NOOR BANK

ANNUAL REPORT OF FATWA AND SHARI'A SUPERVISORY BOARD

AUDIT REPORT

2016 CONSOLIDATED FINANCIALS

NOOR BANK

بسم الله الرحمن الرحيم

In the name of Allah, the Most Gracious, the Most Merciful

Fatwa & Shari'a Supervisory Board Report for the Financial Year Ended 31/12/2016

To the Stakeholders of Noor Bank

Assalam Alaikum Wa Rahmatullah

In compliance with the letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions undertaken by Noor Bank for the period starting 1 January 2016 ending 31 December, 2016. We have also conducted our review to form an opinion as to whether Noor Bank has complied with Shari'a rules and principles and also with the specific fatwas, rulings and guidelines issued by us.

Noor Bank's management is responsible for ensuring that Noor Bank conducts its business in accordance with Shari'a Rules and Principles. It is our responsibility to for an independent opinion, based on our review of the operations of Noor Bank, and to report to you.

We conducted our pre and post execution reviews via the Sharia Department which include an integrated Sharia audit in collaboration with Noor Bank's Internal Audit Department. The review techniques include examining on a sampling basis each type of transaction, the relevant documents and procedures adopted by Noor Bank. We planned and performed our review so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that Noor Bank has in general not violated the Shari'a rules and principles.

We held 5 FSSB Meetings and numerous consultations through emails and telephonic conversations in which 121 resolutions were passed by the FSSB during the year.

<u>In our opinion:</u>

1. The contracts, transactions, and dealings entered into by Noor Bank for the period starting 1st of January 2016 ending 31st December, 2016 that we have reviewed were in compliance with the Shari'a rules and principles in general; audit findings identified are immediately rectified to make them compliant with Shari'a rules and principles ;
2. The allocation of profits and losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shari'a rules and principles;
3. Any earnings that have been realised from sources or by means not recognized by Shari'a rules and principles, have been set aside initially to be disposed of to charitable causes under the supervision of the FSSB; and
4. The zakat amount will be calculated at the holding company level (Noor Investment Group) since Noor Bank is part of the Group.

We pray to Allah Almighty to grant all the guidance and straight-forwardness.

Members of the Fatwa & Shari'a Supervisory Board - Noor Bank

Dr. Mohamed Ali Elgari (Chairman)	Dr. Mohd Daud Bakar (Member)	Amjad Naser (Member)

Noor Bank PJSC

Directors' report and consolidated financial statements for the year ended 31 December 2016

Noor Bank PJSC

Directors' report and consolidated financial statements for the year ended 31 December 2016

Noor Bank PJSC

Directors' report for the year ended 31 December 2016

The Board of Directors are pleased to submit their report on the activities of Noor Bank PJSC ("the Bank") together with the audited consolidated financial statements for the year ended 31 December 2016.

Principal activities

The principal activities of the Bank are carrying out banking, financing and investing activities through various Islamic financing instruments such as Murabahah, Wakalah, Tawarruq, Istisna, Islamic sukuk and Ijarah. The activities of the Bank are conducted in accordance with the Islamic Shari'a principles and in compliance with the provisions of the Memorandum and Articles of Association of the Bank.

Results

The consolidated statement of financial position of the Bank as at 31 December 2016, together with its consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended are set out in the accompanying consolidated financial statements.

Dividends

The Board of Directors do not propose any dividends for the year ended 31 December 2016.

Composition of the Board of Directors

The Board of Directors of the Bank comprised of the following individuals during the year ended 31 December 2016:

H.H. Sheikh Ahmed bin Mohammad bin Rashid Al Maktoum (Chairman)
H.E. Lt. Gen. Musabbeh Rashid Musabbeh Al Fattan (Vice Chairman)
H.E. Abdullah Bin Mohammed Ghobash
Mr. Sultan Ahmad Sultan bin Sulayem
Mr. Saif Jaffar Suhail Markhan Alketbi[1]
Mr. Mohamed Ali Rashed Alabbar[2]
Mr. Essa Abdulfattah Kazim Al Mulla
Mr. Hussain Ahmad Dhaen Al Qemzi
Mr. Marwan Iqbal Mohammad Abdullah Abedin [3]
Mr. Soud Ahmad Abdulrahman Ba'alawy [4]

[1] Resigned effective 30 May 2016
[2] Resigned effective 17 January 2016
[3] Appointed effective 25 March 2016 and resigned effective 21 November 2016
[4] Resigned effective 21 November 2016

Subsequent to the year ended 31st December 2016 following changes were made to the Board of Directors:

H.E. Lt. Gen. Musabbeh Rashid Musabbeh Al Fattan (Vice Chairman) [5]
H.E. Abdullah Bin Mohammed Ghobash[6]
Mr. Sultan Ahmad Sultan bin Sulayem[5]
Mr. Edris Mohammad Rafi Mohammad Saeed AlRafi (Vice Chairman)[7]
Dr Mohamed Ahmed Al Zarouni[7]
Dr Amina Al Rustamani[7]
Mr. Raed Mohammad Khalifa Kajoor AlNuaimi[7]
Mr. Rashid Mohammed Al Mutawa[7]
Mr. Narayanan Rajagopalan Yegna[7]

[5] Resigned effective 01 March 2017
[6] Resigned effective 25 January 2017
[7] Appointed effective 01 March 2017

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors on 2 April 2017.

....
Director Director

Independent auditor's report to the shareholders of Noor Bank PJSC

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Noor Bank PJSC ('the Bank') and its subsidiaries (together, '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.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of financial statements of a bank in the United Arab Emirates (U.A.E.). We have fulfilled our other ethical responsibilities in accordance with these other requirements and the IESBA Code.

Our audit approach

The areas, in our professional judgement, that are of most significance to the audit ('Key audit matters') and where we focused most effort were:

- Impairment of investments in Islamic financing instruments;
- Fair valuation of the Group's non-financial assets (Investment properties and buildings); and
- Revenue recognition, including the timing and amount of profit and fees recognised.

We have set out below an explanation of each item and a summary of the audit approach.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud. In addition, in common with all banks, the Group is highly dependent on technology due to the significant number of transactions that are processed daily. The audit approach relied extensively on automated controls and therefore procedures were designed to test access and control over IT systems.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on consolidated the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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.

Independent auditor's report to the shareholders of Noor Bank PJSC (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of investments in Islamic financing instruments	
We focused on this area because the Directors and management make complex and subjective judgements over both timing of recognition of impairment and the estimation of the size of any impairment. Impairment allowances represent management's best estimate of the losses incurred within the Islamic financing portfolio at the balance sheet date. They are calculated on a collective basis for portfolios of performing Islamic financing instruments of a similar nature and on an individual basis for non-performing Islamic financing instruments. The calculation of both collective and individual impairment allowances is inherently judgemental. The calculation of collective provision is based on statistical models which approximate the impact of current economic and credit conditions by reference to historic loss experience in portfolios of similar Islamic financing instruments. The inputs to and assumptions underpinning these models are subject to management judgement, including key assumptions as to the probability of default, the loss given default and the loss emergence period. For specific impairments, judgement is required to estimate the expected future cash flows related to that Islamic financing instrument, including the value of collateral. As disclosed in note 6, as at 31 December 2016, the Bank has recognised provisions of AED 723 million and AED 1,024 million for collective impairment allowances and specific impairment allowances, respectively. The Bank has significant exposures to certain government related entities ('GREs'). These entities have been facing financial difficulties and exposures have been restructured. Assessments of any required provisions have been made by management not only based on discounted future cash flows including estimates of asset disposal values, but also taking into account other support which management expects to be available to the Bank against such exposures.	We assessed and tested the design and operating effectiveness of the controls over impairment data and calculations. These controls included those over the identification of which Islamic financing facilities were impaired, the data transfer from source systems to impairment models and model output to the general ledger, and the calculation of collective and specific impairment provisions. In addition, we performed detailed testing on the models used to calculate both specific and collective impairment. This testing typically included testing of extraction of data and assessing the appropriateness of assumptions used in the models, and re-performance of impairment calculations. We tested controls over the timely identification of potentially impaired Islamic financing facilities. Where impairment had been identified, we assessed the forecasts of future cash flows prepared by management to support the calculation of the impairment. We examined a sample of Islamic financing facilities which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate, including use of external evidence in respect of relevant counterparties. In the case of some impairment provisions, we formed a different view from that of management, but in our view the differences were within a reasonable range of outcomes in the context of the overall Islamic financing facilities and the uncertainties disclosed in the consolidated financial statements. For certain significant GRE exposures, we obtained evidence of the additional support available to the Bank. We held discussions with the senior management of the Bank and those charged with governance concerning the basis on which they are satisfied that such support will be available when needed.

Key audit matters (continued)

Key audit matter	*How our audit addressed the key audit matter*
Fair valuation of Group's non-financial assets (Investment properties and buildings)	
The Group's non-financial assets held at fair value comprise investment properties and buildings amounting to AED 1.32 billion as at 31 December 2016, as set out in notes 8 and 10. The valuation of the Group's properties is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental income or selling value for that particular property. The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuation assumptions, when aggregated, could result in material misstatement, is why we gave specific audit focus and attention to this area. The valuations were carried out by professional third party valuation companies. The valuers were engaged by the Bank, and performed their work in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). In determining a property's valuation, the valuers take into account current market prices for similar properties in a similar location and condition. If such conditions are not present, the valuers make an allowance for differences from the comparable properties and adjust their assessment of the valuation accordingly. Using available market data and transactions, the valuers arrive at a range of valuation outcomes, from which they derive a point estimate. Due to the unique nature of each property, the assumptions applied take into consideration the individual property characteristics such as size and location. Management of the Bank reviewed the assumptions based on their reasonable knowledge and other information available about the property and decided not to adjust the consolidated financial statements for the assessed values determined by the valuers, on the grounds that the impact was immaterial in the context of the sensitivity of the assumptions used.	We evaluated the competence, capabilities and objectivity of the valuation experts by considering information from a variety of sources, such as: • Experience with previous work of that expert; • Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition; and • Assessment by our own real estate specialists. We evaluated the appropriateness of the expert's work by considering the nature and content of the instructions provided to the expert by the Bank, the relevance and reasonableness of expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial statements. Where the experts' work involved significant use of source data, the relevance, completeness, and accuracy of that source data was evaluated. For the more judgemental valuations, which may depend on unobservable inputs, we evaluated the assumptions, methodologies and models used by the expert. We also engaged our own in-house valuation specialist to assess and challenge the work performed and assumptions used by the valuers. In particular, we compared the valuation metrics used by the valuers to recent market activity and challenged the valuers by assessing comparability of the data used in the valuations. We challenged management on significant movements in the valuations, including the results of sensitivity analysis on key assumptions. We concluded that the assumptions used in the valuations were supportable in light of available and comparable market evidence. We discussed with management of the Bank, and those charged with governance the decision taken not to recognise the relevant valuation adjustment in the context of immateriality.

Key audit matters (continued)

Key audit matter	*How our audit addressed the key audit matter*
Revenue Recognition (including timing and amount of profit and fees recognised)	
We focussed on the timing of recognition because of the significance of fee income and the growth in such income over the past two years, as set out in note 21, and because there are often judgements involved in determining whether fees should be recognised upfront or spread over a period of time. Certain investments in Islamic financing instruments typically involve multi-element contracts which generate revenue that combines a profit component and a fees component. Some of those fees, such as origination fees are an integral part of effective profit rate, and are capitalised and amortised over the expected life of the financial asset using the effective profit method. Other fees and commissions are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Syndication fees are recognised as income when the sell down to all syndication participants has been completed and the Group retains no part of the exposure for itself, or retains a part at the same effective profit rate as for the other participants. The Group's accounting policy for fee and commission income is disclosed in notes 3.15 and 3.17.	Our audit procedures included assessing the appropriateness of the Group's revenue recognition accounting policies including those relating to arrangement and syndication fees and assessing their compliance with IFRS. We tested the design and operating effectiveness of the Group's controls over calculation of effective profit income, fees and commissions and the appropriate timing of revenue recognition. We tested controls over the information technology environment and application controls over automatic computation and accrual of profit income. We also tested the reconciliations between the revenue systems used by the Bank and its general ledger. For a sample of significant financing transactions during the year, we recomputed the revenue based on underlying agreements and tested the income recognition entries. We tested a sample of significant facility arrangements, processing and transactional fees and commissions by reviewing underlying agreements and fee letters in order to determine the nature of such fees and appropriate recognition. We tested a risk based sample of journal entries posted by management, including those surrounding revenue and suspense accounts.

Independent auditor's report to the shareholders of Noor Bank PJSC (continued)

Other information

The Board of Directors and Management are responsible for the Other information. The Other information comprises the Directors report, which we obtained prior to the date of this auditor's report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the Other information and we do 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

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

In preparing the consolidated financial statements, the Board of Directors and Management are 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 they either intend to liquidate the Group or to cease its operations, or have no realistic alternative but to do so.

The Bank's Audit Committee (those charged with governance) is responsible on behalf of the Board of Directors 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.

Independent auditor's report to the shareholders of Noor Bank PJSC (continued)

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

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.
- 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 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.

Independent auditor's report to the shareholders of Noor Bank PJSC (continued)

Report on other legal and regulatory requirements

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

(a) we have obtained all the information we considered necessary for the purposes of our audit;
(b) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
(c) the Group has maintained proper books of account;
(d) the financial information included in the Directors' report is consistent with the books of account of the Group;
(e) as disclosed in note 7 to the consolidated financial statements, the Group has not purchased or invested in any shares during the financial year ended 31 December 2016;
(f) note 27 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;
(g) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2016; and
(h) as disclosed in note 24 to the consolidated financial statements, the Group has not made any social contributions during the year ended 31 December 2016.

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

PricewaterhouseCoopers
4 April 2017

Mohamed ElBorno
Registered Auditor Number 946
Dubai, United Arab Emirates

Noor Bank PJSC

Consolidated statement of financial position

As at 31 December 2016

	Note	2016 AED'000	2015 AED'000
ASSETS			
Cash and balances with the UAE Central Bank	4	3,376,938	7,446,119
Due from banks	5	5,525,828	4,600,192
Investments in Islamic financing instruments	6	25,918,388	23,206,891
Investments in Islamic sukuk	7	4,056,681	2,441,873
Investment properties	8	1,186,117	1,231,715
Other assets	9	324,554	320,458
Property and equipment	10	193,720	217,218
Total assets		40,582,226	39,464,466
LIABILITIES AND EQUITY			
LIABILITIES			
Customer deposits	11	29,834,161	32,148,741
Wakalah term deposits	12	-	544,192
Due to banks	13	2,553,730	376,860
Sukuk financing instruments	14	1,836,450	1,836,450
Other liabilities	15	1,007,946	1,045,623
Total liabilities		35,232,287	35,951,866
EQUITY			
Share capital	16	3,357,895	3,357,895
Tier 1 sukuk	17	1,836,500	-
Statutory reserve	18	249,690	213,000
Revaluation surplus on land and buildings	10	121,767	124,650
Fair value reserve on available-for-sale Islamic sukuk		(34,454)	(5,650)
Accumulated losses		(181,459)	(177,295)
Total equity		5,349,939	3,512,600
Total equity and liabilities		40,582,226	39,464,466

These consolidated financial statements were approved by the Board of Directors on 2 April 2017 and signed on its behalf by:

.... Director

.... Director

Consolidated income statement
for the year ended 31 December 2016

	Note	2016 AED'000	2015 AED'000
Operating income			
Income from Islamic financing and sukuk	19	1,350,420	1,130,016
Depositors' share of profit	20	(316,585)	(242,358)
Net income from Islamic financing		1,033,835	887,658
Fee and other income, net of charges	21	597,733	513,235
Gain/(loss) on investments in Islamic sukuk	22	68,738	(3,704)
Total operating income		1,700,306	1,397,189
Operating expenses			
Staff costs	23	(496,984)	(479,129)
General and administrative expenses	24	(160,617)	(132,751)
Depreciation	10	(30,769)	(26,409)
Total operating expenses		(688,370)	(638,289)
Operating profit before impairment on investments in Islamic financing instruments		1,011,936	758,900
Impairment charge on Islamic financing instruments	6	(645,032)	(198,069)
Profit for the year		366,904	560,831

Consolidated statement of comprehensive income
for the year ended 31 December 2016

	Note	2016 AED'000	2015 AED'000
Profit for the year		366,904	560,831
Other comprehensive income			
Items that may be subsequently reclassified to income statement			
Fair value reserve on available-for-sale Islamic sukuk			
- Net changes in fair value	7	22,831	8,519
- Net realised (gain)/loss reclassified to income statement	22	(51,635)	5,815
Total other comprehensive income		(28,804)	14,334
Total comprehensive income for the year		338,100	575,165

Consolidated statement of changes in equity
for the year ended 31 December 2016

	Share capital AED'000	Subscribed share capital AED'000	Tier 1 sukuk AED'000	Statutory reserve AED'000	Revaluation surplus on land and buildings AED'000	Fair value reserve on available- for-sale Islamic sukuk AED'000	Accumulated losses AED'000	Total AED'000
At 1 January 2015	3,307,895	50,000	-	156,917	127,932	(19,984)	(349,535)	3,273,225
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	560,831	560,831
Other comprehensive income for the year	-	-	-	-	-	14,334	-	14,334
Total comprehensive income for the year	-	-	-	-	-	14,334	560,831	575,165
Other equity movements								
Share capital issued (Note 16(i))	50,000	(50,000)	-	-	-	-	-	-
Transfer to statutory reserve (Note 18)	-	-	-	56,083	-	-	(56,083)	-
Transfer from revaluation surplus on land and buildings to accumulated losses	-	-	-	-	(3,282)	-	3,282	-
Dividends paid for 2014	-	-	-	-	-	-	(335,790)	(335,790)
At 31 December 2015	**3,357,895**	**-**	**-**	**213,000**	**124,650**	**(5,650)**	**(177,295)**	**3,512,600**
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	366,904	366,904
Other comprehensive loss for the year	-	-	-	-	-	(28,804)	-	(28,804)
Total comprehensive income for the year	-	-	-	-	-	(28,804)	366,904	338,100
Other equity movements								
Tier 1 sukuk issuance (Note 17)	-	-	1,836,500	-	-	-	-	1,836,500
Tier 1 sukuk issuance cost	-	-	-	-	-	-	(11,239)	(11,239)
Tier 1 sukuk profit distribution (Note 17)	-	-	-	-	-	-	(57,390)	(57,390)
Transfer to statutory reserve (Note 18)	-	-	-	36,690	-	-	(36,690)	-
Transfer from revaluation surplus on land and buildings to accumulated losses	-	-	-	-	(2,883)	-	2,883	-
Dividends paid for 2015 (Note 16(ii))	-	-	-	-	-	-	(268,632)	(268,632)
At 31 December 2016	**3,357,895**	**-**	**1,836,500**	**249,690**	**121,767**	**(34,454)**	**(181,459)**	**5,349,939**

The accompanying notes on pages 16 to 72 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2016

	Note	2016 AED'000	2015 AED'000
Operating activities			
Profit for the year		366,904	560,831
Adjustments for:			
Impairment charge on Islamic financing instruments	6	645,032	198,069
Profit on disposal of investment properties	21	(978)	(7,710)
Property and equipment written off	10	-	5,691
Amortisation of premium on held-to-maturity Islamic sukuk		890	1,673
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		8,675	7,984
(Gain)/loss on investments in Islamic sukuk		(68,738)	3,704
Depreciation of property and equipment	10	30,769	26,409
Operating cash flows before changes in operating assets and liabilities		982,554	796,651
Changes in operating assets and liabilities:			
Statutory reserve with the UAE Central Bank	4	(257,008)	(902,050)
Due from banks	4	998,087	(1,758,870)
Investments in Islamic financing instruments	6,8	(3,401,394)	(5,380,599)
Net proceeds from disposal of investments in Islamic sukuk – held-for-trading		(732,883)	216,136
Other assets	9	(4,096)	(92,619)
Customer deposits	11	(2,314,580)	8,297,786
Due to banks	4	557,055	24
Other liabilities	15	(37,677)	243,263
Net cash (used in)/generated from operating activities		(4,209,942)	1,419,722
Investing activities			
Purchase of available-for-sale Islamic sukuk		(11,732,582)	(11,128,251)
Proceeds from sale of available-for-sale Islamic sukuk		10,951,521	11,391,382
Purchase of held-to-maturity Islamic sukuk		(164,661)	(30,920)
Proceeds from maturity of held-to-maturity Islamic sukuk		102,841	-
Proceeds from disposal of investment properties	8,21	91,441	55,060
Proceeds from maturity of/(investment in) certificate of deposits	4	1,700,000	(1,200,000)
Additions to property and equipment	10	(7,271)	(32,741)
Net cash generated from/(used in) investing activities		941,289	(945,470)
Financing activities			
Issuance of sukuk financing instruments	14	-	1,836,450
Repayment of Wakalah term deposits	12	(544,192)	-
Issuance of Tier 1 sukuk	17	1,836,500	-
Tier 1 sukuk issuance cost		(11,239)	-
Tier 1 sukuk profit distribution	17	(57,390)	-
Dividend payment	16	(268,632)	(335,790)
Net cash generated from financing activities		955,047	1,500,660
Net (decrease)/increase in cash and cash equivalents		(2,313,606)	1,974,912
Cash and cash equivalents at the beginning of the year		4,149,593	2,182,665
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(8,675)	(7,984)
Cash and cash equivalents at the end of the year	4	1,827,312	4,149,593

1 Incorporation and principal activities

Noor Bank PJSC ("the Bank") was incorporated on 26 March 2007 as a Public Joint Stock Company under UAE Federal Law No. 8 of 1984 (as amended) and is regulated by the Central Bank of the United Arab Emirates ("UAE"). The Bank has its registered office at Emaar Square, Building No. 1, Sheikh Zayed Road, P.O. Box 8822, Dubai, UAE. The Bank was registered with the Securities and Commodities Authority ("SCA") on 26 April 2007 and commenced its operations thereafter.

UAE Federal Law No. 2 of 2015 ("Companies Law") which is applicable to the Group has come into effect from 1 July 2015. The Group has assessed and evaluated the provisions of the Companies Law and is in the process of ensuring compliance within the transitional period of this Law which has been extended till 30 June 2017.

The principal activities of the Bank are carrying out banking, financing and investing activities through various Islamic financing instruments such as Murabahah, Wakalah, Tawarruq, Ijarah, Istisna' and Islamic sukuk. The activities of the Bank are conducted in accordance with the Shari'a rules and principles as applied and interpreted by the Bank's Fatwa and Shari'a Supervisory Board and in compliance with the provisions of the Memorandum and Articles of Association of the Bank.

The Bank has two fully owned special purpose entities ("SPE"), Noor Sukuk Company Limited (Note 14), incorporated in April 2015 and Noor Tier 1 Sukuk Limited (Note 17) incorporated in August 2015.

The consolidated financial statements for the year ended 31 December 2016 comprise the Bank and its SPEs (together referred to as "the Group").

Noor Investment Group LLC ("NIG"), the ultimate parent company, holds 91% of the shareholding in the Bank.

2 Basis of preparation

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board (IASB).

2.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis, except for the fair value measurement of following items in the consolidated statement of financial position:

- Financial assets and liabilities held-for-trading.
- Investments in Islamic sukuk classified as available-for-sale and at fair value through income statement.
- Investment properties.
- Buildings classified under property and equipment.
- Islamic derivatives

2 Basis of preparation (continued)

2.3 Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirham ("AED"), which is the functional currency of the Bank and its subsidiaries, being the currency of primary economic environment in which the entities operate. Except as indicated, the consolidated financial statements have been rounded to the nearest thousand.

2.4 Use of estimates and judgements

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

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

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described as follows:

(a) Impairment of investments in Islamic financing instruments

The Bank reviews its Islamic financing portfolio to assess impairment on a regular basis. In determining whether an impairment loss should be recognised, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may also include observable data indicating that there has been an adverse change in the collections from customers in a group. Management uses estimates based on historical loss experience for financing with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The cash flows include any additional support available to the Group, including guarantees and any other assets which management expects to be made available to the Bank. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Classification of investments in Islamic sukuk as held-to-maturity ("HTM")

In accordance with IAS 39 guidance, the Bank classifies its investments in Islamic sukuk with fixed or determinable payments and fixed maturities as HTM which requires significant judgment in evaluating Bank's intention and ability to hold such investments until their maturity. Except for certain specific circumstances, any sale or reclassification of a more than insignificant amount of HTM investments would result in the reclassification of all HTM investments as available-for-sale, and would prevent the Group from classifying investment in Islamic sukuk as HTM for the current and the following two financial years.

2 Basis of preparation (continued)

2.4 Use of estimates and judgements (continued)

(c) Fair valuation of investment properties and buildings under property and equipment

The fair valuation of investment properties and buildings under property and equipment is based on estimated value as determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). In undertaking the valuation the valuation experts have made a number of assumptions and relied upon various sources of information. Management reviews the assumptions based on their reasonable knowledge and other information available about the properties.

2.5 New standards, amendments to published standards and interpretations effective for the Group's accounting period beginning on 1 January 2016

New standards and significant amendments to standards	Effective date
Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortisation. This amendment clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The presumption may only be rebutted in certain limited circumstances.	1 January 2016
IAS 1 Amendments to IAS 1, 'Presentation of financial statements' Disclosure initiative The amendments clarify that it may be necessary to disaggregate some of the line items specified in IAS 1 paragraphs 54 (statement of financial position) and 82 (profit or loss). That disaggregation is required where it is relevant to an understanding of the entity's financial position or performance.	1 January 2016
Annual improvements 2014 These annual improvements amend standards from the 2012 - 2014 reporting cycle. It includes changes to: ■ IFRS 7, 'Financial instruments: Disclosures' – The amendment related to servicing contracts requires that if an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, all types of continuing involvement that the entity might still have in the transferred assets shall be disclosed. ■ IAS 19, 'Employee benefits' – The amendment clarifies, when determining the discount rate for post-employment benefit obligations, that it is the currency that the liabilities are denominated in that is important, not the country where they arise.	1 January 2016

2 Basis of preparation (continued)

2.5 New standards, amendments to published standards and interpretations effective for the Group's accounting period beginning on 1 January 2016 (continued)

There is no material impact of these amendments to published standards on the consolidated financial statements of the Group.

There are no other relevant IFRSs or IFRIC interpretations that were effective for the first time for the financial year beginning on 1 January 2016 which could have had a material impact on the Group's consolidated financial statements.

2.6 New standards and amendments to published standards and interpretations issued but not effective for the financial year beginning 1 January 2016 and not early adopted by the Group

New standards and significant amendments to standards	Effective date
Amendments to IAS 7, Statement of cash flows on disclosure initiative These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities including those from cash flows and other non-cash changes. The new requirement typically entails a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.	1 January 2017
IFRS 15, 'Revenue from contracts with customers' This standard replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus 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

2 Basis of preparation (continued)

2.6 New standards and amendments to published standards and interpretations issued but not effective for the financial year beginning 1 January 2016 and not early adopted by the Group (continued)

New standards and significant amendments to standards	Effective date
Amendment to IFRS 15, 'Revenue from contracts with customers' These amendments comprise clarifications on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard.	1 January 2018
IFRS 16 'Leases' This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.	1 January 2019
Amendment to IAS 40, Investment property' relating to transfers of investment property These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.	1 January 2018

2 Basis of preparation (continued)

2.6 New standards and amendments to published standards and interpretations issued but not effective for the financial year beginning 1 January 2016 and not early adopted by the Group (continued)

New standards and significant amendments to standards	Effective date
IFRS 9, 'Financial instruments' The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ('OCI') and fair value through profit or loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. 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. 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 uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes.	1 January 2018

As of date of issuance of these consolidated financial statements, management are still in the process of evaluating the impact of these new and revised standards on the consolidated financial statements. The Bank's focus continues to be on developing the impairment models and processes which are needed for the parallel run during 2017 in order to be fully compliant with IFRS 9. The Bank believes that once they finalize the impairment model and processes, they will be in a better position to assess the potential impact of IFRS 9 on the consolidated financial statements.

There are no other relevant applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2016 that would be expected to have a material impact on the consolidated financial statements of the Group.

3 Significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements:

3.1 Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which the control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests comprise the portion of a subsidiary's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Group. They are shown separately in the consolidated statements of financial position, comprehensive income and changes in equity. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary.

The acquisition method of accounting is used to account for business combinations entered into by the Group. The consideration transferred for the acquisition of a subsidiary or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent consideration arrangement and any pre-existing equity interest in the subsidiary measured at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (b) fair value of the identifiable net assets acquired is recorded as goodwill.

3 Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

(a) Subsidiaries (continued)

Business combinations involving entities under common control are excluded from the scope of IFRS 3, Business Combinations and, accordingly, the directors of the Company are responsible for determining a suitable accounting policy for such business combinations. The directors have elected to use the uniting of interests method to account for business combinations involving entities under common control and to account for such business combinations prospectively, under the predecessor basis of accounting. Under the uniting of interests method, there is no requirement to fair value the assets and liabilities of the acquired entities and hence no goodwill arises on consolidation. The difference between the cost of the acquisition and the Group's share of the issued and paid up share capital of the acquired entity is recognised as a merger reserve in equity.

When a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in profit or loss.

(b) Transactions with the non-controlling interest holders

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Group determines at each reporting 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 consolidated income statement.

3 Significant accounting policies (continued)

3.2 Foreign currency translation

Foreign currency transactions are translated into the functional currency (UAE Dirham) using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, as part of ‘net foreign exchange income’ under “fee and other income, net of charges”.

3.3 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash on hand, balances held with the UAE Central Bank, deposits and balance due from banks or due to banks and placements with original maturity of less than three months, excluding statutory deposits required to be maintained with the UAE Central Bank.

3.4 Due from banks

Amounts due from banks are initially recognised at fair value and subsequently measured at amortised cost less any amounts written off and provision for impairment, if any. Impairment of amounts due from banks is assessed as outlined in the accounting policy of impairment of financial assets (Note 3.9).

3.5 Investments in Islamic financing instruments

Investments in Islamic financing instruments are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments that are not quoted in an active market.

Investments in Islamic financing instruments are initially measured at fair value including transaction costs associated with the investments in Islamic financing instruments, if any, as soon as the customer is bound by the financing agreement to drawdown the financing amount.

Investments in Islamic financing instruments are subsequently measured at amortised cost using the effective profit method.

The effective profit method is a method of calculating the amortised cost of those financial instruments measured at amortised cost and of allocating income over the relevant period. The effective profit rate is the rate that is used to calculate the present value of the estimated future cash receipts (including all fees received that form an integral part of the effective profit rate) through the expected life of the financing and investing instruments to arrive at the net carrying amount on initial recognition.

3 Significant accounting policies (continued)

3.6 Investments in Islamic sukuk

3.6.1 Classification

The Group classifies its investments in Islamic sukuk in the following categories: held-to-maturity ("HTM") investments in Islamic sukuk, available-for-sale ("AFS") investment in Islamic sukuk and financial assets at fair value through income statement ("FVTPL"). Management determines the classification of its investments at initial recognition.

Held-to-maturity

Investments in Islamic sukuk at HTM are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell or reclassify other than an insignificant amount from the HTM category, the entire category would be reclassified as AFS.

Available-for-sale

Investments in Islamic sukuk at AFS are those non-derivative financial assets that are designated as AFS or are not classified as (a) investments in Islamic financing instruments, (b) HTM investments or (c) financial assets at fair value through income statement.

Financial assets and financial liabilities at fair value through the income statement

Investments in Islamic sukuk and financial liabilities are classified as at FVTPL when either held-for-trading or when initially designated as at FVTPL.

3.6.2 Recognition and measurement

Regular-way purchases and sales are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Investments in Islamic sukuk are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through income statement. Financial assets carried at fair value through income statement are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement.

Financial assets are derecognised when the rights to receive cash flows from the investments in Islamic sukuk have expired or have been transferred and the Group has transferred substantially all risk and rewards of ownership. AFS and FVTPL financial assets are subsequently measured at fair value. HTM financial assets are subsequently carried at amortised cost using the effective profit method. Impairment on investments in Islamic sukuk classified as HTM is assessed as outlined in the accounting policy of impairment of financial assets (Note 3.9).

Gains and losses arising from changes in the fair value of AFS financial assets are recognised in other comprehensive income, until the investment in Islamic sukuk is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity through other comprehensive income is recognised in the consolidated income statement.

3 Significant accounting policies (continued)

3.6 Investments in Islamic sukuk (continued)

3.6.2 Recognition and measurement (continued)

Foreign currency gains and losses arising on amortisation of AFS financial assets are directly recognised in the consolidated income statement.

Gains or losses arising from changes in the fair value of the FVTPL category are presented in the consolidated income statement within gain on investments in Islamic sukuk in the period in which they arise. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. The fair values of quoted investments in active markets are based on current bid prices, as the Group considers the bid to be most representative of fair value. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. In rare cases when the fair value of unlisted securities cannot be determined reliably, the securities are carried at cost less impairment.

Profit earned whilst holding investments in Islamic sukuk is reported as part of income from Islamic financing and sukuk in the consolidated income statement.

The Group assesses at each reporting date whether there is objective evidence that investments in Islamic sukuk are impaired. In the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists for AFS financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in consolidated income statement, is removed from equity and recognised in the consolidated income statement.

Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement if there are subsequent increases in fair value. If, in a subsequent period, the fair value of a non-equity sukuk instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment is reversed through the consolidated income statement.

3.7 Property and equipment

Property and equipment are stated at cost less accumulated depreciation except for land and buildings, which are carried at fair value based on periodic valuations by an external independent valuer, less subsequent depreciation.

3 Significant accounting policies (continued)

3.7 Property and equipment (continued)

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or 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 consolidated income statement during the financial period in which they are incurred.

Increase in the carrying amount arising on revaluation of buildings is recognised in the consolidated statement of other comprehensive income under 'Revaluation surplus on land and buildings'. Increase that offsets previous decreases of the same asset are recognised in the consolidated income statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement. Decrease that offsets previous increases of the same asset are charged against revaluation reserves directly in the consolidated statement of other comprehensive income; all other decreases are charged to the consolidated income statement.

Each year, the difference between the depreciation charge based on the revalued carrying amount of the asset and depreciation charge based on the asset's original cost or previous revalued amount is transferred from the revaluation reserve to retained earnings/accumulated losses.

Depreciation on property and equipment is calculated on the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

Years	
Buildings	25
Leasehold improvements	10
Furniture, fittings and equipment	5
Vehicles	5
Computer equipment and software	3-5

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each consolidated statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings/accumulated losses.

Capital work-in-progress is stated at cost incurred from the date of commencement of the project to the date on which it is commissioned. When commissioned, capital work-in-progress is transferred to the appropriate category of property and equipment and depreciated in accordance with the Group's accounting policies.

3 Significant accounting policies (continued)

3.8 Investment property

Investment property comprises property held for rental yields and for capital appreciation. It is not held for purposes of the Group's own use as part of property and equipment. Investment property is initially recognised at cost, including transaction expenses. Subsequent to initial recognition, investment property is carried at fair value.

Fair value of the investment property is determined on the basis of valuation undertaken by an independent valuer who holds a recognised and relevant qualification and has recent experience in the location and category of the investment property being valued. Gains and losses arising from changes in the fair value are recognised in the consolidated income statement in the period in which they arise.

If an item of property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in other comprehensive income as a revaluation surplus/loss of property and equipment under IAS 16. If a fair value gain reverses a previous revaluation loss, the gain is recognised in the consolidated income statement, to the extent of that revaluation loss. On subsequent disposal of an investment property, the revaluation surplus is transferred to retained earnings. The transfer from revaluation surplus to retained earnings is not made through the income statement.

3.9 Impairment of financial assets

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. If an Islamic financing instrument has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The calculation also takes into account any additional support available to the Group, including guarantees and any other assets which management expects to be made available to the Bank.

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3 Significant accounting policies (continued)

3.9 Impairment of financial assets (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated

Future cash flows in a group of Islamic financing instruments that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets reflect and are directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a financial asset is uncollectable, it is written off against the related provision for impairment. If no related provision exists, it is written off to the consolidated income statement. Subsequent recoveries are credited to the consolidated income statement.

If the amount of impairment subsequently decreases due to an event occurring after the write down, the release of the provision is credited to the consolidated income statement.

When the terms and conditions of financial assets that have been classified as past due are re-negotiated, the terms and conditions of the new contractual arrangement apply in determining whether the financial asset remains past due.

3.10 Impairment of non-financial assets

Assets that have an indefinite useful life, not subject to amortisation, are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed for possible reversal of impairment at each reporting date.

3 Significant accounting policies (continued)

3.11 Fiduciary activities

Assets and the income arising on the Group's fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these consolidated financial statements. Income earned by the Group from its fiduciary services is recognised in accordance with the accounting policy on fees and other income (Note 3.17).

3.12 Financial liabilities

All financial liabilities are initially recognised at fair value less transaction costs. Subsequently, financial liabilities that are not held for trading and are not designated as at FVTPL are measured at amortised cost using the effective profit method. Amortised cost is calculated by taking into account any discount or premium on settlement.

3.13 Employee benefits

(a) Defined contribution plan

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

Pension contributions are made in respect of UAE and GCC national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security.

(b) Defined benefit plan

The provision for defined benefit obligation for the end of service benefits due to non-UAE nationals in accordance with the UAE Labour Law is calculated annually using the projected unit credit method in accordance with IAS 19. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using profit rates on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The provision arising is disclosed as 'provision for employee's end of service benefits' in the consolidated statement of financial position under 'other liabilities'.

3 Significant accounting policies (continued)

3.14 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation 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 of the amount of the obligation can be made.

3.15 Revenue recognition on Islamic financing instruments

Income from Islamic financing and sukuk is recognised in the consolidated income statement for all profit-bearing Islamic financing instruments below using the effective profit method.

The effective profit method is a method of calculating the amortised cost of a financing asset or liability and of allocating the income from Islamic financing and sukuk and depositors' share of profit. The effective profit rate is the rate that exactly discounts the estimated future cash payments over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financing asset or liability.

3.15.1 Murabahah

Definition

An agreement whereby the Group sells to a customer a physical asset, commodity, goods, or shares, 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. The settlement specified in the agreement is normally either on deferred lump sum basis or an instalment basis.

Revenue recognition

Income on Murabahah financing is recognised on a time apportioned basis over the period of the Murabahah contract, using the effective profit method.

3.15.2 Ijarah

Definition

An agreement whereby the Group (lessor) leases to a customer (lessee) a service or the usufruct of an owned or rented physical asset which either exists currently or is to be constructed in future (forward lease), for a specific period of time and against certain rental instalments. The Ijarah could end by transferring the ownership of the asset to the lessee through an independent mode at the end of the agreement.

Revenue recognition

Income from Ijarah investments are recognised on a time apportioned basis over the lease term, using the effective profit method.

3 Significant accounting policies (continued)

3.15 Revenue recognition on Islamic financing instruments (continued)

3.15.3 Mudarabah

Definition

An agreement between the Group and its customer where one party provides the funds and is called Rab al-Mal and the other provides efforts and expertise and is called the Mudarib. The Mudarib is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudarabah profit. The Mudarib is responsible for all losses arising from misconduct, negligence or violation of the conditions of the agreement. In all other instances, the losses are borne by the Rab-al-Mal.

Revenue recognition

Income or losses on Mudarabah investments, where the Group is the Rab-al-Mal are recognised using effective profit method if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib and the losses are recognised upon their declaration by the Mudarib.

3.15.4 Wakalah

Definition

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 fee (a lump sum of money or a percentage above the anticipated profits). Similarly, the Group also obtains money to be invested under wakala agreement which is recognised as a liability in its consolidated financial statements.

Revenue recognition

The estimated income or expenses from a Wakalah is recognised using effective profit method over the period of the investment as a liability, adjusted by the actual income or expense when received.

3.15.5 Tawarruq

Definition

An agreement between two parties, whereby the Group, directly or indirectly, buys an asset and immediately sells it to a customer on a deferred payment basis. The Group on behalf of the customer then sells the same asset to a third party (or the customer himself sells directly) for immediate delivery and payment. The customer is given the sales proceeds and has a deferred payment obligation to the Group at a marked-up price.

3 Significant accounting policies (continued)

3.15 Revenue recognition on investments in Islamic financing instruments (continued)

3.15.5 Tawarruq (continued)

Revenue recognition

Income or losses on Tawarruq financing are recognised using effective profit method over the deferred payment period.

3.15.6 Istisna’

Definition

An agreement whereby the Group (Al-Saane’) provides funds to a customer (Al-Mustasne) for the development of an asset according to pre-agreed specifications at a specific price and date.

Revenue recognition

Istisna’ revenue and the associated profit margin (difference between the cash price of the asset sold to the customer and the Group’s total Istisna’ cost) is recognised using effective profit method.

3.16 Depositors’ share of profit

Depositors’ share of profit is recognised in the consolidated income statement for all profit-bearing Islamic deposits using the effective profit method.

3.17 Fees and other income

Fees and other income from banking services are recognised on an accrual basis as the service is performed, when it is probable that associated economic benefits will flow to the Group and a reliable estimate of amount can be made. Fees and commission income and expense that are integral to the effective profit rate on a financial asset or liability are included in the measurement of the effective profit rate.

Other fees and commission income earned and expense incurred from the provision of services are recognised as revenue and expense, as and when the services are rendered.

Foreign exchange income on foreign exchange transactions undertaken on behalf of customers is recognised as and when these transactions are completed.

3.18 Zakat

Zakat is computed in accordance with the Bank’s Fatwa and Shari’a Supervisory Board decisions and it is the Bank’s shareholders’ responsibility to pay the Zakat on their respective share and therefore it is not recorded in the consolidated financial statements of the Group.

3 Significant accounting policies (continued)

3.19 Allocation of profit

Allocation of profits between depositors and shareholders is calculated according to the Group's standard procedures and is approved by the Bank's Fatwa and Shari'a Supervisory Board.

3.20 Financial guarantees

Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. The premium received is recognised in the consolidated income statement over the life of the guarantee.

3.21 Government grants

Non-monetary grants in the form of land received from the government are recognised at fair value and credited to the consolidated income statement when there is reasonable assurance that the grant will not be revoked.

3.22 Repossessed properties

When the Group acquires and becomes the legal owner of a collateralised property against full and final settlement of an Islamic financing contract, the respective contract is terminated, the related outstanding balance is de-recognised and property is recognised at the carrying amount of the Islamic financing. If the fair value of the repossessed property is lower than the carrying amount of the outstanding Islamic financing balance, the balance is first impaired to the extent of the shortfall. The subsequent measurement will depend on the intended use and classification of the repossessed property as follows:

- The property is classified as "Investment property" (Note 3.8) in case of indeterminate use, or holding it for capital appreciation and/or rental yield;
- The property is classified as "Property and equipment" (Note 3.7) if the Group intends to retain the property for self-use.
- The property is classified as "Non-current asset held for sale" and measured at the lower of its carrying amount and fair value less costs to sell, if sale of the property is highly probable, management is committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan is initiated.

3.23 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Own equity instruments of the Bank which are acquired by it (treasury shares/Tier 1 sukuk) are recognised and deducted directly in equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

3 Significant accounting policies (continued)

3.23 Equity instruments (continued)

Tier 1 sukuk are perpetual Mudaraba sukuk which are not redeemable by sukuk holders and bear an entitlement to profit distributions that is non-cumulative and at the discretion of the Bank. Accordingly Tier 1 sukuk are presented in equity as a component of equity instruments issued by the Group.

Dividends on ordinary shares and profit distribution on Tier 1 sukuk are recognised as a liability and deducted from equity when they are approved by the Group shareholders and Board of Directors, respectively. Dividends on ordinary shares and profit distribution on Tier 1 sukuk, which are approved after the reporting date are disclosed as an unadjusting event after the reporting date.

3.24 Islamic derivative financial instruments

An Islamic derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The Group enters into a variety of Islamic derivative financial instruments to manage the exposure to profit and foreign exchange rate risks, including unilateral promise to buy/sell currencies (Note 3.26) and Islamic profit rate swap (Note 3.25).

Islamic derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising fair value gains and losses depends on whether Islamic derivative financial instruments are held-for-trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of Islamic derivatives held-for-trading are recognised in the consolidated income statement.

The Group designates certain Islamic derivative financial instruments as either:

a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge)

Hedge accounting is applied to Islamic derivatives designated as hedging instruments in fair value or cash flow hedges provided certain criteria are met.

i) Fair value hedges

When the Islamic 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 Islamic derivative are recognised in the consolidated income statement together with changes in the fair value of the hedged item that are attributable to hedged risk. If the Islamic derivative expires, has been terminated, exercised, or no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued.

3 Significant accounting policies (continued)

3.24 Islamic derivative financial instruments (continued)

ii) Cash flow hedges

When the Islamic 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 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 consolidated income statement.

The accumulated gains and losses recognised in other comprehensive income are reclassified to the consolidated income statement in the periods in which the hedged item will affect profit or loss. When the Islamic hedging derivative expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity until the forecast transaction is recognised. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement.

3.25 Islamic swaps

Islamic swaps are based on a Waa'd (promise) structure between two parties to buy a specified Shari'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. Islamic swaps comprise profit rate swaps and currency swaps. In case of profit rate swaps, counterparties generally exchange fixed and floating rate profit payments by executing the purchase / sale of a commodity under "Murabahah Sale Agreement" in a single currency. In case of Islamic currency swaps, profit payments as well as the cost of the underlying commodity are exchanged in different currencies, by executing the purchase or sale of commodities under "Murabahah Sale Agreements".

The accumulated gains and losses recognised in other comprehensive income are reclassified to the consolidated income statement in the periods in which the hedged item will affect profit or loss. When the Islamic hedging derivative expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement.

3.26 Promise to buy or sell currencies

Promises to buy or sell currencies are promises to either buy or sell a specified currency at a specified price and date in the future. The actual transactions are executed on the value dates, by exchanging the purchase or sell offers and acceptances between the counterparties. Promises to buy or sell currencies are recognised at fair value with movements taken to the consolidated income statement from the date of entering into the contract.

4 Cash and balances with the UAE Central Bank

	2016 AED'000	2015 AED'000
Cash in hand	155,075	140,379
Balances with the UAE Central Bank:		
- Current account	481,475	1,922,360
- Certificate of deposits	-	2,900,000
- Statutory deposits	2,740,388	2,483,380
	3,376,938	7,446,119

The statutory deposits with the UAE Central Bank are not available to finance the day to day operations of the Group, except in a crisis situation. Cash in hand, current account balances and statutory deposits with the UAE Central Bank are non-profit bearing. Certificates of deposit with the UAE Central Bank carried a profit rate of 0.17% - 0.80% per annum.

Cash and cash equivalents include the following for the purposes of the consolidated statement of cash flows:

	2016 AED'000	2015 AED'000
Cash and balances with the UAE Central Bank	3,376,938	7,446,119
Due from banks	5,525,828	4,600,192
Due to banks	(2,553,730)	(376,860)
	6,349,036	11,669,451
Less: Statutory deposits with the UAE Central Bank	(2,740,388)	(2,483,380)
Less: Balances having original maturity of more than 3 months:		
- Certificate of deposits	-	(1,700,000)
- Net due from banks	(1,781,336)	(3,336,478)
Cash and cash equivalents	1,827,312	4,149,593

5 Due from banks

	2016 AED'000	2015 AED'000
Current accounts with banks	866,522	431,055
Deposits with banks	3,583,280	2,488,926
Export bills	1,076,026	1,680,211
	5,525,828	4,600,192

6 Investments in Islamic financing instruments

	2016 AED'000	2015 AED'000
Mudarabah	64,271	64,271
Ijarah	7,004,957	4,880,339
Murabahah	20,596,552	19,564,426
Gross investments in Islamic financing instruments	27,665,780	24,509,036
Less: allowance for impairment	(1,747,392)	(1,302,145)
Net investments in Islamic financing instruments	25,918,388	23,206,891

Movement in allowance for impairment:

	2016 AED'000	2015 AED'000
At 1 January	1,302,145	1,509,285
Charge for the year	645,032	198,069
	1,947,177	1,707,354
Written off during the year	(199,785)	(405,209)
At 31 December	1,747,392	1,302,145

The investments in Islamic financing instruments are further analysed as follows:

	2016 AED'000	2015 AED'000
Performing	25,475,912	22,597,266
Past due but not impaired	767,266	758,566
Impaired	1,422,602	1,153,204
Gross investments in Islamic financing instruments	27,665,780	24,509,036
Less: allowance for impairment	(1,747,392)	(1,302,145)
Net investments in Islamic financing instruments	25,918,388	23,206,891

Below is the analysis of impaired balances:

	2016 AED'000	2015 AED'000
Impaired but not past due	39,486	89,445
Past due and impaired	1,383,116	1,063,759
	1,422,602	1,153,204

Below is the ageing analysis of past due but not impaired balances:

	2016 AED'000	2015 AED'000
0 – 29 days	271,076	358,825
30 – 59 days	214,270	205,433
60 – 89 days	231,121	134,419
90 days and above	50,799	59,890
	767,266	758,567

6 Investments in Islamic financing instruments (continued)

Economic sector risk concentration (refer to note 27 for related party credit risk concentration) of investments in Islamic financing instruments is as follows:

	2016 AED'000	2015 AED'000
Personal	9,383,476	7,571,470
Financial institutions and investment companies	3,736,735	3,467,157
Real estate	2,980,827	2,672,045
Trade	2,828,128	3,336,511
Transport, storage and communication	2,211,957	2,129,037
Manufacturing	1,121,422	649,877
Construction	1,008,224	1,072,843
Retail	945,956	696,393
Other services	3,449,055	2,913,703
Gross investment in Islamic financing instruments	27,665,780	24,509,036
Less: allowance for impairment	(1,747,392)	(1,302,145)
Net investment in Islamic financing instruments	25,918,388	23,206,891

7 Investments in Islamic sukuk

	2016 AED'000	2015 AED'000
Available-for-sale	2,402,787	1,598,895
Held-to-maturity	825,126	764,196
Held-for-trading	828,768	78,782
	4,056,681	2,441,873

At 31 December 2016, the fair value of the held-to-maturity Islamic sukuk portfolio was AED 854 million (2015: AED 769 million).

During the year ended 31 December 2016, the Group recognised a net fair value loss on available-for-sale investments in Islamic sukuk of AED 28.8 million (2015: net fair value gain AED 14.3 million) in other comprehensive income under "Fair value reserve on available-for-sale Islamic sukuk".

At 31 December 2016, Islamic sukuk with a market value of AED 627 million have been pledged as collateral against an investment deposit from a financial institution (Note 13).

The Group holds certain Islamic sukuk in a fiduciary capacity on behalf of customers without recourse to itself and, accordingly, these sukuk are not included in the Group's Islamic sukuk portfolio as at 31 December 2016 (Note 26).

The Group has not purchased or invested in any shares during the year ended 31 December 2016 (31 December 2015: Nil).

8 Investment properties

	2016 AED'000	2015 AED'000
At 1 January	1,231,715	1,266,567
Additions during the year	44,865	12,498
Disposals during the year	(90,463)	(47,350)
At 31 December	1,186,117	1,231,715

The carrying value of investment properties represents their fair value as determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). The basis for determination of fair value are the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. During the years ended 31 December 2016 and 31 December 2015, no revaluation gain/loss was recognised on investment properties as the amount was not significant.

9 Other assets

	2016 AED'000	2015 AED'000
Accrued income on investments in Islamic financing and sukuk	192,472	194,054
Due from related parties (Note 27)	41,647	35,434
Equity investments in related companies (Note (i) below)	27,030	27,030
Investment in associate (Note (i) below)	1,500	1,500
Promise to buy or sell currency (Note 15 (i))	16,225	19,883
Prepayments and advances	12,272	17,098
Fee and other income receivable	13,628	12,011
Others	19,780	13,448
	324,554	320,458

(i) Equity investments in related companies held as available-for-sale financial assets and non-material investment in associate at 31 December 2016 and 2015, represent the Bank's share of its investment in the following entities:

	Shareholding structure	
	Noor Bank PJSC	Noor Investment Group LLC
Noor Takaful Family P.J.S.C.	10%	90%
Noor Takaful General P.J.S.C.	10%	90%
Premium Marketing LLC	10%	90%
Noor BPO LLC	30%	70%

10 Property and equipment

	Buildings AED'000	Leasehold improvements AED'000	Vehicles AED'000	Computer and office equipment AED'000	Capital work-in-progress AED'000	Total AED'000
Cost / fair value						
At 1 January 2016	172,820	18,929	1,745	213,209	26,188	432,891
Additions during the year	-	-	616	-	6,655	7,271
Transfers	-	-	-	25,742	(25,742)	-
Write-offs	-	-	-	(13,642)	-	(13,642)
At 31 December 2016	172,820	18,929	2,361	225,309	7,101	426,520
Accumulated depreciation						
At 1 January 2016	31,215	12,663	1,379	170,416	-	215,673
Charge for the year	8,334	1,893	339	20,203	-	30,769
Write-offs	-	-	-	(13,642)	-	(13,642)
At 31 December 2016	39,549	14,556	1,718	176,977	-	232,800
Net book value						
At 31 December 2016	133,271	4,373	643	48,332	7,101	193,720

The fair value of the Group's buildings was determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS") as at December 2016. During the years ended 31 December 2016 and 31 December 2015, no revaluation gain/loss was recognised on buildings as the amount was not significant. Had there been no revaluation, the carrying value of buildings at 31 December 2016 would have been AED 85.95 million (2015: AED 91.1 million).

Buildings are located at Emaar Square, Dubai, and are used as the Bank's Head Office premises.

10 Property and equipment (continued)

	Buildings AED'000	Leasehold improvements AED'000	Vehicles AED'000	Computer and office equipment AED'000	Capital work-in-progress AED'000	Total AED'000
Cost / fair value						
At 1 January 2015	172,820	36,250	1,745	194,984	13,181	418,980
Additions during the year	-	-	-	15,241	17,500	32,741
Transfers	-	-	-	4,493	(4,493)	-
Write-offs	-	(17,321)	-	(1,509)	-	(18,830)
At 31 December 2015	172,820	18,929	1,745	213,209	26,188	432,891
Accumulated depreciation						
At 1 January 2015	22,881	21,856	1,139	156,527	-	202,403
Charge for the year	8,334	3,481	240	14,354	-	26,409
Write-offs	-	(12,674)	-	(465)	-	(13,139)
At 31 December 2015	31,215	12,663	1,379	170,416	-	215,673
Net book value						
At 31 December 2015	141,605	6,266	366	42,793	26,188	217,218

11 Customer deposits

	2016 AED'000	2015 AED'000
Wakalah – term	9,916,616	15,489,999
Mudarabah – savings	9,170,151	8,501,405
Qard-E-Hasan – demand	9,980,945	7,520,843
Mudarabah- term	492,447	321,163
Margin accounts	274,002	315,331
	29,834,161	32,148,741

12 Wakalah term deposits

During the year ended 31 December 2016, the Bank prepaid the Wakalah terms deposits of AED 544 million. The deposits were obtained from local financial institutions in the UAE (including related parties – refer note 27) during the year ended 31 December 2014. These deposits had maturity tenors of 10 years from the date of the respective agreements and carried an expected profit rate for each year until maturity but could be repaid by the Bank either in full or part on any profit payment date any time after 5 years from the date of the agreement. The Central Bank of UAE had approved to consider the Wakalah term deposits as Tier II capital for regulatory capital calculations effective from the date of the agreement.

13 Due to banks

	2016 AED'000	2015 AED'000
Investment deposits	1,941,421	148,449
Current accounts	612,309	228,411
	2,553,730	376,860

At 31 December 2016, Islamic sukuk with a market value of AED 627 million have been pledged as collateral against an investment deposit of AED 588 million obtained from a financial institution (Note 7).

14 Sukuk financing instruments

In April 2015, the Bank through its Shari'a compliant financing arrangement, established a Trust Certificate Issuance Programme for USD 3 billion ("the Programme"). As a part of the Programme, the first series of the trust certificates amounting to USD 500 million (AED 1,836.5 million) were issued and listed on NASDAQ Dubai on 29 April 2015.

The terms of the Programme include transfer of certain identified assets including self-use assets, Ijarah finance assets, other tangible & intangible assets and any replaced assets ("the Co-owned Assets") to Noor Sukuk Company Limited, Cayman Islands ("the Issuer or SPE"), a special purpose entity formed for the issuance of the sukuk. In substance, these co-owned assets shall continue to remain under the control of the Bank and shall continue to be serviced by the Bank.

14 Sukuk financing instruments (continued)

These sukuk will mature in five years and are expected to pay profit to the sukuk holders semi-annually based on 5 year mid-swap rate + 1.3% at the time of issuance. The semi-annual distribution amount shall be paid from the returns received in respect of Co-owned assets. Such proceeds are expected to be sufficient to cover the distribution amount payable to the sukuk holders on the semi-annual distribution date. The Bank has undertaken to buy these assets at the exercise price from the Issuer on the maturity of the sukuk.

15 Other liabilities

	2016 AED'000	2015 AED'000
Sundry disbursements payable	320,459	454,733
Managers cheques	178,385	199,059
Accrued expenses	124,906	127,373
Accrued depositors' share of profit	80,738	63,047
Promise to buy or sell currency (Note (i) below)	54,714	8,010
Sundry collection accounts	43,546	21,691
Switch fee payable	30,960	6,554
Employees' end of service benefits (Note 25)	37,440	32,030
Due to related parties (Note 27)	9,037	10,261
Deferred income from Islamic financing	7,142	17,051
Late payment fee (Note (ii) below)	6,976	4,457
Other payables	113,643	101,357
	1,007,946	1,045,623

(i) Represents mark-to-market fair valuation of Promise to buy or sell currency contracts held by the Group for its currency risk management purposes. The contractual notional value on such contracts amounted to AED 699 million at 31 December 2016 (2015: AED 1,148 million). The contractual notional value on profit rate swaps as at 31 December 2016 amounted to AED 4.2 billion (2015: AED 2.2 billion).

(ii) Late payment fees pertain to the collection for delay in payments by customers. The Fatwa and Shari'a Supervisory Board decides on an amount allowable to be taken by the Bank to cover the actual cost due to the delay in payment by the customers. The remaining amount and any such additional income received, which the Fatwa and Shari'a Supervisory Board determines to be non-sharia compliant, is donated to charity under its supervision.

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

16 Share capital

	2016 AED'000	2015 AED'000
Authorised, issued and fully paid up share capital:		
3,357.9 million shares (2015: 3,357.9 million shares) of AED 1 each	3,357,895	3,357,895

(i) The subscribed share capital at 31 December 2014 had been subscribed to by Noor Group LLC at par value. The subscribed share capital was fully paid-up and approved by the Board of Directors of the Group and the UAE Central Bank. During the year ended 31 December 2015, the subscribed share capital was converted into the statutory share capital of the Group upon completion of the necessary administrative and legal formalities.

(ii) The Board of Directors of the Bank do not propose any dividends for the year ended 31 December 2016 (2015: AED 268.6 million). During the year ended 31 December 2016, the proposed dividend for the year ended 31 December 2015 was distributed to the shareholders upon their approval in the Annual General Meeting.

17 Tier 1 sukuk

In May 2016, the Bank issued Shari'a compliant Tier 1 sukuk through an SPE, Noor Tier 1 sukuk Limited, ("the issuer") amounting to USD 500 million (AED 1,836.5 million) at a par value of USD 1,000 (AED 3,673) per sukuk.

Tier 1 sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. These sukuk are expected to pay profit semi-annually based on 5 year mid-swap rate + 4.91% at the time of issuance on 1st June and 1st December of each year ("the profit payment date") commencing from 1st December 2016. The expected profit rate will be reset to a new fixed rate on the basis of the then prevailing 5 year mid-swap rate + 4.91% on 1 June 2021 ("the first reset date") and every 5 years thereafter. These sukuk are listed on NASDAQ Dubai and callable by the Bank on 1st June 2021 ("the first call date") or any profit payment date thereafter subject to certain redemption conditions. As at 31 December 2016, the related parties hold Tier 1 sukuk amounting to USD 20.7 million (AED 76.2 million) (note 27).

The net proceeds of Tier 1 are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the Mudaraba pool.

At the Issuer's sole discretion, it may elect not to make any Mudaraba profit distributions expected and the event is not considered an event of default. In such event, the Mudaraba profit will not be accumulated but forfeited to the issuer. If the issuer makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on ordinary shares issued by the Bank, or (b) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire ordinary shares issued by the Bank.

18 Statutory reserve

The UAE Federal Law No. 8 of 1984 (as amended), and the UAE Federal Law No. (2) of 2015 and the Articles of the Bank, require that 10% of the net profit for the year should be transferred to a statutory reserve until such time as the balance in the reserve equals 50% of the issued share capital. Accordingly, an amount of AED 36.7 million (2015: AED 56.1 million) has been transferred to the statutory reserve for the year ended 31 December 2016. This reserve is not available for distribution.

19 Income from Islamic financing and sukuk

	2016 AED'000	2015 AED'000
Wakalah	41,126	16,466
Ijarah	202,255	195,535
Murabahah	975,727	824,838
	1,219,108	1,036,839
Profit income on Islamic sukuk	131,312	93,177
Total income from Islamic financing and sukuk	1,350,420	1,130,016

20 Depositors' share of profit

	2016 AED'000	2015 AED'000
Wakalah – term	288,317	220,274
Mudarabah - savings	21,381	18,407
Mudarabah - term	6,887	3,677
	316,585	242,358

21 Fee and other income, net of charges

	2016 AED'000	2015 AED'000
Transactional and deposit related fees	190,823	158,870
Facility syndication and processing fees	163,639	132,406
Net foreign exchange income	166,109	118,886
Trade services related fees	72,758	77,302
Fees from credit cards	20,491	13,962
Other income	5,201	4,099
Profit on disposal of investment properties	978	7,710
Fair value loss on Islamic derivative	(22,266)	-
	597,733	513,235

22 Gain/(loss) on investments in Islamic sukuk

	2016 AED'000	2015 AED'000
Held-for-trading	17,103	2,111
Available-for-sale – realised gain/(loss)	51,635	(5,815)
	68,738	(3,704)

23 Staff costs

	2016 AED'000	2015 AED'000
Salaries and allowances	404,934	394,990
Provision for employees' end of service benefits (Note 25)	6,532	9,503
Outsourced staff cost	57,951	49,185
Others	27,567	25,451
	496,984	479,129

24 General and administrative expenses

	2016 AED'000	2015 AED'000
Facilities management	49,377	43,662
IT related expenses	35,350	34,512
Marketing and advertisement	18,388	24,100
Legal and professional	18,136	14,424
Directors' fee	11,276	-
Printing and stationery	10,405	9,603
Communication costs	7,087	5,715
Travelling expenses	2,935	4,166
Other expenses, net of reversal of accruals	7,663	(3,431)
	160,617	132,751

During the year ended 31 December 2016, the Group has paid AED 2.8 million (31 December 2015: AED 2.5 million) to charity in respect of late payment fees collected from customers (Note 15(ii)). There were no social contributions made during the year ended 31 December 2016 (31 December 2015: Nil).

25 Provision for employees' end of service benefits

	2016 AED'000	2015 AED'000
At 1 January	32,030	23,076
Provided during the year (Note 23)	6,532	9,503
Paid during the year	(1,122)	(549)
At 31 December	37,440	32,030

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at the reporting date, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using a discount rate of 2.52% (2015: 3.18%). Management has assumed average annual increment/promotion costs of 3.0% (2015: 3.0%). The present value of the obligation as at 31 December 2016 is not materially different from the provision computed in accordance with the UAE Labour Law.

26 Fiduciary assets

At 31 December 2016, the Group held Islamic sukuk with a market value of AED 2.0 billion (2015: AED 1.4 billion) in a fiduciary capacity on behalf of customers' without recourse to itself. Accordingly, these Islamic sukuk are not included as part of the Group's own Islamic sukuk portfolio (Note 7).

27 Related party balances and transactions

The Group, in the normal course of business, enters into transactions with individuals and other business enterprises that fall within the definition of a related party as defined in IAS 24, 'Related party Disclosures' at commercial terms and profit rates. Other related parties include shareholders of the Bank and other entities controlled by the Board members of the Bank. Balances and transactions with related parties are as follows:

Year ended 31 December 2016	**The ultimate parent** AED'000	**Directors and key management personnel** AED'000	**Associate and other related parties** AED'000	**Total** AED'000
Related party balances:				
Investment in Islamic financing instruments	-	13,486	630,028	643,514
Customer deposits	118,760	89,066	287,226	495,052
Accrued income from Islamic financing instruments	-	1,433	1,063	2,496
Accrued depositors' share of profit	-	111	4,755	4,866
Due from related parties and investments (Note 9)	254	-	69,923	70,177
Due to related parties (Note 15)	-	-	9,037	9,037
Tier 1 sukuk holding (Note 17)	66,880	-	9,356	76,236
Contingent liabilities	-	4,100	8,823	12,923

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

27 Related party balances and transactions (continued)

Year ended 31 December 2016	The ultimate parent	Directors and key management personnel	Associate and other related parties	Total
	AED'000	AED'000	AED'000	AED'000
Related party transactions:				
Income from Islamic financing	-	203	20,657	20,860
Depositors' share of profit	-	103	2,866	2,969
Staff costs recharged to the Bank	-	-	134,802	134,802
General and administrative expenses recharged by the Bank	-	-	1,779	1,779
Remuneration	-	45,712	-	45,712
Fee and other income	-	1,347	65,981	67,328
Tier 1 sukuk profit distribution	4,077	-	-	4,077

Year ended 31 December 2015	The ultimate parent	Directors and key management personnel	Associate and other related parties	Total
	AED'000	AED'000	AED'000	AED'000
Related party balances:				
Investment in Islamic financing instruments	-	16,834	699,564	716,398
Customer deposits	12,025	72,628	200,970	285,623
Accrued income from Islamic financing instruments	-	936	997	1,933
Accrued depositors' share of profit	-	96	4,443	4,539
Wakalah term deposits (Note 12)	-	-	34,000	34,000
Due from related parties and investments (Note 9)	2,243	-	61,721	63,964
Due to related parties (Note 15)	-	-	10,261	10,261
Contingent liabilities	-	1,100	3,775	4,875
Related party transactions:				
Income from Islamic financing	5,297	174	18,836	24,307
Depositors' share of profit	-	62	2,896	2,958
Staff costs recharged to the Bank	-	-	126,863	126,863
Remuneration	-	37,496	-	37,496
Fee and other income	-	-	40,517	40,517

In accordance with the requirements of notice no. 226 / 2015 dated 26 August 2015 and issued by the UAE Central Bank, the Group has complied with article (91) of Union Law No. (10) of 1980.

28 Contingent liabilities and commitments

(a) Contingent liabilities

	2016 AED'000	2015 AED'000
Letters of credit	263,927	707,568
Guarantees	2,520,668	3,155,872
Undrawn credit commitments – Revocable	5,757,186	5,346,699
Undrawn credit commitments – Irrevocable	2,859,819	1,408,014
	11,401,600	10,618,153

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as financings. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

Undrawn credit commitments represent unused portions of authorisations to extend credit in the form of financing, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss for an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers' maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of finance authorisations being drawn by the customer and, second, from these drawings subsequently not being paid as due. The Group monitors the term to maturity of the credit commitments because longer term commitments generally have a greater degree of credit risk than the shorter term commitments. The total outstanding contractual amount of the commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

(b) Capital commitments

At 31 December 2016, the Group has capital commitments of AED 3.9 million (2015: AED 6.1 million) mainly relating to purchase of furniture, fixtures, computer equipment and development/upgrading of software.

29 Segmental reporting

Reportable segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's chief operating decision makers in order to allocate resources to the segment and assess its performance. The Group's reportable segments are organized into three major segments as follows:

- Personal and business banking – Principally serves individuals, high net worth customers and small sized businesses.
- Corporate banking – Principally handling financing/ trade facilities and deposit related services for medium and large sized corporate and institutional customers.
- Treasury and others – Treasury comprises of activities to manage the Bank's overall liquidity and market risk and provides treasury services to customers. Others comprise of functions other than above core lines of business.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment operating income represents the profit earned by each segment without allocation of expenses and impairment charge on Islamic financing instruments.

Year ended 31 December 2016	**Personal and business banking**	**Corporate banking**	**Treasury and others**	**Total**
	AED'000	AED'000	AED'000	AED'000
Net income from Islamic financing	426,225	389,925	217,685	1,033,835
Fee and other income	329,438	306,811	30,222	666,471
Total income	755,663	696,736	247,907	1,700,306
Total expenses				(688,370)
Operating profit before impairment on investments in Islamic financing instruments				1,011,936
Impairment charge on Islamic financing instruments				(645,032)
Profit for the year				366,904
As at 31 December 2016				
Segment assets	9,584,442	20,683,964	10,313,820	40,582,226
Segment liabilities	11,826,872	18,379,380	5,026,035	35,232,287

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

29 Segmental reporting (continued)

Year ended 31 December 2015	Personal and business banking AED'000	Corporate banking AED'000	Treasury and others AED'000	Total AED'000
Net income from Islamic financing	376,506	406,565	104,587	887,658
Fee and other income	224,428	265,908	19,195	509,531
Total income	600,934	672,473	123,782	1,397,189
Total expenses				(638,289)
Operating profit before impairment on investments in Islamic financing instruments				758,900
Impairment charge on Islamic financing instruments				(198,069)
Profit for the year				560,831
As at 31 December 2015				
Segment assets	7,948,213	19,527,983	11,988,270	39,464,466
Segment liabilities	10,349,504	21,818,818	3,783,544	35,951,866

30 Risk management

The Group takes financial risk under the following categories in its day to day operations:

- Credit risk
- Liquidity risk
- Market risks
- Operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

30 Risk management (continued)

Risk management philosophy and framework

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, emerging best practices and products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board of Directors of the Group has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the following committees, which are responsible for overseeing, developing and monitoring the Group`s risk management policies in their specified areas:

Executive Committee

The Executive Committee is responsible for ensuring that the Group has an adequate and appropriate system of risk management and internal controls with the support of the Audit Committee and Risk Committee.

Risk Committee

The Risk Committee is responsible for providing an oversight on the health of the Group's credit portfolio as well as for compliance with overall risk management policies and procedures established within the Group. The Risk Committee comprises of at least three members (including at least one non-executive director and one 'risk expert' as determined by the Board of Directors) and the Chief Risk Officer is a permanent invitee.

Audit Committee

The Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, compliance with laws and regulations, compliance with code of conduct and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

30 Risk management (continued)

Risk management philosophy and framework (continued)

Credit Committee

The Credit Committee is responsible for taking credit decisions, recommending credit policies, and the future direction of the credit activities in the Group. The Board of Directors has delegated its authority to Credit Committee to approve, sub-delegate, direct, monitor and review the Group's financing activities, and to ensure that the credit policies are adhered to, and credit operations are conducted in the most effective manner.

Enterprise Risk Management Committee

The Enterprise Risk Management Committee is responsible for the design, implementation and maintenance of an effective enterprise-wide risk management framework. The committee will oversee enterprise risk management activities, including the strategies, policies and systems to enhance the understanding of Group's overall risk appetite and effectively implementing the framework to identify, assess, measure and manage the major risks facing the Group. The Credit Committee and ALCO are the subcommittees of Enterprise Risk Management Committee.

Management Committee

The Management Committee is responsible for overseeing and managing day-to-day business to attain sustained performance excellence, by conscientiously taking into account the prevalent and future risk environment, consistent with the Group's vision, mission and strategy in accordance with good corporate governance principles, and in line with the significant stakeholders' expectations.

Asset Liability Committee ("ALCO")

The responsibility of ALCO is to actively monitor and manage committed and outstanding assets and liabilities, and to recommend appropriate funding, investment, and hedging strategies. In addition, the ALCO is also responsible for ensuring continuous liquidity required for growth while complying with the regulatory requirements.

30.1 Credit risk

Credit risk is the risk emanating when a counter party of the Group does not fulfil its contractual obligation or the quality of an issuer deteriorates. It arises principally from financing, trade finance and treasury activities. The credit process is consistent for all forms of credit risk to a single obligor. Overall exposure is evaluated on an ongoing basis to ensure a broad diversification of credit risk. Potential concentrations by country, product, industry, and risk grade are regularly reviewed to avoid excessive exposure and ensure a broad diversification.

30 Risk management (continued)

30.1 Credit risk (continued)

The Group's total credit portfolio and therefore the maximum exposure to credit risk before collateral held or other credit enhancements is as follows:

	2016 AED'000	2015 AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with the UAE Central Bank	3,221,863	7,305,740
Due from banks	5,525,828	4,600,192
Investments in Islamic financing instruments	25,918,388	23,206,891
Investment in Islamic sukuk	4,056,681	2,441,873
Other assets (excluding prepayments)	319,202	303,360
	39,041,962	37,858,056
Credit risk exposures relating to off-balance sheet items are as follows:		
Contingencies and commitments	5,644,414	5,271,454

The above table excludes revocable commitments and represents a worst case scenario of credit risk exposure of the Group at the reporting date without taking into account any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position at the reporting date.

At 31 December 2016, 66% (2015: 61%) of the total maximum exposure arises from investments in Islamic financing instruments for which credit quality and risk concentration are disclosed in Note 6.

The table below presents an analysis of balances due from banks and investment in Islamic sukuk based on ratings obtained from external rating agencies:

	2016 AED'000	2015 AED'000
AAA to AA-	4,183,879	3,326,741
A+ to BBB-	1,848,986	1,276,359
BB+ & below	1,632,960	1,024,846
Unrated	1,916,684	1,414,119
	9,582,509	7,042,065

The unrated investment in Islamic sukuk is mostly with the Government of Dubai and local reputed banks and companies. The unrated balances with the banks are with reputed international banks. There are no past due or impaired balances with the banks.

30 Risk management (continued)

30.1 Credit risk (continued)

Following are the risk management policies adopted by the Group to ensure credit quality and minimise the risk of concentration:

(a) Credit rating and measurement

The risk rating system is the basis for determining the credit risk of the Group's asset portfolio (except the consumer assets) and thus asset pricing, portfolio management, determining finance loss provisions and reserves and the basis for credit approval authority delegation. A standard numeric credit risk-grading system is being used by the Group which is based on the Group's internal estimate of probability of default, with customers or portfolios assessed against a range of quantitative and qualitative factors, including taking into account the counterparty's financial position, past experience and other factors.

Performing clients are rated on a scale of NRR1 to NRR7, each grade being associated with a Probability of Default ("PD"). Non-performing clients are rated NP-1, NP-2 and NP-3, corresponding to the Substandard, Doubtful and Loss classifications as per *Clarifications and Guidelines Manual for Circular No. 28/2012* issued by the UAE Central bank. The Group's internal credit grades have also been mapped to external agency ratings for better comparison.

(b) Credit approval

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Group's Credit Committee ("CC") within the authorities delegated by the Board of Directors.

(c) Credit monitoring

The Group regularly monitors credit exposures and external trends which may impact risk management outcomes. Internal risk management reports are presented to the Chief Risk Officer / Chief Credit Officer and Board Risk Committee, containing information on key variables; portfolio delinquency and financing impairment performance.

All Corporate exposures accounts are monitored carefully for performance and reviewed formally on an annual basis or earlier. Group has robust policies for client visits and monitoring of accounts to make sure that any concerns on the quality of the accounts are addressed well in time. An exposure is categorised as watch list or non-performing as per UAE Central Bank guidelines.

All non-performing accounts are monitored closely by the Remedial Management Unit of the Group directly reporting to the Chief Credit Officer. Such accounts are re-evaluated and remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account etc.

With respect to the Group's consumer portfolio, asset quality is monitored closely with 30/60/90 days past due accounts and delinquency trends are monitored continuously for each Consumer Product of the Group. Accounts which are past due are subject to collection process, managed independently by the risk function. Write-off and provisioning of the Consumer portfolio is done strictly as per the UAE Central Bank guidelines.

30 Risk management (continued)

30.1 Credit risk (continued)

(d) Credit mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools. Additional support in the form of collateral and guarantee is obtained where required. The reliance that can be placed on these credit mitigation resources is carefully assessed in light of issues such as legal enforceability, market value and counterparty risk of the guarantor. Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit etc. Risk mitigation policies control the approval of collateral types.

Collateral is valued in accordance with the Group's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Collateral held against impaired financings is maintained at fair value.

<u>Collateral and other credit enhancements possessed or called upon</u>

During the year, the Group obtained assets by taking possession of collateral as follows:

	31 December 2016			31 December 2015		
	Retail AED'000	Corporate and SME AED'000	Total AED'000	Retail AED'000	Corporate and SME AED'000	Total AED'000
Property	44,865	-	44,865	18,588	-	18,588
Vehicles	945	-	945	297	-	297
	45,810	-	45,810	18,885	-	18,885

Repossessed collateral is either disposed of or is classified as investment property in accordance with the Group's approved policy.

(e) Offsetting financial instruments

The Group has not entered in significant master netting arrangement with counterparties which enable them to settle transactions on net basis. In absence of such agreements the financial asset and liabilities are settled on gross basis.

30 Risk management (continued)

30.2 Liquidity risk

Liquidity risk is the risk that the Group is not in a position to fund growth in assets or meet obligations as they become due. Liquidity risk arises in the normal course of business by taking shorter term deposits, often repayable on demand or at short notice, and using these deposits to fund credit facilities over medium to longer periods. The Group has defined the liquidity risk appetite at a level so as to ensure that the Group has a controlled liquidity risk position with adequate cash or cash equivalents to be able to meet its financial obligations, in all foreseeable circumstances and without incurring substantial additional costs.

Asset Liability Committee (ALCO)

The ALCO develops and implements the policy and procedures that translate the Group's goals, objectives, and risk tolerances into operating standards that are well understood by Group staff. ALCO oversees the implementation and maintenance of management information and other systems that identify, measure, monitor and control the bank's liquidity risk.

Liquidity management and monitoring

The Group's daily liquidity management activity is performed by the Treasury Department. Treasury's activity is overseen by the Market Risk team which measures, monitors and reports on liquidity management activity, covering the following activities:

- Monitoring of the maturity profile of assets and liabilities on a continuous basis inclusive of currency wise position analysis;
- Forecasting future cash flows between sources and uses of funds;
- Stress testing based on the sensitivity analysis of key factors and combined events:
- Measuring Key regulatory liquidity indicators eg Advances to Stable Resources (ADR) ratio, Eligible Liquid Assets ratio (ELAR), Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). In addition to these ALCO has also set targets for a set of various other ratios ensuring proper liquidity measurement;
- Monitoring of concentration risks in deposit sources; and
- Monitoring of early warning indicators to assess the potential impact arising from a series of defined idiosyncratic and systemic stress scenarios.

ALCO has also set internal targets for above measures (wherever applicable) which are generally conservative than the requirements set by the regulator.

Liquidity Contingency plan

The Group has a formal liquidity contingency plan approved by Board of Directors (BOD) that contains clearly documented management action triggers for each type of event and recommended actions against those events with defined roles and responsibilities for key personnel.

30 Risk management (continued)

30.2 Liquidity risk (continued)

(a) The following table presents the cash flow analysis of remaining contractual maturities of Group's financial liabilities on an undiscounted basis, relating to both principal and profit payments:

	Carrying amount AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Total AED'000
At 31 December 2016						
Customer deposits	29,834,161	24,015,828	3,326,418	2,673,320	8,285	30,023,851
Due to banks	2,553,730	2,549,236	11,282	-	-	2,560,518
Sukuk financing instruments	1,836,450	-	51,203	1,964,458	-	2,015,661
Other liabilities	1,000,804	963,364	-	-	37,440	1,000,804
	35,225,145	27,528,428	3,388,903	4,637,778	45,725	35,600,834
At 31 December 2015						
Customer deposits	32,148,741	21,837,248	8,121,662	2,314,943	-	32,273,853
Wakalah term deposits	544,192	-	30,423	121,692	665,882	817,997
Due to banks	376,860	340,427	37,021	-	-	377,448
Sukuk financing instruments	1,836,450	-	51,118	2,015,439	-	2,066,557
Other liabilities	1,028,572	996,542	-	-	32,030	1,028,572
	35,934,815	23,174,217	8,240,224	4,452,074	697,912	36,564,427

As at 31 December 2016, a few of the Bank's customers accounted for a large proportion of the total customer deposits. At 31 December 2016, customer deposits due for maturity within 3 months include Escrow account balances and lien marked Qard-E-Hasan (demand) deposit balances which are expected to be retained for longer than 3 months. Remaining customer deposits, although contractually short term in nature, tend to be renewed on maturity and expected to remain with the Bank for a longer term.

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

30 Risk management (continued)

30.2 Liquidity risk (continued)

(b) Maturity profile of financial assets and financial liabilities

At 31 December 2016	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Total AED'000
Assets					
Cash and balances with the UAE Central Bank	3,376,938	-	-	-	3,376,938
Due from banks	4,112,458	1,413,370	-	-	5,525,828
Investments in Islamic financing instruments	2,439,139	2,007,516	10,311,745	11,159,988	25,918,388
Investments in Islamic sukuk	62,097	890	2,016,100	1,977,594	4,056,681
Other assets	290,672	-	-	28,530	319,202
Total	10,281,304	3,421,776	12,327,845	13,166,112	39,197,037
Liabilities					
Customer deposits	23,920,353	3,268,067	2,638,095	7,646	29,834,161
Due to banks	2,542,711	11,019	-	-	2,553,730
Sukuk financing instruments	-	-	1,836,450	-	1,836,450
Other liabilities	963,364	-	-	37,440	1,000,804
Total	27,426,428	3,279,086	4,474,545	45,086	35,225,145
Net liquidity gap	(17,145,124)	142,690	7,853,300	13,121,026	3,971,892
Cumulative gap	(17,145,124)	(17,002,434)	(9,149,134)	3,971,892	

30 Risk management (continued)

30.2 Liquidity risk (continued)

(b) Maturity profile of financial assets and financial liabilities (continued)

At 31 December 2015	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Total AED'000
Assets					
Cash and balances with the UAE Central Bank	6,346,119	1,100,000	-	-	7,446,119
Due from banks	2,357,962	2,242,230	-	-	4,600,192
Investments in Islamic financing instruments	6,625,110	3,470,798	7,514,997	5,595,986	23,206,891
Investments in Islamic sukuk	327,763	260,406	1,008,946	844,758	2,441,873
Other assets	274,830	-	-	28,530	303,360
Total	15,931,784	7,073,434	8,523,943	6,469,274	37,998,435
Liabilities					
Customer deposits	21,798,395	8,038,199	2,312,147	-	32,148,741
Wakalah term deposits	-	-	-	544,192	544,192
Due to banks	340,105	36,755	-	-	376,860
Sukuk financing instruments	-	-	1,836,450	-	1,836,450
Other liabilities	996,542	-	-	32,030	1,028,572
Total	23,135,042	8,074,954	4,148,597	576,222	35,934,815
Net liquidity gap	(7,203,258)	(1,001,520)	4,375,346	5,893,052	2,063,620
Cumulative gap	(7,203,258)	(8,204,778)	(3,829,432)	2,063,620	

30 Risk management (continued)

30.3 Market risk (continued)

Market risk is the potential impact of adverse price movements such as benchmark rates, foreign exchange prices and commodity prices on the earnings/economic value of an asset held by the Group. The exposure to market risk occurs throughout the contract which may negatively affect the earnings and capital of the Group. The market risk unit is responsible for monitoring and reporting this risk in the Group.

(a) Profit rate risk

The following table summarises the financial assets and liabilities of the Group, which are subject to profit rate risk, at carrying amounts categorised by the earlier of contractual re-pricing or maturity dates. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amount of assets and liabilities that mature or re-price in a given period:

At 31 December 2016	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Non-profit bearing	Total	Profit rate
Assets	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	%
Cash and balances with the UAE Central Bank	-	-	-	-	3,376,938	3,376,938	-
Due from banks	3,245,936	1,413,370	-	-	866,522	5,525,828	2.72
Investments in Islamic financing instruments	12,818,826	6,912,737	5,785,072	401,753	-	25,918,388	4.92
Investments in Islamic sukuk	62,097	890	2,287,368	1,706,326	-	4,056,681	4.34
	16,126,859	8,326,997	8,072,440	2,108,079	4,243,460	38,877,835	
Liabilities							
Customer deposits	12,743,853	4,014,475	2,813,142	7,645	10,255,046	29,834,161	1.39
Due to banks	1,930,402	11,019	-	-	612,309	2,553,730	1.20
Sukuk financing instruments	-	-	1,836,450	-	-	1,836,450	2.79
	14,674,255	4,025,494	4,649,592	7,645	10,867,355	34,224,341	
Net position on balance sheet	1,452,604	4,301,503	3,422,848	2,100,434	(6,623,895)	4,653,494	

30 Risk management (continued)

30.3 Market risk (continued)

(a) Profit rate risk (continued)

At 31 December 2015	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Non-profit bearing	Total	Profit rate
Assets	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	%
Cash and balances with the UAE Central Bank	1,800,000	1,100,000	-	-	4,546,119	7,446,119	0.13
Due from banks	2,567,492	1,601,641	-	-	431,059	4,600,192	1.86
Investments in Islamic financing instruments	12,082,914	6,642,631	4,456,591	24,755	-	23,206,891	5.32
Investments in Islamic sukuk	327,763	260,406	1,028,010	825,694	-	2,441,873	3.90
	16,778,169	9,604,678	5,484,601	850,449	4,977,178	37,695,075	
Liabilities							
Customer deposits	17,603,498	6,577,177	200,930	-	7,767,136	32,148,741	0.87
Wakalah term deposits	-	-	-	544,192	-	544,192	5.51
Due to banks	111,717	36,731	-	-	228,412	376,860	0.22
Sukuk financing instruments	-	-	1,836,450	-	-	1,836,450	2.79
	17,715,215	6,613,908	2,037,380	544,192	7,995,548	34,906,243	
Net position on balance sheet	(937,046)	2,990,770	3,447,221	306,257	(3,018,370)	2,788,832	

The impact of 1% change in profit rate's would impact AED 81 million (2015: AED 30 million) on the Group's consolidated income statement for the year ended 31 December 2016. The analysis is based on the assumptions that all other variables will remain constant and income simulation for 1 year forecast.

Similarly, an impact of 1% change in profit rate's would impact AED 86 million (2015: AED 25 million) on the Group's equity for the year ended 31 December 2016. The analysis is based on the assumptions that all other variables will remain constant for full maturity horizon.

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

30 Risk management (continued)

30.3 Market risk (continued)

(b) Foreign currency risk

Foreign currency risk represents the risk of change in the fair value of Islamic financing instruments due to changes in foreign exchange rates. The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows through setting limits on the level of exposure by currency. At the end of the year, the Bank had the following significant net foreign currency exposures:

	Balances in Foreign Currency					Balances in local currency	
	USD	EUR	GBP	Others	Sub-total		Total
At 31 December 2016	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets							
Cash and balances with the UAE Central Bank	1,083,761	-	-	-	1,083,761	2,293,177	3,376,938
Due from banks	1,843,641	63,149	96,006	85,285	2,088,081	3,437,747	5,525,828
Investments in Islamic financing instruments	5,763,494	-	-	347,338	6,110,832	19,807,556	25,918,388
Investments in Islamic sukuk	4,056,681	-	-	-	4,056,681	-	4,056,681
Other assets	67,979	7,018	5	7,325	82,327	236,875	319,202
	12,815,556	70,167	96,011	439,948	13,421,682	25,775,355	39,197,037
Liabilities							
Customer deposits	6,544,719	2,047,367	287,179	83,371	8,962,636	20,871,525	29,834,161
Wakalah term deposits	-	-	-	-	-	-	-
Due to banks	1,067,263	-	1,356	968	1,069,587	1,484,143	2,553,730
Sukuk financing instruments	1,836,450	-	-	-	1,836,450	-	1,836,450
Other liabilities	41,705	32,070	-	8	73,783	927,021	1,000,804
	9,490,137	2,079,437	288,535	84,347	11,942,456	23,282,689	35,225,145
Net on-balance sheet foreign currency exposure	3,325,419	(2,009,270)	(192,524)	355,601	1,479,226		
Net FX position on account of FX contracts	(2,231,943)	2,003,384	191,357	(661,387)	(698,589)		
Net FX open position	1,093,476	(5,886)	(1,167)	(305,786)	780,637		

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

30 Risk management (continued)

30.3 Market risk (continued)

(b) Foreign currency risk (continued)

	Balances in Foreign Currency					Balances in local currency	
	USD	EUR	GBP	Others	Sub-total		Total
At 31 December 2015	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets							
Cash and balances with the UAE Central Bank	736,997	-	-	-	736,997	6,709,122	7,446,119
Due from banks	3,319,445	63,277	35,789	49,795	3,468,306	1,131,886	4,600,192
Investments in Islamic financing instruments	3,759,452	22,814	-	282,511	4,064,777	19,142,114	23,206,891
Investments in Islamic sukuk	2,399,698	-	-	-	2,399,698	42,175	2,441,873
Other assets	66,429	3,368	-	5,078	74,875	228,485	303,360
	10,282,021	89,459	35,789	337,384	10,744,653	27,253,782	37,998,435
Liabilities							
Customer deposits	3,893,792	1,661,048	245,117	103,032	5,902,989	26,245,752	32,148,741
Wakalah term deposits	110,192	-	-	-	110,192	434,000	544,192
Due to banks	188,733	-	5,200	9	193,942	182,918	376,860
Sukuk financing instruments	1,836,450	-	-	-	1,836,450	-	1,836,450
Other liabilities	40,725	33,670	1,771	60	76,226	952,346	1,028,572
	6,069,892	1,694,718	252,088	103,101	8,119,799	27,815,016	35,934,815
Net on-balance sheet foreign currency exposure	4,212,129	(1,605,259)	(216,299)	234,283	2,624,854		
Net FX position on account of FX contracts	(3,306,184)	1,624,415	218,636	261,089	(1,202,044)		
Net FX open position	905,945	19,156	2,337	495,372	1,422,810		

The impact of an 1% increase/decrease in the foreign exchange rates of the Bank's net on-balance sheet items is AED 2.0 million on the Group's consolidated income statement for the year ended 31 December 2016 (2015: AED 2.17 million). The analysis is based on the assumptions that all other factors will remain constant.

30 Risk management (continued)

30.3 Market risk (continued)

(c) Price risk

The Bank is exposed to price risk arising from publicly traded investments in Islamic sukuk.

A present value one basis point (PVBP) increase/decrease in the prices will have an impact of AED 1.99 million on the Group's investment portfolio for the year ended 31 December 2016 (2015: AED 1.0 million). The analysis is based on the assumptions that all other variables will remain constant.

30.4 Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in an active market for identical financial instruments.
- Level 2 – Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

30 Risk management (continued)

30.4 Fair value hierarchy (continued)

The financial instruments and non-financial assets measured at fair value as per the hierarchy are disclosed in the table below:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
As at 31 December 2016			
Financial assets at fair value			
Investments in Islamic sukuk			
- Classified as available-for-sale	2,402,787	-	-
- Classified as held-for-trading	828,768	-	-
Promise to buy or sell currency	-	16,225	-
	3,231,555	16,225	-
Financial liabilities			
Promise to buy or sell currency	-	54,714	-
As at 31 December 2015			
Financial assets at fair value			
Investments in Islamic sukuk			
- Classified as available-for-sale	1,598,895	-	-
- Classified as held-for-trading	78,782	-	-
Promise to buy or sell currency	-	19,883	-
	1,677,677	19,883	-
Financial liabilities			
Promise to buy or sell currency	-	8,010	-

The different levels for fair values of non-financial assets have been defined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). For investment properties and land and buildings, the fair values have been derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

30 Risk management (continued)

30.4 Fair value hierarchy (continued)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
As at 31 December 2016			
Non-financial assets at fair value			
Investment properties	-	1,186,117	-
Buildings	-	133,271	-
	-	1,319,388	-
As at 31 December 2015			
Non-financial assets at fair value			
Investment properties	-	1,231,715	-
Buildings	-	141,605	-
	-	1,373,320	-

At 31 December 2016, the carrying value of the Group's other assets and liabilities measured at amortised cost, approximate their fair values. There have been no transfers of financial assets and non-financial assets between Level 1 and Level 2 during the years ended 31 December 2016 or 2015.

30.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed processes, technology and infrastructure within the Group, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory compliance requirements and generally accepted standards of corporate behaviour.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation, assets and personnel with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development of employees for operational risk awareness;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

30 Risk management (continued)

30.5 Operational risk (continued)

Compliance with Group's operational risk standards is supported by a programme of periodic reviews undertaken by Internal Audit and a dedicated Operational Risk Team. The results of their reviews are discussed with the management of the business unit to which they relate and senior management of the Group.

30.6 Capital management and capital adequacy as per Basel II requirement

The Group manages its capital considering both regulatory and economic capital. The Group calculates its risk asset ratio in accordance with requirements and guidelines established by the UAE Central Bank prescribing the ratio of total capital to total risk-weighted assets which is currently set at a minimum of 12% (2015: 12%). This is in line with the assessment and reporting of capital adequacy ratio in accordance with the Basel II Accord as follows:

	2016 AED'000	2015 AED'000
Tier I Capital		
Share capital	3,357,895	3,357,895
Tier 1 sukuk	1,836,500	-
Legal reserves	249,690	213,000
Accumulated losses	(181,459)	(177,295)
Less: Other equity investments	(13,500)	(13,500)
	5,249,126	3,380,100
Tier II Capital		
Subordinated term investment (Note 12)	-	544,192
General provision	364,790	322,309
Asset revaluation reserve	(34,454)	(5,650)
Less: Other equity investments	(13,500)	(13,500)
	316,836	847,351
Deductions from Tier I & Tier II Capital		
Investment in other equity investments (Note 9)	-	-
Total regulatory capital	5,565,962	4,227,451
Risk weighted assets		
Credit risk	29,183,223	25,784,753
Market risk	514,761	137,656
Operational risk	2,568,854	1,901,516
Risk weighted assets	32,266,838	27,823,925
Capital adequacy ratio on regulatory capital	17.25%	15.19%
Risk asset ratio on Tier I capital	16.27%	12.15%

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

30 Risk management (continued)

30.6 Capital management and capital adequacy as per Basel II requirement (continued)

Asset classes in 2016	On balance sheet gross outstanding AED'000	Off balance sheet exposure AED'000	Credit risk mitigation (CRM): Exposure before CRM (net off specific provision and profit in suspense) AED'000	CRM AED'000	Net exposure after CRM, CCF and Other adjustments AED'000	Risk weighted assets AED'000
Claims on sovereigns	5,189,677	-	5,189,677	(73,462)	5,189,677	990,280
Claims on non-central government public sector entities	77,336	-	77,336	-	77,336	775
Claims on banks	6,407,480	205,730	6,613,210	(79,601)	6,597,584	3,035,529
Claims on securities firms	7,829	-	7,829	-	7,829	7,829
Claims on corporates	16,810,282	10,551,539	27,361,821	(1,993,361)	18,931,776	17,009,783
Claims included in the regulatory retail portfolio	4,505,248	407,027	4,912,275	(223,092)	4,505,248	3,270,276
Claims secured by residential property	4,578,776	381,560	4,960,336	-	4,692,294	1,944,559
Claims secured by commercial real estate	832,578	5,025	837,603	-	833,583	833,583
Past due financing	1,421,599	13,788	411,082	-	400,159	400,159
Other assets	2,801,753	-	2,674,293	-	2,674,293	1,690,450
	42,632,558	11,564,669	53,045,462	(2,369,516)	43,909,779	29,183,223

The total collateral held by the Group as CRM includes AED 2.2 billion as cash collateral (2015: AED 2.7 billion as cash collateral).

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

30 Risk management (continued)

30.6 Capital management and capital adequacy as per Basel II requirement (continued)

Asset classes in 2015	On balance sheet gross outstanding AED'000	Off balance sheet exposure AED'000	Credit risk mitigation (CRM): Exposure before CRM (net off specific provision and profit in suspense) AED'000	Credit risk mitigation (CRM): CRM AED'000	Credit risk mitigation (CRM): Net exposure after CRM, CCF and Other adjustments AED'000	Credit risk mitigation (CRM): Risk weighted assets AED'000
Claims on sovereigns	8,637,862	-	8,637,862	(183,655)	8,637,862	489,494
Claims on non-central government public sector entities	178,242	-	178,242	-	178,242	20,956
Claims on banks	5,477,337	255,681	5,733,018	(258,694)	5,687,689	2,894,383
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	15,264,020	9,723,365	24,137,402	(2,550,488)	17,685,711	15,140,572
Claims included in the regulatory retail portfolio	3,879,641	429,083	4,308,724	(141,098)	3,879,641	2,876,375
Claims secured by residential property	3,782,195	357,040	4,139,235	-	3,905,584	1,709,932
Claims secured by commercial real estate	606,914	-	606,914	-	606,914	606,914
Past due financing	1,154,233	15,716	1,169,949	-	312,108	324,969
Other assets	2,060,471	-	1,940,319	-	1,940,319	1,721,158
	41,040,915	10,780,885	50,851,665	(3,133,935)	42,834,070	25,784,753

30 Risk management (continued)

30.6 Capital management and capital adequacy as per Basel II requirement (continued)

The capital requirement for market risk under the standardised approach is as follows:

	2016		2015	
	Risk weighted assets AED'000	Capital charge AED'000	Risk weighted assets AED'000	Capital charge AED'000
Profit rate risk	421,361	50,564	73,955	8,875
Foreign exchange risk	93,400	11,208	63,700	7,644
	514,761	61,772	137,655	16,519

Capital charge for year ended 31 December 2016 has been calculated at 12% (2015: 12%).