responsibility for setting Group's risk appetite and for the establishment and oversight of the Group's risk management framework. This is managed through a number of committees; namely Board Risk Committee, Board Credit & Investment Committee and Board Audit Committee. The management level committees also actively manage risk particularly the Group Risk Committee, Management Credit and Investment Committees and Group Asset Liability Management Committee (Group ALCO).

Board Risk Committee (BRC) comprises of members of the Board and is responsible for risk oversight responsibilities of the Board with regards to risk governance and risk appetite and the risk management framework that support it. The BRC receives reports on risk management including our portfolio trends, policies and standards, stress testing, liquidity and capital adequacy and is authorized to investigate or seek any information relating to any activity within its terms of reference.

Board Credit and Investment Committee (BCIC) is responsible for approval of credit and investment decisions above the Management Credit and Investment Committee's authority.

The primary role of the Board Audit Committee (BAC) is to have oversight and review of financial, audit and internal control issues as well as oversee the independence and performance of group's external and internal auditors.

49 RISK MANAGEMENT (continued)

Risk governance (continued)

The Group Risk Committee (GRC) is responsible for the management of all risks other than those delegated to Management Credit and Investment Committee and Group ALCO and ensures the effective management of risk throughout the group in support of the group's business strategy and group's risk appetite. The committee approves risk policies and analytical models to ensure effective management of credit, market, operational, business continuity and reputational, compliance, legal and other risks confronting the group.

The Group ALCO is responsible for balance sheet management and quality of the funding plan as well as the management of capital and the establishment of, and compliance with, policies relating to balance sheet management, including management of our liquidity, capital adequacy and structural foreign exchange and interest rate risk. The committee also approves the contingency funding plan as well as the funds transfer pricing among other things.

The committees meet regularly and are responsible for monitoring compliance with the risk management policies and procedures, and reviewing the adequacy of the risk management framework. The committee governance structure ensures that risk-taking authority and risk management policies are cascaded down from the Board through to the appropriate management level committees.

The group manages risk using multiple lines of defense comprising of employees, risk control units and internal audit. All employees are required to ensure the effective management of risks within the scope of their direct organizational responsibilities. The risk control units are responsible for ensuring that the risks within the scope of their responsibilities remain within appetite. Lastly, Group Internal Audit provides independent assurance and reports its findings to all relevant management and governance bodies, accountable line managers, relevant oversight function and committee or committees of the Board including the Board Audit Committee.

The risk function

The Group's overall risk management policies are managed by the Group Risk management function ("Group Risk"), headed by the General Manager, Risk ("CRO"). The function is independent of the origination, trading and sales functions to ensure balance in risk/return decisions is not compromised and to ensure transparency of decisions in accordance with group standards and policies.

Group Risk assists senior management in controlling and actively managing the Group's overall risk profile. The role of the function is:

- To maintain the Risk Management Framework, ensuring it remains appropriate to the Group's activities, is effectively communicated and implemented across the Group;
- To uphold the integrity of the Group's risk/return decisions ensuring their transparency;
- To exercise direct ownership for various risk types including but not limited to credit, market, country, operational, reputational risks;
- To ensure that risk policies, procedures and methodologies are consistent with the Group's risk appetite;
- To ensure that the Group's overall business strategy is consistent with its risk appetite; and
- To ensure that appropriate risk management architecture and systems are developed and implemented.

In addition, the risk function serves as a centre of excellence that provides specialist capabilities of relevance to the wider organization on all risk management matters.

49 RISK MANAGEMENT (continued)

Risk appetite

The group has established a risk appetite framework which defines the amount and type of risk acceptable to the group while pursuing its strategic/business objectives, reflecting our capacity to sustain losses and continue to meet our obligations arising from a range of conditions.

The Group's risk appetite statement is approved by the Board and forms the basis for establishing the risk parameters within which business must operate including policies, concentration limits and business mix.

The Group will not compromise adherence to its risk appetite in order to pursue revenue growth or higher returns.

Risk management process:

Through the risk management framework, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations, are escalated to the management for appropriate and timely action.

Credit Risk

Credit risk is defined as risk of financial loss arising from the failure of the customer or counterparty, to meet its contractual obligations to the Group. It can arise from both funded and non-funded transactions that are contingent in nature.

Credit risk management and structure:

Credit risk management approach is based on the foundation of independence and integrity of the credit risk assessment, management and reporting processes combined with clear policies, limits and approval structures for business segments.

The Group's credit policy managed by Group Risk focuses on the core credit principles and details, specific policy guidelines, lending parameters, control and monitoring requirements, problem loan identification, management of high risk customers and provisioning.

Standard procedures specific to businesses are set up to manage various risks across different business segments, products and portfolio characteristics.

49 RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit risk management and structure (continued):

Credit Approving Authorities

The Board and the BCIC (‘Board Credit and Investment Committee) have delegated authority to the Management Credit Committee (“MCC”), the Retail Credit Committee (“RCC”) and members of senior management to facilitate and effectively manage the business. However, BCIC has retained the ultimate authority to approve credits beyond MCC authority.

Specialist units within Group Risk manage credit risk on the wholesale banking and consumer portfolios.

Classification of Loans and Advances

Borrower risk grading - Internal rating models are used across various business segments to assess credit quality of the borrowers and assign risk grades on the Master rating scale (“MRS”) on an ongoing basis. All borrowers are mapped to risk grades based on their probability of default. Highest credit quality customers have the lowest probability to default. These internal risk grades are mapped to Central Bank of the UAE categorisation.

The following are general guidelines for Loans and advances classification into non-impaired and impaired:

Normal Loans

- Where information available to the bank assures repayment as agreed are classified as “Normal loans”;

Watch-list Loans

- Borrower’s financial condition and credit worthiness show some weaknesses requiring more than normal attention but not allocation of provisions are classified as “Watch-list loans” and reported to the Central Bank

Impaired Loans

Substandard	• Those accounts where adverse factors may hinder repayment or weaken security or lead to some loss are classified as "Substandard accounts". In general these are credit exposures where agreed payments of principal and/or interest are more than 90 consecutive days in arrears;
Doubtful	• Those accounts where full recovery of interest and principal seems doubtful on the basis of information available, leading generally to a loss of part of these loans are classified as "Doubtful accounts"; and
Loss	• Those accounts where the bank has exhausted all courses of action available but failed to recover anything or where there is a possibility that nothing shall be recovered are classified as "Loss accounts".

49 RISK MANAGEMENT (continued)

Credit Risk (continued)

Loans and receivables

	2016 AED 000	2015 AED 000
Corporate Portfolio – Performing	213,460,512	199,455,160
Retail Portfolio – Performing	33,972,161	30,819,605
Impaired Loans	14,773,140	15,091,904
Gross Loans	262,205,813	245,366,669

Corporate Portfolio – Performing includes AED 4,359 million (2015: AED 9,574 million) for exposure against watchlist customers.

Islamic Financing Receivables

	2016 AED 000	2015 AED 000
Corporate Portfolio – Performing	22,463,284	19,934,339
Retail Portfolio – Performing	27,271,267	25,302,215
Impaired Loans	5,492,156	5,750,107
Gross Loans	55,226,707	50,986,661

Corporate Portfolio – Performing includes AED 443 million (2015: AED 757 million) for exposure against watchlist customers.

49 RISK MANAGEMENT (continued)

Credit Risk (continued)

Wholesale Banking credit risk management:

End to end process of managing wholesale banking credit risk is as follows:

- Credit risk appetite is set as per the risk strategy approved at the BRC;
- Credit facilities are granted based on the detailed credit risk assessment of the counterparty. The assessment considers amongst other things the purpose of the facility, sources of re-payment, prevailing and potential macro-economic factors, industry trends, customers’ credit worthiness and standing within the industry;
- The credit facility administration process is undertaken by an independent function to ensure proper execution of all credit approvals, maintenance of documentation and proactive controls over maturities, expiry of limits and collaterals;
- Management of Impaired Non Performing Loans (NPL) & Watch list (WL) accounts - The bank has a well-defined process for identification of NPL & WL accounts and dealing with them effectively. There are policies which governs credit grading of NPL & WL accounts, interest suspension and provisioning, in line with IFRS and UAE Central Bank guidelines. The management and collection of NPL's is handled by an independent Financial Restructuring and Remedial team.

Management of consumer credit risk:

The Group has a structured management framework for Consumer Banking risk management. The framework enables the Bank in identification and evaluation of the significance of all credit risks that the Bank faces, which may have an adverse material impact on its financial position.

In the bank’s Retail Portfolio, losses stem from outright default due to inability or unwillingness of a customer to meet commitments in relation to lending transactions.

The Bank has comprehensive credit risk management architecture for Consumer Banking Risk. The BRC of the Bank endorses the credit risk strategy for consumer banking. All Credit Policies are approved at the BCIC of the Bank. The Retail Bank’s risk appetite is derived from the credit risk strategy of the bank and is balanced by the profitability level for the risks taken.

49 RISK MANAGEMENT (continued)

Credit Risk (continued)

Management of consumer credit risk (continued)

The Board oversees the Credit Risk Management functions of the Bank. The BRC and the BCIC guide the development of policies, procedures and systems for managing credit risk. The BCIC ensures that these are adequate and appropriate to changing business conditions and are within the risk appetite of the Bank.

Group Retail Credit drives credit risk management for the consumer banking business centrally in the Bank. It is primarily responsible for implementing the risk strategy approved by the Board, developing procedures and systems for managing risk, carrying out an independent assessment of credit risk, ensuring individual exposures are approved in line with the credit policies and monitoring portfolio composition and quality. While the various functions relating to policy, portfolio management and analytics are centralized with Group Retail Credit, the underwriting function is managed by Retail Credit Centre (RCC).

Credit exposures are managed through target market identification, appropriate credit approval processes and collections and recovery procedures. The Retail Credit Model is geared towards high volume, small transaction size businesses where credit appraisals of fresh exposures are guided by statistical models, and are managed on the basis of aggregate product portfolios.

Credit processes in consumer banking are driven by approved product programs for each of the products that the Bank is offering. In Product Programs, the Bank approves maximum levels of credit exposure to a set of customers with similar characteristics, profiles and / or product needs, under clearly defined standard terms and conditions. This is an operationally efficient approach to managing credit where credit risks and expected returns lend themselves to a template approach or predictable portfolio behavior in terms of yield, delinquency and charge offs. Given the high volume environment, automated tracking and reporting mechanisms are important here to identify trends in portfolio behavior and to initiate timely adjustments. The Bank has a robust MIS system that allows it to track its Retail Credit Portfolios effectively and take timely action, where required, to maintain asset quality. All retail portfolios are monitored regularly at a highly segmented level. Top management monitors overall portfolio quality and high-risk exposures periodically, including the weighted risk grade of the portfolio

The Bank's Credit Policies & Procedures Manual and Credit Programs, where applicable, form the core to controlling credit risk in various products. These articulate the credit risk strategy of the Bank and thereby the approach for credit origination, approval and maintenance.

Score cards have been implemented for aiding consumer banking credit decisions. The Bank uses a suite of application and behavior score cards including liability behavior score cards to assist in its underwriting decisions.

The Bank has a robust provisioning policy which is in line with the guidelines laid down by the Central Bank of UAE which allows the Bank to prudently recognize impairment on its retail portfolios. The Bank has a centralized collections and recoveries team that follows up on overdue customers for payments. The team is ably assisted by score cards that allow prioritization by likelihood of collection/ default.

49 RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit risk monitoring:

The Group's exposures are continuously monitored through a system of triggers and early warning signals. These are supplemented by monitoring of account conduct, assessment of collateral and market intelligence and early alerts.

Early Alerts

Early Alert accounts are identified based on oversight, vigilance and risk triggers. Account strategy and action plans on these accounts are regularly monitored and discussed in the Early Alert Committee meetings.

Risks of the Group's loan portfolio are continuously assessed and monitored on the basis of exceptions, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure that senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

Group credit risk mitigation strategy:

The Group operates within prudential exposure ceilings set by the Board in line with UAE Central Bank guidelines. There are well laid out processes for exception management and escalation.

The Group has adopted measures to diversify the exposures to various sectors. Diversification is achieved by limiting concentration through setting customer, industry and geographical limits.

The risk transfer in the form of syndicated loans, risk participation agreements with other banks, credit default swaps and sale of loans are globally accepted practices followed by the Group, where appropriate, to limit its exposure.

49 RISK MANAGEMENT (continued)

ANALYSIS BY ECONOMIC ACTIVITY FOR ASSETS:

The Group monitors concentrations of credit risk by economic activity sector. The analysis by economic activity is as follows:

	2016 AED 000			2015 AED 000		
	Loans and Receivables	Islamic Financing	Others	Loans and Receivables	Islamic Financing	Others
Agriculture and allied activities	101,771	32,278	-	159,128	17,389	-
Mining and quarrying	450,232	392	10,671	507,313	84,362	10,819
Manufacturing	7,715,992	1,044,157	-	7,567,864	1,811,992	-
Construction	7,604,678	2,060,770	440,738	6,788,367	1,849,218	423,531
Trade	14,033,786	3,151,623	-	13,862,865	2,965,491	-
Transport and communication	3,435,041	1,326,706	546,787	4,836,334	1,467,876	399,477
Services	3,775,024	3,622,537	1,851,585	3,749,611	3,871,419	2,667,981
Sovereign	130,678,906	298,455	2,800,709	120,449,898	310,836	2,023,054
Personal	38,812,673	28,871,866	-	33,842,736	26,560,000	-
Real estate	32,346,722	10,229,054	-	31,032,786	7,559,182	-
Banks	-	-	64,180,202	-	-	47,930,866
Financial institutions and investment companies	22,673,121	1,926,268	3,277,530	21,687,551	2,249,597	3,639,071
Others	577,867	2,662,601	803,189	882,216	2,239,299	1,962,256
Total Assets	262,205,813	55,226,707	73,911,411	245,366,669	50,986,661	59,057,055
Less: Deferred Income	-	(2,688,915)	-	-	(2,533,031)	-
Less: Allowances for impairment	(19,593,196)	(4,754,100)	-	(18,670,128)	(4,569,313)	-
	242,612,617	47,783,692	73,911,411	226,696,541	43,884,317	59,057,055

Others includes due from banks, investment securities, trading securities and investments in associates and joint ventures.

49 RISK MANAGEMENT (continued)

Classification of trading securities and investment securities as per their external ratings:

As of 31 December 2016

Ratings	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
AAA	-	-	58,520	-	58,520
AA- to AA+	-	10,671	4,218,748	606,256	4,835,675
A- to A+	-	97,512	2,757,174	450,309	3,304,995
Lower than A-	-	1,100,461	3,626,643	264,956	4,992,060
Unrated	158,014	11,045	1,534,834	253,758	1,957,651
	158,014	1,219,689	12,195,919	1,575,279	15,148,901

Of which issued by:

	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
Governments	-	1,059,264	6,660,801	298,661	8,018,726
Public sector enterprises	-	-	1,578,633	368,439	1,947,072
Private sector and others	158,014	160,425	3,956,485	908,179	5,183,103
	158,014	1,219,689	12,195,919	1,575,279	15,148,901

49 RISK MANAGEMENT (continued)

As of 31 December 2015

Ratings	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
AAA	-	-	110,046	-	110,046
AA- to AA+	-	10,819	4,170,712	472,061	4,653,592
A- to A+	-	5,745	1,715,322	538,670	2,259,737
Lower than A-	-	59,113	6,609,640	328,373	6,997,126
Unrated	148,237	172,609	2,924,338	339,765	3,584,949
	148,237	248,286	15,530,058	1,678,869	17,605,450

Of which issued by:

	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
Governments	-	86,541	8,487,257	10,706	8,584,504
Public sector enterprises	-	-	1,554,716	115,398	1,670,114
Private sector and others	148,237	161,745	5,488,085	1,552,765	7,350,832
	148,237	248,286	15,530,058	1,678,869	17,605,450

49 RISK MANAGEMENT (continued)

Risk gross maximum exposure:

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

	2016 AED 000	2015 AED 000
Deposits with Central Bank	54,137,851	51,279,745
Due from banks	57,082,148	39,836,584
Trading securities	1,575,279	1,678,869
Investment securities	13,573,622	15,926,581
Loans and receivables	242,612,617	226,696,541
Islamic financing receivables	47,783,692	43,884,317
Investments in associates and joint ventures	1,680,362	1,615,021
Positive fair value of derivatives	3,153,972	2,669,079
Customer acceptances	6,941,585	3,712,749
Total (A)	428,541,128	387,299,486
Contingent liabilities	57,151,808	55,326,337
Irrevocable loan commitments	29,099,863	23,550,505
Total (B)	86,251,671	78,876,842
Total credit risk exposure (A + B)	514,792,799	466,176,328

49 RISK MANAGEMENT (continued)

CREDIT QUALITY ANALYSIS

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial assets.

31 December 2016

			Of which past due but not impaired on the reporting date				Of which individually impaired			
Type of receivable	Carrying amount AED 000	Of which neither impaired nor past due on reporting date AED 000	<30 days AED 000	30-60 days AED 000	60-91 days AED 000	> 91days AED 000	Gross amount AED 000	Interest suspended AED 000	Allowance for impairment AED 000	Carrying amount AED 000
Due from banks	57,082,148	57,082,148	-	-	-	-	38,287	(14,175)	(24,112)	-
Loans and receivables:	242,612,617	222,264,494	16,737,510	870,755	948,777	373,831	19,589,652	(4,816,512)	(13,355,890)	1,417,250
Corporate banking	208,866,764	190,160,615	15,546,157	654,853	813,683	369,636	18,357,904	(4,320,698)	(12,715,386)	1,321,820
Consumer banking	33,733,742	32,103,386	1,191,353	215,902	135,094	4,195	1,168,099	(495,814)	(588,473)	83,812
Treasury - other debt securities	12,111	493	-	-	-	-	63,649	-	(52,031)	11,618
Islamic financing receivables	47,783,692	41,471,261	3,121,684	937,442	381,451	351,407	6,354,568	(862,412)	(3,971,709)	1,520,447
Trading and investment securities:	15,148,901	13,993,485	-	-	-	-	2,378,879	-	(1,223,463)	1,155,416
Quoted - Government debt	8,018,726	8,018,726	-	-	-	-	-	-	-	-
Quoted - Other debt securities	5,361,206	5,265,842	-	-	-	-	101,873	-	(6,509)	95,364
Unquoted - Debt securities	196,433	183,810	-	-	-	-	119,248	-	(106,625)	12,623
Other securities	1,572,536	525,107	-	-	-	-	2,157,758	-	(1,110,329)	1,047,429

49 RISK MANAGEMENT (continued)

CREDIT QUALITY ANALYSIS (continued):

31 December 2015

			Of which past due but not impaired on the reporting date				Of which individually impaired			
Type of receivable	Carrying amount AED 000	Of which neither impaired nor past due on reporting date AED 000	<30 days AED 000	30-60 days AED 000	60-91 days AED 000	> 91days AED 000	Gross amount AED 000	Interest suspended AED 000	Allowance for impairment AED 000	Carrying amount AED 000
Due from banks	39,836,584	39,836,584	-	-	-	-	36,132	(11,931)	(24,201)	-
Loans and receivables:	226,696,541	219,219,846	3,839,279	908,889	333,182	443,172	19,102,700	(4,010,796)	(13,139,731)	1,952,173
Corporate banking	197,061,053	191,173,640	2,768,986	675,584	188,588	443,172	17,988,355	(3,593,544)	(12,583,728)	1,811,083
Consumer banking	29,602,250	28,038,874	1,070,293	233,305	144,594	-	1,000,036	(417,252)	(467,600)	115,184
Treasury - other debt securities	33,238	7,332	-	-	-	-	114,309	-	(88,403)	25,906
Islamic financing receivables	43,884,317	38,931,835	1,769,670	741,592	303,756	416,723	6,491,308	(741,201)	(4,029,366)	1,720,741
Trading and investment securities:	17,605,450	16,893,907	-	-	-	-	1,845,716	-	(1,134,173)	711,543
Quoted - Government debt	8,584,504	8,584,504	-	-	-	-	-	-	-	-
Quoted - Other debt securities	6,364,410	6,203,666	-	-	-	-	228,091	-	(67,347)	160,744
Unquoted - Debt securities	519,509	519,401	-	-	-	-	102,742	-	(102,634)	108
Other securities	2,137,027	1,586,336	-	-	-	-	1,514,883	-	(964,192)	550,691

49 RISK MANAGEMENT (continued)

Loans with renegotiated terms

Loans with renegotiated terms are loans, the repayment plan of which have been revised as part of ongoing customer relationship to align with the changed cash flows of the borrower with no other concessions by way of reduction in the amount or interest, but in some instances with improved security. These loans are treated as standard loans and continue to be reported as normal loans

Past due but not impaired

For corporate loans, the entire outstanding exposure of a facility which has been past due is disclosed. Based on an assessment, the Group determines that impairment is required or not considering the borrower's ability to pay, past track record, overall exposure levels, materiality of the past due, types of collaterals, quality of borrower's receivables and/or the stage of collection of the amounts owed to the Group. Amounts that were past due and settled in a short period after the balance sheet date are excluded.

Definition of impaired financial assets

An exposure is impaired if:

a) In case of corporate exposures, the Group considers the counterparty unlikely to pay the full amount outstanding under the original terms of the contract due to one of the following conditions:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- decline in the realisable value of the security;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- a significant downgrading in credit rating by an external credit rating agency.

b) In case of consumer exposure, if the exposure is past due for more than 90 days.

Impairment assessment

The credit portfolio is reviewed on regular basis for impairment. The accrual or non-accrual status of the asset is re-assessed and appropriately risk graded as per credit policy. Impaired assets are classified as such and reported at least on quarterly intervals to the Board sub committees.

Assessment of specific impairment

Wholesale Banking: The Group determines the impairment for each loan or advance on an individual basis by exercising mature judgment in line with Central Bank of the UAE and IFRS requirements. The Group classifies those accounts where recovery is considered doubtful and ensures provisions are made accordingly. The impairment losses are evaluated on regular basis. Specific impairment is assessed when an exposure shows a significant perceived decline in the credit quality or when an obligation is past due or over-limit for more than 90 days. Impaired accounts are classified as Substandard, Doubtful or Loss.

49 RISK MANAGEMENT (continued)

Impairment assessment (continued)

Assessment of collective impairment

Provisions for collective impairment are made based on IFRS and Central Bank of the UAE guidelines. These are impairments that cannot be identified with an individual loan and are estimated on a portfolio basis.

Write offs

Wholesale banking facilities where full loss of principal is expected and full recovery of interest and fees is not expected are written off after obtaining appropriate approvals.

Non performing consumer loans (other than Mortgages and OD) are written off at 181 days past due and are classified as off balance sheet. All receivables remain active on the loan management system for recovery and any legal strategy the bank may deem fit to use. Consumer advances are written off (loan closures) only after all legal and remedial efforts to recover from the customers are exhausted.

Collateral Management

Collaterals and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed. Major categories of collaterals include cash/ fixed deposits, inventories, shares, guarantees (corporate, bank and personal guarantees), immovable properties, receivables, gold and vehicles.

Where credit facilities are secured by collateral, the Group seeks to ensure the enforceability of the collateral.

Collaterals are revalued regularly as per the Group’s credit policy. In addition, adhoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Group to assess the fair market value of the collateral and ensure that risks are appropriately covered. Security structures and legal covenants are also subject to regular review.

49 RISK MANAGEMENT (continued)

Market risk

Market risk is the risk that the value of financial instruments in the Group's books – with the inclusion of some other financial assets and liabilities - will produce a loss because of changes in future market conditions.

The Group utilizes a variety of risk metrics to quantify and monitor market risk. The Group monitors and manages the following categories of market risk:

1. Interest Rate Risk: losses in value due to changes in the level, slope and curvature of yield curves, the volatility of interest rates and changes in credit spreads;
2. Equity Price Risk: losses in value due to exposures to changes in prices and volatilities of individual equities, baskets of equities and equity indices;
3. FX Risk: losses in value due to exposures to changes in spot prices, forward prices and volatilities of currency rates;
4. Commodity Price Risk: losses in value due to exposures to changes in spot prices, forward prices and volatilities of commodities such as petrochemicals, base and precious metals, and food stocks.

Group Market Risk (GMR), a risk function which is independent from the market risk taking units and which reports directly to the Group's CRO, has overall responsibility for measuring, monitoring and managing market risk in the Group, in co-operation with other independent and support functions across the Group's global businesses.

At the macro level, the Group manages its market risk by diversifying exposures and counterparties, limiting the size of risk exposures and setting up economic hedges in appropriate securities or derivatives. This managerial process include:

- a centralized, group-wide market risk taking unit, Global Markets & Treasury (GM&T)
- the accurate and timely reporting of risk exposures and multiple risk metrics by GMR
- a frequently updated limit setting framework
- continuous communication among GM&T, GMR and other senior management

Managers in GM&T are ultimately accountable for managing market risk within the approved limits. These managers have extensive knowledge of markets and products, their risk exposures and of the financial instruments available to hedge their exposures. Managers in both GM&T and GMR exchange information about markets, market conditions, risk exposures and expected risk scenarios on a frequent basis.

The Group's risk exposures to market risk are segregated into Trading and Banking Books. The Trading Book include those financial instruments held with trading intent arising from market-making, position-taking and other so designated financial instruments accounted for at fair value daily. The Banking Book include financial instruments not held with trading intent that arise from the management of Interest Rate risk and FX risk from the Group's consumer and commercial banking assets and liabilities, and other financial investments designated as either Available For Sale or Held To Maturity.

49 RISK MANAGEMENT (continued)

Market risk (continued)

Market Risk Oversight and Management Process

As part of the Group's enterprise-wide risk management framework, an extensive governance processes is applied to the market risk taking activities. This governance framework includes, inter alia:

- Oversight by senior management and Board committees such as the Group ALCO, the BRC and the BCIC;
- Independent valuation of financial instruments in the Trading Book and measurement of market risk;
- A comprehensive set of policies, procedures and limits;
- Monitoring a wide range of risk metrics appropriate for the respective trading activities - such as risk sensitivities, Gross and Net open positions, Value-at-Risk (VaR) and stop-loss limits;
- Approval by the Board of a set of risk limits with appropriate monitoring, reporting and limits excesses' escalation procedures.

The Group uses appropriate and independently validated market standard models for the revaluation and risk measurement of its linear and non-linear financial products and receives regular market information from independent market data providers in order to measure and monitor market risk.

Details of allocation of assets and liabilities subject to market risk between trading and non-trading portfolios are as follows:

	December 2016		
		Market risk measure	
		Trading portfolio	Non-trading portfolio
	AED 000	AED 000	AED 000
Assets subject to market risk			
Cash and deposits with Central Bank	57,214,660	-	57,214,660
Due from banks	57,082,148	-	57,082,148
Loans and receivables	242,612,617	-	242,612,617
Islamic financing receivables	47,783,692	-	47,783,692
Trading securities	1,575,279	1,575,279	-
Investment securities	13,573,622	158,014	13,415,608
Investments in associates and joint ventures	1,680,362	-	1,680,362
Positive fair value of derivatives	3,153,972	3,081,512	72,460
Liabilities subject to market risk			
Due to banks	18,856,571	-	18,856,571
Customer deposits	254,698,202	-	254,698,202
Islamic customer deposits	56,054,237	-	56,054,237
Repurchase agreements with banks	45,906	-	45,906
Debt issued and other borrowed funds	38,695,734	-	38,695,734
Sukuk payable	7,368,138	-	7,368,138
Negative fair value of derivatives	2,824,708	2,415,689	409,019

49 RISK MANAGEMENT (continued)

Market risk (continued)

Market Risk Oversight and Management Process (continued)

	December 2015		
	Market risk measure		
		Trading portfolio	Non-trading portfolio
	AED 000	AED 000	AED 000
Assets subject to market risk			
Cash and deposits with Central Bank	54,974,670	-	54,974,670
Due from banks	39,836,584	-	39,836,584
Loans and receivables	226,696,541	-	226,696,541
Islamic financing receivables	43,884,317	-	43,884,317
Trading securities	1,678,869	1,678,869	-
Investment securities	15,926,581	148,237	15,778,344
Investments in associates and joint ventures	1,615,021	-	1,615,021
Positive fair value of derivatives	2,669,079	2,617,751	51,328
Liabilities subject to market risk			
Due to banks	18,822,719	-	18,822,719
Customer deposits	224,385,213	-	224,385,213
Islamic customer deposits	62,846,692	-	62,846,692
Repurchase agreements with banks	248,334	-	248,334
Debt issued and other borrowed funds	31,287,342	-	31,287,342
Sukuk payable	3,672,500	-	3,672,500
Negative fair value of derivatives	2,610,205	2,171,958	438,247

The impact of sensitivity analysis on Fx Risk and Equity Price risk on the income statement and other comprehensive income is immaterial.

49 RISK MANAGEMENT (continued)

Market risk (continued)

Trading Book oversight by GMR

GMR monitors the limits' utilization in the Trading Book of the Group on a daily basis through a multi-layered Limit Monitoring System which uses independently sourced data and reports from the GM&T IT systems. Depending on the trading exposure and as appropriate, GMR uses appropriate metrics including:

1. Non statistical metrics: Interest Rate sensitivity, (DV01/PV01), FX sensitivity (FX01), Net open/ Net Gross outstanding positions, Maximum notional and tenor measures, Derivatives' Greek sensitivities (Delta, Gamma, Vega), and Stop Loss limits;

2. Statistical metrics: Value-at-Risk (VaR), by Asset class as well as total for the whole Trading Book.

The Group is not significantly exposed to structural FX Risk - which is a component of market risk - since the majority of the assets and liabilities of the Group are denominated predominately in either AED or in USD-pegged currencies from other GCC countries.

Value-at-Risk

To better capture the multi-dimensional aspects of market risk, the Group's primary market risk metric is a statistical one, Value-at-Risk, which is used for short-term risk holding periods. VaR metrics are calculated daily for the specific asset classes listed below, plus a total VaR figure for the whole Trading Book:

- Interest rate VaR
- Foreign Exchange VaR
- Total VaR

49 RISK MANAGEMENT (continued)

Market risk (continued)

Value-at-Risk (continued)

At Emirates NBD the VaR metric is calculated by simultaneously shocking the relevant market risk factors of all financial instruments in the Trading Book at the close of a business day using a Full Revaluation, Historical Simulation methodology. This statistical methodology produces VaR metrics set with a 99% confidence level of statistical significance over a specified horizon (1 business day) using over 2 years of historical data for the relevant market risk factors.

Due to its statistical nature, VaR is most effective as a market risk metric when estimating losses in markets in which there are no sudden fundamental changes or shifts in market conditions. The Group is also aware of some of the inherent limitations of the VaR metric, such as:

1. VaR cannot estimate potential losses over longer holding periods where moves in market risk factors might become extreme;
2. VaR does not take into account the liquidity or illiquidity of different financial instruments & markets;
3. Past changes in market risk factors might not be accurately forecast future changes;
4. Due to the inter-day nature of VaR, intra-day levels of market risk may vary from those reported at the end of a business day.

GMR therefore complements the VaR metrics with other non-statistical metrics of market risk (as mentioned before), and it is engaged in a process of implementing a comprehensive market risk stress testing framework to determine the impact on the Trading Book of the Group of various historical, hypothetical and ad-hoc stress scenarios for market risk factors.

VaR Back testing

GMR backtests the predictive power of the calculated VaR metrics to estimate potential losses in the Trading Book of the Group by comparing VaR figures vs actual P&L figures. GMR reports the results of VaR back testing to ALCO periodically.

The Group's year-end VaR numbers reported below have been calculated using the following parameters:

- Statistical level of confidence: 99%
- Holding period: 1 business day
- Methodology: Full Revaluation, Historical Simulation using over 2 years of historical market data

* Note that the sum of asset class VaR metrics does not add up to the reported Total VaR metric due to diversification and cross correlation effects.

	2016 AED 000				**2015 AED 000**			
	Average	Maximum	Minimum	Actual*	Average	Maximum	Minimum	Actual*
By Asset class								
Trading								
Interest rate risk	3,695	8,965	2,390	2,532	3,950	6,252	2,320	4,648
Foreign exchange risk	8,039	15,855	3,005	3,232	7,747	13,349	3,812	4,038
Credit trading risk	1,096	3,330	125	379	1,791	6,822	299	1,807
Total	8,564	15,536	3,204	3,454	9,082	14,144	5,188	7,142

49 RISK MANAGEMENT (continued)

Market risk (continued)

Value-at-Risk (continued)

Major Currency-wise open positions of the Group are as follows:

	2016 Long / (Short) AED 000	2015 Long / (Short) AED 000
U.S. Dollar (USD)	(6,921,727)	4,167,974
Oman Riyal (OMR)	(146,296)	(377,327)
U.A.E Dirhams (UAE)	80,531	84,850
Saudi Riyal (SAR)	(551,989)	45,739
Qatar Riyal (QAR)	1,068,866	(15,788)
Egyptian Pound (EGP)	105,160	161,806
Bahraini dinar (BHD)	122,902	62,245
	(6,242,553)	4,129,499

Operational risk

Operational risk at The Group is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. It thus excludes strategic and reputation risks but includes legal and regulatory risks.

The Group's objective is to prevent major OpRisk losses and to protect the bank against any material damage. The Group established a Group-wide framework applying a pro-active approach to managing operational risk. Operational Risks can arise from all business and support activities across the Group. The Group has chosen a holistic approach to systematically identify and manage operational risks across different products, processes, and client segments.

The Board of Directors has the oversight responsibility for operational risk in the Group. The responsibility is exercised through the BRC. The BRC approves the operational risk management framework and governance structure, and the associated policies. The operational risk exposure is monitored by the Group Risk Committee. It also acts as the escalation and decision-making committee for key operational risk topics.

The Group applies a three lines of defense model for operational risk management. The business and support units form the first line of defense. They have the primary responsibility and accountability for identifying operational risk in their areas and to promptly and preemptively mitigate any issues. Management of operational risk is embedded in the day-to day activities and processes. Business OpRisk sub-committees monitor the development of operational risk, analyze the potential impact, and decide on mitigating measures. The committees review operational risk losses and issues and evaluate an appropriate risk reduction strategy.

49 RISK MANAGEMENT (continued)

Operational risk (continued)

The Group Operational Risk function, as the second line of defense, provides consistent and standardized methods and tools to the business and support functions for managing operational risk. The central unit monitors the risk management process and compliance to the operational risk policies and procedures. It conducts independent analysis of the operational risk exposure and the bank's mitigating strategies.

The Group has established a systematic operational risk management process comprising of risk assessment, risk treatment, risk monitoring, and risk communication and reporting. The process is challenged and reviewed regularly to ensure its effectiveness and appropriateness for the growth and business strategy of the Group.

Operational risks are assessed across all areas of the Group, all processes, products and services, and systems. The operational risk exposure is classified into four types between 'low' and 'critical'. Operational risks that exceed a defined threshold are presented to the appropriate management level and receive required attention. A structured process for risk acceptance allows the Group to balance operational risk, business reward, and cost of mitigation.

The Group obtains comprehensive and tailored insurance cover to protect the Group against unexpected and substantial unforeseeable losses. Insurance cover is obtained from high rated insurance companies in the international reinsurance market. The requirements for insurance are reviewed periodically and the insurance cover is aligned to changes of the Group's risk exposure.

As part of operational risk management the Group has established a comprehensive information security framework. Information security is governed by a security policy and related procedures based on international standards such as ISO27001 and Payment Card Industry – Data Security Standards (PCI-DSS). The information security processes ensure confidentiality, integrity and availability of the Group's information, information systems and its resources through the selection and application of appropriate safeguards.

Business Continuity Management

Business Continuity Management (BCM) is defined as a "holistic management process that identifies potential threats to an organization and the impacts to business operations that those threats, if realized, might cause, and which provides a framework for building organizational resilience with the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities."

The business continuity process across the Group is based on the international standard ISO22301:2012 (E). The BRC is responsible for providing oversight and strategy for Business Continuity Management. Business and support units are responsible to ensure appropriate Business Continuity Plans are in place and tested for their respective areas. The effectiveness of the Business Continuity Plans is monitored independently by Group Operational Risk.

49 RISK MANAGEMENT (continued)

Liquidity risk

Liquidity Risk refers to the inability of the Group to fund an increase in assets and meet obligations as they become due (Structural Funding Risk), or the inability to convert assets into cash at reasonable prices (Market Liquidity Risk). The risk arises from mismatches in the amount and timings of cash flows.

Objectives and Governance structure

The objective of the Group's liquidity and funding management framework is to ensure that all foreseeable funding commitments (under both normal and stressed conditions) can be met when due, and that access to the wholesale markets is coordinated and cost effective. To this end, the Group maintains a diversified funding base comprising core consumer and corporate customer deposits and institutional balances. This is augmented with wholesale funding and portfolios of highly liquid assets diversified by currency and maturity which are held to enable the Group to respond quickly and smoothly to unforeseen liquidity requirements.

Liquidity risk is managed centrally by the Group ALCO where liquidity risk is a standing agenda item. Group ALCO comprises of the Group CEO, Group CFO, Group CRO, and the heads of all major lines of business (Treasury, Wholesale Banking and Consumer and Wealth Management), and is the central authority for identifying and managing such risk. The ALM Function in Group Finance is responsible for liquidity measurement, monitoring and reports risk exposures independently to the Group ALCO.

In case of operating subsidiaries and overseas branches that are subject to additional liquidity limits imposed by its local regulator, the subsidiary or the overseas branch head retains the responsibility for managing its overall liquidity within the regulatory limit, under Group Treasury oversight and direction of the Group ALCO.

Policies and Procedures

The Group ALCO, through the Group Treasury operates a centralized governance and control process that covers the Group's liquidity risk management activities. The subsidiaries conduct their capital and wholesale market funding under Group Treasury oversight and direction of the Group ALCO.

49 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Policies and Procedures (continued)

Specifically, liquidity and funding management process includes:

- projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- mis-match analysis between assets and liabilities for different periods with a focus on shorter time frames. These gap reports are based on contractual cash flow, retention and decay assumptions for non-maturing assets and liabilities and potential liquidity demand through undrawn commitments;
- monitoring balance sheet liquidity and advances to deposits ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with back-up facilities;
- managing the concentration and profile of debt maturities;
- maintaining debt financing plans;
- monitoring customer depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of distress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crisis, while minimising adverse long-term implications for the business.

Liquidity risk mitigation

The Group ALCO, in conjunction with Group Treasury is primarily responsible for implementing the liquidity management strategies on structural positions, and maintaining adequate liquidity buffers for possible distress situations. The Group maintains adequate liquidity buffers consisting of high credit quality investment securities, Central Bank CDs and Central Bank Securities, which can be monetized at short notice and minimal cost. Other business units contribute to overall structural liquidity management through product mix strategies and deposit targets.

The Group ALCO, in line with the best practices, recognizes that users and providers of liquidity as a resource should be compensated in an equitable and transparent manner. This is achieved through the Funds Transfer Pricing (“FTP”) system which is aligned to charge/compensate for liquidity of the underlying assets or liabilities. These processes are embedded into product pricing decisions and performance measurement systems. The ALM Function in Group Finance in conjunction with the Group ALCO manages and calibrates the FTP system for the Group, in the light of business strategies or market movements.

The Group uses cash-flow stress testing as part of its control processes to assess liquidity risk.

49 RISK MANAGEMENT (continued)

MATURITY ANALYSIS OF ASSETS AND LIABILITIES:

The table below summarizes the maturity profile of the Group's assets and liabilities:

31 December 2016	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Undated and Over 5 years AED 000	Total AED 000
ASSETS						
Cash and deposits with Central Bank	47,996,685	9,217,975	-	-	-	57,214,660
Due from banks	38,151,131	16,802,167	1,284,698	144,485	699,667	57,082,148
Trading securities	299,672	98,023	372,021	419,273	386,290	1,575,279
Investment securities	2,087,768	2,391,773	1,490,611	3,543,634	4,059,836	13,573,622
Loans and receivables	140,306,098	18,497,935	25,012,163	12,750,818	46,045,603	242,612,617
Islamic financing receivables	7,845,798	4,610,660	9,480,762	10,629,917	15,216,555	47,783,692
Investments in associates and joint ventures	-	-	-	-	1,680,362	1,680,362
Positive fair value of derivatives	1,097,648	576,412	496,226	459,026	524,660	3,153,972
Investment properties	-	-	-	-	553,812	553,812
Customer acceptances	5,962,726	978,859	-	-	-	6,941,585
Property and equipment	-	-	-	-	2,397,196	2,397,196
Goodwill and Intangibles	-	-	-	-	5,827,150	5,827,150
Other assets	5,114,727	2,267,900	-	-	225,290	7,607,917
TOTAL ASSETS	248,862,253	55,441,704	38,136,481	27,947,153	77,616,421	448,004,012

49 RISK MANAGEMENT (continued)

MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued):

31 December 2016	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Undated and Over 5 years AED 000	Total AED 000
LIABILITIES						
Due to banks	13,036,679	4,065,690	1,754,202	-	-	18,856,571
Customer deposits	191,883,611	54,890,993	7,587,159	143,701	192,738	254,698,202
Islamic customer deposits	18,637,446	19,313,637	18,103,154	-	-	56,054,237
Repurchase agreements with banks	509	1,373	-	35,605	8,419	45,906
Debt issued and other borrowed funds	2,295,500	6,880,500	14,492,000	6,103,000	8,924,734	38,695,734
Sukuk payable	1,836,250	-	1,836,250	3,695,638	-	7,368,138
Negative fair value of derivatives	719,962	437,539	775,159	355,548	536,500	2,824,708
Customer acceptances	5,962,726	978,859	-	-	-	6,941,585
Other liabilities	2,855,512	5,802,501	-	-	-	8,658,013
Total equity	-	-	-	-	53,860,918	53,860,918
TOTAL LIABILITIES AND EQUITY	237,228,195	92,371,092	44,547,924	10,333,492	63,523,309	448,004,012
OFF BALANCE SHEET						
Letters of Credit and Guarantees	26,510,807	10,652,250	15,837,963	2,761,451	1,133,154	56,895,625

31 December 2015

ASSETS	217,110,405	49,003,451	40,053,906	26,331,039	74,061,374	406,560,175
LIABILITIES AND EQUITY	228,028,044	74,833,791	33,123,722	10,302,106	60,272,512	406,560,175
OFF BALANCE SHEET ITEMS	24,847,745	10,170,005	16,070,534	2,738,420	1,001,117	54,827,821

49 RISK MANAGEMENT (continued)

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES:

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2016 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice was given immediately. However, the Group expects that many customers will not request repayment on the earliest date, the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

As at 31 December 2016

	Carrying amount AED 000	Gross nominal outflows AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Financial liabilities							
Due to banks	18,856,571	(18,886,294)	(13,058,591)	(4,071,455)	(1,756,248)	-	-
Customer deposits	254,698,202	(256,875,525)	(192,083,963)	(56,110,345)	(8,341,767)	(146,100)	(193,350)
Islamic customer deposits	56,054,237	(56,925,609)	(18,750,506)	(19,528,935)	(18,646,168)	-	-
Repurchase agreements with banks	45,906	(45,906)	(509)	(1,373)	-	(35,605)	(8,419)
Debt issued and other borrowed funds	38,695,734	(41,721,313)	(2,493,314)	(7,185,086)	(16,144,522)	(6,592,846)	(9,305,545)
Sukuk payable	7,368,138	(8,025,388)	(1,879,567)	-	(1,950,281)	(4,195,540)	-
	375,718,788	(382,480,035)	(228,266,450)	(86,897,194)	(46,838,986)	(10,970,091)	(9,507,314)
Letters of credit and guarantees	56,895,625	(56,895,625)	(26,510,807)	(10,652,250)	(15,837,963)	(2,761,451)	(1,133,154)
Irrevocable loan commitments	29,099,863	(29,099,863)	(14,822,633)	(5,723,600)	(8,553,630)	-	-

49 RISK MANAGEMENT (continued)

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES (Continued):

As at 31 December 2015

	Carrying amount	Gross nominal outflows	Within 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Financial liabilities							
Due to banks	18,822,719	(18,891,370)	(13,090,432)	(3,749,112)	(2,051,826)	-	-
Customer deposits	224,385,213	(225,085,797)	(188,294,207)	(30,501,027)	(3,324,114)	(2,913,418)	(53,031)
Islamic customer deposits	62,846,692	(63,196,876)	(19,899,072)	(26,687,089)	(16,610,715)	-	-
Repurchase agreements with banks	248,334	(248,334)	-	-	(1,883)	(87,583)	(158,868)
Debt issued and other borrowed funds	31,287,342	(34,183,639)	(1,700,218)	(8,227,224)	(7,278,842)	(7,631,910)	(9,345,445)
Sukuk payable	3,672,500	(3,925,265)	(40,669)	(122,008)	(3,762,588)	-	-
	341,262,800	(345,531,281)	(223,024,598)	(69,286,460)	(33,029,968)	(10,632,911)	(9,557,344)
Letters of credit and guarantees	54,827,821	(54,827,821)	(24,847,745)	(10,170,005)	(16,070,534)	(2,738,420)	(1,001,117)
Irrevocable loan commitments	23,550,505	(23,550,505)	(13,951,672)	(4,320,752)	(5,205,479)	(72,602)	-

49 RISK MANAGEMENT (continued)

Interest rate risk in the banking book

Interest Rate Risk in the Banking Book ('IRRBB') is defined as the exposure of the non-trading products of the Group to interest rates. Non-trading portfolios include all banking book positions that arise from the interest rate on the Group's consumer and commercial banking assets and liabilities, and financial investments designated as available for sale and held to maturity. IRRBB arises principally from mismatches between the future yields on assets and their funding costs, as a result of interest rate changes. Analysis of this risk is complicated by having to make assumptions on embedded optionality within certain product areas such as the incidence of prepayments in consumer loans, and from behavioral assumptions regarding the economic duration of liabilities which are contractually repayable on demand such as current accounts.

In order to manage this risk optimally, IRRBB in non-trading portfolios is transferred to Group Treasury under the supervision of the Group ALCO, through Funds Transfer Pricing (FTP) Systems. Group ALCO is required to regularly monitor all such interest rate risk positions to ensure they comply with interest rate risk limits.

The ALM Function in Group Finance is responsible for IRRBB measurement, monitoring and reports risk exposures independently to the Group ALCO. The Group ALCO reviews that the assumptions (used to transform positions into interest rate exposures) are reasonable and commensurate with the nature and complexity of the Group's holdings.

For measuring overall interest sensitivity in the banking book, the Group conducts stress tests by simulating parallel shifts to the yield curve(s) ranging from 50 basis points to 200 basis points, and assessing the corresponding impact on its Net Interest Income.

	As at 31 December 2016		As at 31 December 2015	
	Amount AED 000	Variance AED 000	Amount AED 000	Variance AED 000
Rates Up 200 bp	11,451,778	2,188,434	10,367,020	1,347,152
Base Case	9,263,344	-	9,019,868	-
Rates Down 200 bp	8,022,562	(1,240,782)	8,085,672	(934,196)

The interest rate sensitivities set out in the table above are based on a set scenario i.e. the projections above assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential effect on net interest income of some rates changing while others remain unchanged. The projections also make the assumption that all positions run to maturity. This effect does not incorporate actions that would be taken by Group Treasury or in the business units to mitigate the impact of this interest rate risk. In practice, Group Treasury seeks proactively to change the interest rate risk profile to minimize losses and optimize net revenues.

To measure and manage interest rate risk and its possible impact on Economic Value of the entity, the Group has established internal limits based on the PV01. The interest rate gaps and sensitivity tests (NII and PV01) are measured and monitored on a monthly basis by the ALM Function in Group Finance, and reported to the Group ALCO.

49 RISK MANAGEMENT (continued)

Interest Rate Repricing Analysis:

31 December 2016	Less than 1 month AED 000	Over 1 month to 3 months AED 000	Over 3 months to 6 months AED 000	Over 6 months to 1 year AED 000	Over 1 year AED 000	Non-interest bearing AED 000	Total AED 000
ASSETS							
Cash and deposits with Central Bank	6,069,989	9,372,569	5,234,720	3,983,255	-	32,554,127	57,214,660
Due from banks	31,223,928	16,963,583	2,234,757	616,577	580,820	5,462,483	57,082,148
Trading securities	41,167	391,104	102,027	51,084	943,716	46,181	1,575,279
Investment securities	243,261	1,603,123	1,529,708	2,268,622	6,402,553	1,526,355	13,573,622
Loans and receivables	149,689,800	36,797,075	7,614,784	2,694,251	45,816,707	-	242,612,617
Islamic financing receivables	1,765,852	6,468,601	3,228,372	1,305,361	35,015,506	-	47,783,692
Investments in associates and joint ventures	-	-	-	-	-	1,680,362	1,680,362
Positive fair value of derivatives	-	-	-	-	-	3,153,972	3,153,972
Investment properties	-	-	-	-	-	553,812	553,812
Customer acceptances	-	-	-	-	-	6,941,585	6,941,585
Property and equipment	-	-	-	-	-	2,397,196	2,397,196
Goodwill and Intangibles	-	-	-	-	-	5,827,150	5,827,150
Other assets	-	-	-	-	-	7,607,917	7,607,917
TOTAL ASSETS	189,033,997	71,596,055	19,944,368	10,919,150	88,759,302	67,751,140	448,004,012

49 RISK MANAGEMENT (continued)

Interest Rate Repricing Analysis (continued):

31 December 2016	Less than 1 month AED 000	Over 1 month to 3 months AED 000	Over 3 months to 6 months AED 000	Over 6 months to 1 year AED 000	Over 1 year AED 000	Non-interest bearing AED 000	Total AED 000
LIABILITIES AND EQUITY							
Due to banks	10,574,614	2,389,683	986,361	3,226,823	1,101,750	577,340	18,856,571
Customer deposits	77,971,780	25,536,540	18,009,751	37,681,463	7,923,599	87,575,069	254,698,202
Islamic customer deposits	7,832,845	18,504,980	6,177,271	5,727,978	543,470	17,267,693	56,054,237
Repurchase agreements with banks	509	-	-	1,373	44,024	-	45,906
Debt issued and other borrowed funds	4,478,340	16,224,648	1,172,580	1,569,803	15,250,363	-	38,695,734
Sukuk payable	1,836,250	-	-	-	5,531,888	-	7,368,138
Negative fair value of derivatives	-	-	-	-	-	2,824,708	2,824,708
Customer acceptances	-	-	-	-	-	6,941,585	6,941,585
Other liabilities	-	-	-	-	-	8,658,013	8,658,013
Total equity	-	-	-	-	-	53,860,918	53,860,918
TOTAL LIABILITIES AND EQUITY	102,694,338	62,655,851	26,345,963	48,207,440	30,395,094	177,705,326	448,004,012
ON BALANCE SHEET GAP	86,339,659	8,940,204	(6,401,595)	(37,288,290)	58,364,208	(109,954,186)	-
OFF BALANCE SHEET GAP	88,724,747	10,478,523	(5,935,776)	(36,998,192)	17,401,849	-	73,671,151
INTEREST RATE SENSITIVITY GAP – 2016	175,064,406	19,418,727	(12,337,371)	(74,286,482)	75,766,057	(109,954,186)	73,671,151
CUMULATIVE INTEREST RATE SENSITIVITY GAP – 2016	175,064,406	194,483,133	182,145,762	107,859,280	183,625,337	73,671,151	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP – 2015	63,278,438	65,621,791	52,662,084	42,489,215	100,963,883	-	-

49 RISK MANAGEMENT (continued)

Reputational Risk

Reputational risk is the risk of potential loss of earnings and future revenue, loss in market value or lack of liquidity supply due to deterioration of reputation. It also includes the threat to the brand value of a financial institution.

Reputational risk can arise as a consequence of failures with a strong negative perception of clients, shareholders, creditors or the public. The Group has controls to ensure a positive perception of the Group and that overall risk management ensures appropriate management of reputational risk.

Regulatory/Compliance Risk

Regulatory/Compliance risk is the risk of reputational and/or financial losses due to the failure to comply with applicable laws, regulations or sanctions.

The Group has an independent compliance function, with the necessary mandate and authority to enforce and monitor compliance on a Group wide basis. This includes compliance with the applicable laws and regulations across the various jurisdictions where the Group operates and the monitoring and reporting on Regulatory, Anti Money Laundering (AML) and sanction related matters. The Group has Compliance policies in place at a Group-level as well as in the international jurisdictions where it is present to meet specific regulatory requirements, including Anti Money Laundering (AML), “Know-Your-Customer” (KYC) and sanctions. The Group has automated monitoring and screening systems to help comply with the AML and Sanctions regulatory requirements, Training is provided to staff to enhance the knowledge and awareness on Compliance matters.

Internal capital adequacy assessment process (ICAAP)

The Group has a robust capital adequacy assessment, monitoring and reporting process and is pro-actively advancing its internal capital adequacy assessment process (ICAAP) along the lines of Basel II.

The Group has implemented the Group ICAAP Framework to guide its annual ICAAP exercise. The Group ICAAP Framework defines governance and approval process, roles and responsibilities of involved units, scope and coverage, risk identification and measurement in the Group ICAAP exercise.

The Group performs its annual forward-looking ICAAP exercise which is based on the Group’s financial projections for baseline and stress scenarios over a period of three years to assess the strength of Group’s capital adequacy under stressed economic conditions. The capital impact arising from Pillar 1 and Pillar 2 risks was measured and assessed in ICAAP.

The ICAAP exercise is an extensive and robust process in the Group. The process includes scenarios setting, financials projection, risk identification and measurement, stress testing, capital position calculation, mitigation actions and capital planning. It brings together different business and support units in the Group in a major group-wide exercise, in which the various units come together to work collectively in the engagement. The key stake-holders involved in the Group ICAAP include Group Risk, Group Finance, Group Research and business units. The results of ICAAP and stress tests are discussed at senior management and Board level.

The Group monitors its risk parameters against the Group’s Risk Appetite limits on a quarterly basis and its capital adequacy ratios under its annual ICAAP are benchmarked against the regulatory requirement and internal Risk Appetite limit.

49 RISK MANAGEMENT (continued)

Internal Audit's role in overall risk management

Internal Audit's reporting lines are independent of management and it reports directly to the Board Audit Committee. It is responsible for providing an independent review of the control environment across the group including all aspects of risk management. The primary objective of Internal Audit is to provide reliable, valued and timely assurance to the Board and Executive Management over the effectiveness of controls to mitigate current and emerging high risks thereby enhancing the control culture within the Group. The Board Audit Committee reviews and approves Internal Audit's plans and resources, and evaluates the effectiveness of Internal Audit. An assessment by external advisers is also carried out periodically.

Risk management framework and processes at Emirates Islamic (EI)

EI risk management policies and processes are aligned with the Group's risk management framework. Due consideration is given to process as regards Sharia compliance.

There is a risk management function within EI which reports to EI CEO jointly with GM Risk (Group CRO) oversight.

Risk management framework and processes at Emirates NBD Egypt operations

Emirates NBD Egypt was acquired by The Group in Q2, 2013 and since then the Egyptian business operation has adopted The Group Risk Management Framework to effectively manage its Risks. The significant risk categories that the Bank is mainly exposed to in Egypt are credit, market, liquidity, operational and reputational risk.

50 LEGAL PROCEEDINGS

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has proper controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the information available, no material adverse impact on the financial position of the Group is expected to arise from legal claims as at 31 December 2016 other than to the extent already provided, hence no additional provision for any claim needs to be made in these financial statements.

51 SOCIAL CONTRIBUTIONS

The social contributions (including donations and charity) made during the year amount to AED 55.2 million (2015: AED 27.4 million).