NATIONAL BANK OF OMAN (SAOG) - UAE BRANCHES

Financial statements

31 December 2015

National Bank of Oman (SAOG), UAE Branches

Financial statements
31 December 2015

Contents	*Page*
Independent auditors' report	1
Statement of financial position	2
Statement of profit or loss and other comprehensive income	3
Statement of changes in equity	4
Statement of cash flows	5
Notes to the financial statements	6 - 37

KPMG Lower Gulf Limited
Abu Dhabi Branch
P. O. Box 7613
Abu Dhabi
United Arab Emirates

Telephone +971 (2) 4014 800
Telefax +971 (2) 6327 612
Website www.ae-kpmg.com

Independent Auditors' Report

The Country Manager

National Bank of Oman (SAOG), UAE Branches

Report on the financial statement

We have audited the accompanying financial statements of National Bank of Oman (SAOG), UAE Branches ("the Branches") which comprises the statement of financial position as at 31 December 2015, the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

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

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

28 MAR 2016

KPMG Lower Gulf Limited
Munther Dajani
Registration No. 268
Abu Dhabi – United Arab Emirates

National Bank of Oman (SAOG), UAE Branches
Statement of financial position
As at 31 December

	Note	2015 AED'000	2014 AED'000
Assets			
Cash and balances with the UAE Central Bank	7	**186,906**	119,847
Due from banks	8	**179,571**	334,626
Due from Head Office and overseas branches	25	**45,365**	15,708
Customers' indebtedness for acceptances	28	**161,961**	81,756
Loans and advances to customers	4(b)	**2,007,931**	1,119,227
Investment securities	9	**85,574**	6,694
Property and equipment	10	**2,979**	3,362
Deferred tax asset	22	**3,150**	1,237
Other assets	11	**8,138**	4,153
Total assets		**2,681,575**	1,686,610
Liabilities			
Due to banks, Head Office and overseas branches	26	**942,382**	477,657
Deposits from customers	12	**1,237,600**	967,743
Liabilities under acceptances	28	**161,961**	81,756
Other liabilities	13	**25,365**	21,396
Total liabilities		**2,367,308**	1,548,552
Equity			
Branch capital	14	**200,375**	52,500
Legal reserve	15	**29,061**	26,250
Retained earnings		**57,309**	32,008
Fair value reserve		**222**	-
Total equity		**286,967**	110,758
Funding from Head Office			
Placement from Head Office	16, 25	**27,300**	27,300
Total equity and funding from Head Office		**314,267**	138,058
Total Liabilities, Equity and Funding from Head Office		**2,681,575**	1,686,610
Commitments and contingent liabilities	27	**507,707**	452,465

Ahmed Al-Musalmi
Chief Executive Officer

Manoj S Nair
Country Manager-UAE

The attached notes 1 to 29 form part of these financial statements.

The Independent Auditors' report is set out on page 1.

National Bank of Oman (SAOG), UAE Branches

Statement of profit or loss and other comprehensive income

for the year ended 31 December

	Note	2015 AED'000	2014 AED'000
Operating income			
Interest income	*17*	**71,617**	37,179
Interest expense	*17*	**(16,888)**	(7,971)
Net interest income	*17*	**54,729**	29,208
Net fees and commission income	*18*	**18,188**	11,754
		72,917	40,962
Net foreign exchange gain		**1,940**	1,995
Income from investment securities		**2,173**	1,438
Other operating income	*19*	**1,831**	1,293
Total operating income		**78,861**	45,688
Operating expenses			
Staff costs		**(21,163)**	(15,093)
Depreciation	*10*	**(828)**	(1,230)
Other operating expenses	*20*	**(11,809)**	(9,628)
Total operating expenses		**(33,800)**	(25,951)
Profit from operations before impairment losses		**45,061**	19,737
Net impairment charge	*4(b)*	**(9,921)**	(4,403)
Profit before income tax		**35,140**	15,334
Income tax expense, net	*21*	**(7,028)**	(3,067)
Profit for the year		**28,112**	12,267
Revaluation gain on AFS securites		222	-
Total comprehensive income		28,334	12,267

The attached notes 1 to 29 form part of these financial statements.

The Independent Auditors' report is set out on page 1.

National Bank of Oman (SAOG), UAE Branches

Statement of changes in equity

for the year ended 31 December

	Branch Capital AED'000	Legal Reserve AED'000	Retained Earnings AED'000	Fair value reserve AED'000	Total AED'000
At 1 January 2014	52,500	25,295	20,696	-	98,491
Total comprehensive income for the year	-	-	-	-	-
Profit for the period	-	-	12,267	-	12,267
Other comprehensive income	-	-	-	-	-
Transfer to legal reserve	-	955	(955)	-	-
At 31 December 2014	52,500	26,250	32,008	-	110,758
At 1 January 2015	**52,500**	**26,250**	**32,008**	-	**110,758**
Capital injected during the year	**147,875**	-	-	-	**147,875**
Total comprehensive income for the year	-	-	-	-	-
Profit for the period	-	-	**28,112**	-	**28,112**
Other comprehensive income	-	-	-	**222**	**222**
Transfer to legal reserve	-	**2,811**	**(2,811)**	-	-
At 31 December 2015	**200,375**	**29,061**	**57,309**	**222**	**286,967**

The attached notes 1 to 29 form part of these financial statements.

The Independent Auditors' report is set out on page 1.

National Bank of Oman (SAOG), UAE Branches

Statement of cash flows

for the year ended 31 December

	2015 AED'000	2014 AED'000
Cash flows from operating activities		
Profit before income tax	**35,140**	15,334
Adjustments for:		
Depreciation	**828**	1,230
Net gains from investment securities	**-**	(1,438)
Impairment charges	**16,051**	11,851
Provision for employees' end of service benefits	**675**	675
(Gain) / loss on disposal of property and equipment	**(38)**	1
Bonds premium amortization	**1,859**	-
	54,515	27,653
Changes in:		
Due from Head Office and overseas branches	**-**	1,836
Loans and advances to customers	**(904,755)**	(835,305)
Customers' indebtedness for acceptances	**(80,205)**	(65,352)
Other assets	**(5,898)**	57
Due to Head Office and overseas branches	**543,734**	213,897
Deposits from customers	**269,857**	601,648
Liabilities under acceptances	**80,205**	65,352
Other liabilities	**3,969**	7,689
	(38,578)	17,475
Income tax paid	**(4,592)**	(6)
End of service benefits paid	**(677)**	-
Net cash (used in)/from operating activities	**(43,847)**	17,469
Cash flows from Investing activities		
Purchase of property and equipment	**(444)**	(1,738)
Proceeds from sale of property and equipment	**38**	69
Purchase of investment securities	**(80,517)**	(6,694)
Proceeds from sale of investment securities	**-**	27,195
Net cash (used in)/from investing activities	**(80,923)**	18,832
Cash flows from financing activities		
Increase in branch capital	**147,875**	-
Net cash from financing activities	**147,875**	-
Net increase in cash and cash equivalents	**23,105**	36,301
Cash and cash equivalents at 1 January	**212,904**	176,603
Cash and cash equivalents at 31 December *(Note 24)*	**236,009**	212,904

The attached notes 1 to 29 form part of these financial statements.

The Independent Auditors' report is set out on page 1.

1 Legal status and activities

National Bank of Oman SAOG (the "Bank" or the "Head Office") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail banking, wholesale banking and investment banking services. The Bank in United Arab Emirates ("UAE") operates with two branches i.e. Abu Dhabi and Dubai (the "Branches") under a commercial bank licence granted by the UAE Central Bank. The registered office of the Branches is P.O. Box 3822, Abu Dhabi, UAE. Dubai Branch started its operation in December 2013.

The principal activities of the Branches are the granting of loans, advances and the provision of other commercial banking services.

The branches employed 70 employees as of 31 December 2015 (31 December 2014 - 56 employees)

The financial statements were authorised for issue by the Branches' management on 28 MAR 2016

2 Basis of preparation

2.1 *Statement of compliance*

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

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

2.2 *Basis of measurement*

The financial statements have been prepared on a historical cost basis except for

- Financial assets at fair value through profit or loss which are measured at fair value; and
- Available-for-sale investments which are measured at fair value.

2.3 *Functional and presentation currency*

These financial statements have been presented using UAE Dirham ("AED"), which is the functional currency of the Branches. Except as otherwise indicated, financial information presented in AED has been rounded to the nearest thousand.

2.4 *Significant accounting judgments and estimates*

The preparation of the financial statements in conformity with IFRSs requires 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.

Going concern

The Branches' management has made an assessment of the Branches' ability to continue as a going concern and is satisfied that the Branches have the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Branches' ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Impairment losses on loans and advances and investment securities

The Branches reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of profit and loss account. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Branches make judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

2.4 *Significant accounting judgments and estimates (continued)*

Impairment losses on loans and advances and investment securities (continued)

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes into account data input from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.) and concentrations of risks.

In making an assessment of whether an investment is impaired, the Branches consider the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country as well as the intention, reflected in public statements, about the governments' and agencies' willingness to use those mechanisms. This includes an assessment of the depth of those mechanisms and irrespective of the political intent, whether there is the capacity to fulfill the required criteria.

Fair value measurement principles

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

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

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

The Branches use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

At 31 December 2015 and 2014, the Branches used level 1 valuation hierarchy for its investments.

The Bank's financial assets and financial liabilities at amortised cost including held to maturity, are categorised under Level 3 in the fair value hierarchy, as there is no active market for such assets and liabilities.

3 Significant accounting policies

a) Foreign currency

Foreign currency transactions are recorded at rates of exchange ruling at the value date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transactions.

Forward foreign exchange contracts are translated into AED at mid-market rates of exchange at the reporting date. Foreign currency differences arising on translation are recognised in profit or loss. However, foreign currency differences arising from the translation of available-for-sale equity instruments are recognised in other Comprehensive Income.

b) Revenue recognition

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest and similar income and expense are recognised in profit or loss using the effective interest rate. The effective interest rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instruments, but not future credit losses.

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

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

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

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment and is not recognised as interest income (suspended interest).

c) Fees and commission income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income including loan processing fees, investment management fees, placement fees and syndication fees are recognised as the related services are provided.

d) Leases

Lease payments – lessee

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

All of the Bank's operating lease contracts are renewable annually.

e) Taxation

Income tax expense comprises current and deferred tax.

Taxation is provided for in accordance with the instructions of the Department of Private Affairs of His Highness Shaikh Zayed Bin Sultan Al Nahyan, dated 11 September 2003 for Abu Dhabi and tax for Dubai Branch is paid as per the Dubai tax decree.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes

Income tax is recognised in the statement of profit or loss for the year. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3 Significant accounting policies *(continued)*

f) Financial assets and financial liabilities

(i) Recognition

The Branches initially recognise loans and advances and deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Branches becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification and measurement

Financial assets

The Branches uses the following categories to classify it financial instruments:
• Loans and receivables;
• Available-for-sale; and
• Held to maturity

Loans and receivables

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

Loans and receivables include bank balances due from head office and branches, loans and receivables and acceptances. Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale assets are intended to be held for an indefinite period of time and may be sold in future to manage liquidity requirements or in response to market fluctuation in interest rates or pricing of the financial assets

Interest income is recognised in the statement of profit or loss using the effective interest method. Dividend income is recognised in statement of profit or loss when the Branches become entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in statement of profit or loss. Impairment losses are recognised in statement of profit or loss.

Other fair value changes, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is recycled to the statement of profit or loss.

Held-to-maturity

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

Financial liabilities

The Branches classify their financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

(iii) Derecognition

The Branches derecognise a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Branches neither transfer nor retain substantially all of the risks and rewards of ownership and do not retain control of the financial asset.

3 **Significant accounting policies *(continued)***

(iii) Derecognition (*continued*)

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in statement profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Branches is recognised as a separate asset or liability.

When the Branches have transferred their rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Branches continuing involvement in the asset. In that case, the Branches also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Branch has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Branches could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss for the year.

(iv) Offsetting

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

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

(v) Amortised cost measurement

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

(vi) Fair value measurement

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

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

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

3 **Significant accounting policies *(continued)***

f) Financial assets and liabilities (continued)

(vi) Fair value measurement *(continued)*

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Branches on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

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

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

(vii) Identification and measurement of impairment

At each reporting date, the Branches assess whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- Significant financial difficulty of the borrower or issuer;
- Default or delinquency by a borrower;
- The restructuring of a loan or advance by the Branches on terms that the Branches would not consider otherwise;
- Indications that a borrower or issuer will enter bankruptcy; and
- Observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Branches consider evidence of impairment for financial asset held at amotised cost at both a specific asset and a collective level. All individually significant financial asset held at amotised cost are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial asset held at amotised cost that are not individually significant are collectively assessed for impairment by grouping together financial asset held at amotised cost with similar risk characteristics.

In assessing collective impairment the Branches uses the 1.5% of credit risk weighted asset computed as per Central Bank of UAE guidelines to arrive at the provision.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

3 Significant accounting policies (*continued*)

(vii) Identification and measurement of impairment (*continued*)

Impairment losses are recognised in the statement of profit or loss and reflected in an allowance account against financial assets held at amotised cost. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through statement of profit or loss.

Impairment losses on available-for-sale investment securities are recognised by recycling the losses accumulated in the fair value reserve in equity to statement of profit or loss. The cumulative loss that is reclassified from equity to statement of profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in statement of profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through statement of profit or loss; otherwise, any increase in fair value is recognised through other comprehensice income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in other comprehensice income.

The Branches writes off a loan, either partially or in full, and any related allowance for impairment losses, when management determines that there is no realistic prospect of recovery.

***g)* Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Branches in the management of their short-term commitments.

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

***h)* Due from banks and financial institutions**

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

***i)* Investment securities**

Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise debt securities. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in statement of profit or loss using the effective interest method. Dividend income is recognised in statement of profit or loss when the Branches become entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in statement of profit or loss. Impairment losses are recognised in statement of profit or loss.

Other fair value changes, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to statement of profit or loss.

Non-trading investments

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

After initial recognition, these investments are re-measured at fair value.

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

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

3 Significant accounting policies *(continued)*

i)* Investment securities *(continued)

Non-trading investments *(continued)*

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

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

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

***j)* Loans and advances**

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

Loans and advances are classified as loans and receivables and are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

***k)* Property and equipment**

i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in statement of profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Branches. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Branches will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property and equipment are as follows:

· Leasehold improvements	3 to 5 years
· Motor vehicles	4 years
· Furniture	10 years
· Equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3 Significant accounting policies (*continued)*

k)* Property and equipment (*continued)

(iv) Capital work in progress

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

(v) Impairment

The carrying amounts of the Branches' non financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit and loss.

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses are recognised in the statement of profit or loss.

***l)* Due to banks and Customer accounts**

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

***m)* Impairment of non-financial assets**

The carrying amounts of the Branches' non financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit and loss.

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses are recognised in the statement of profit or loss.

***n)* Provisions**

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

***o)* Staff terminal benefits**

The terminal benefits are provided for in accordance with the employees' contracts of employment and applicable requirements of the UAE and Oman labour laws. Entitlement to these benefits is usually based upon the employees' length of service and completion of minimum service period. The expected costs of these benefits are accrued over the period of employment.

3 Significant accounting policies (*continued*)

p) **New standards and interpretations not yet adopted**

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

- **IFRS 15**

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

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

- **IAS 16 / 38**

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

- **IFRS 9**

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

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

- **IAS 27**

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

The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

Annual Improvements 2012-2014 Cycle

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

- **IFRS 5**

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

- **IFRS 7**

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

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

3 Summary of significant accounting policies (*continued*)

p) **New standards and interpretations not yet adopted (*continued*)**

- **IAS 19**

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

- **IAS 34**

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

- **IAS 1**

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

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

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

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

4 Financial risk management

a) Introduction and overview

The Branches have exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk

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

Risk management framework

The overall responsibility for risk management in the Branches is vested with the Board of Directors of the Bank. The Board authorises appropriate credit, liquidity and market risk policies as well as suitable operational guidelines based on the recommendation of management. Approval authorities are delegated to different functionaries, including the UAE Country Manager, in the hierarchy depending on the amount, type of risk and collateral security. The Bank has established various committees that decide on all risk issues.

The Branches' risk management policies are established to identify and analyse the risks faced by the Branches, 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, products and services offered.

b) Credit risk

Credit risk is the risk of financial loss to the Branches if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Branches seek to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. The Branches also monitor credit exposures and continually assesses the credit worthiness of counterparties. They also obtain security when appropriate.

Management of credit risk

Credit Risk is managed within the regulatory requirements of the Central Bank of UAE; risk framework provided in the Board approved Risk Charter and Credit Policies and Procedures. The policies and procedures are periodically reviewed to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. Control, monitoring and management of credit exposures and remedial management are done in coordination with respective Business Units as per established procedures

Corporate credit

Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate, Business Banking and Financial Institutions exposures. The Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any are highlighted. The branches follows risk based pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The branches has implemented a customized Moody's Risk Analyst model for risk rating corporate borrowers. Corporate Credit Risk Division also provides advice and guidance to business units with a view to promoting best practices throughout the branches in the management of credit risk.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, public companies and large exposures. Further, the branches continues to undertake quarterly review of financial institutions and country portfolio including stress tests and review of adverse rating migrations and outlooks in line with best practices and regulatory guidelines.

4 Financial risk management *(continued)*

Credit risk *(continued)*

A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior Management and the Board Risk Committee. Salient areas covered in the review include:

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/ performance
- Position of restructured exposures
- Position of past due exposures
- Exposures secured by equity
- Exposures to real estate and leasing sectors
- Syndicated exposures
- New relationships
- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions
- Clean lending and name lending exposures

Risk mitigation policies

The branches manages limits and controls concentrations of credit risk in particular, with respect to individual counterparties and groups, and industries. The branches structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee and Board Risk Committee.

4 Financial risk management *(continued)*

b)* Credit risk *(continued)

Exposure to credit risk

The Bank measure their exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, interest suspended and impairment losses, if any. The carrying amounts of financial assets represent the maximum credit exposure.

	Loans and advances		Due from banks		Investment securities	
	2015 AED'000	2014 AED'000	2015 AED'000	2014 AED'000	2015 AED'000	2014 AED'000
Carrying amount, net	2,007,931	1,119,227	179,571	334,626	85,574	6,694
Individually impaired						
Substandard	4,153	-	-	-	-	-
Doubtful	-	128	-	-	-	-
Loss	39,625	36,068	-	-	-	-
Gross amount	43,778	36,196	-	-	-	-
Interest suspended	(12,608)	(9,105)	-	-	-	-
Specific allowance for impairment	(28,528)	(27,507)	-	-	-	-
Carrying amount*	2,642	(416)	-	-	-	-
Past due but not impaired (overdue by more than 90 days)	-	-	-	-	-	-
	-	-	-	-	-	-
Neither past due nor impaired						
Normal	2,038,496	1,130,633	179,571	334,626	85,574	6,694
Accounts with renegotiated terms	-	7,249	-	-	-	-
	2,038,496	1,137,882	179,571	334,626	85,574	6,694
Total non-impaired portfolio	2,038,496	1,137,882	179,571	334,626	85,574	6,694
Collective allowance for impairment	(33,207)	(18,239)	-	-	-	-
Carrying amount	2,005,289	1,119,643	179,571	334,626	85,574	6,694
Carrying amount, net	2,007,931	1,119,227	179,571	334,626	85,574	6,694

* The negative carrying amount represents specific provision against unfunded exposures.

4 Financial risk management *(continued)*

b)* Credit risk *(continued)

Impaired loans and advances

The Branches regard a loan and advance or a debt security as impaired in the following circumstances:

- There is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset.
- A loan is overdue for 90 days or more.
- A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Loans and investment debt securities that are past due but not impaired

Loans and investment debt securities that are 'past due but not impaired' are those for which contractual interest or principal payments are past due but the Branches believe that impairment is not appropriate on the basis of the sufficent level of security or collateral available to cover the outstanding anount and/or the stage of collection of amounts owed to the Branches.

Loans with renegotiated terms

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 4.

For the purposes of disclosures in these financial statements, 'loans with renegotiated terms' are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Branches has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Branches had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, earlier repayment or until it is written off.

The Branches hold collateral against loans and advances to customers in the form of cash margins, pledges/ liens over deposits, mortgage interests over property, other registered securities over assets and guarantees. The Branches accept guarantees mainly from well reputed local or international banks/financial institutions, well established local or multinational organisations, large corporate and high net worth individuals. Estimates of fair value are based on the value of collateral assessed at the time of borrowing which are updated during annual reviews. Generally, collateral is not held over loans and advances to other banks or financial institutions, except when securities are held as a part of reverse repurchase and securities borrowing activity.

It is the Branches' policy to ensure that loans are extended to customers within their capability to service interest and repay principal instead of relying excessively on securities. Accordingly, depending on customers' credit worthiness and the type of product, facilities may be unsecured. Nevertheless, collateral is and can be an important credit risk mitigant.

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below.

	2015	2014
	AED'000	AED'000
Cash and margin	**90,612**	69,863
Commercial and industrial property	**1,136,858**	494,460
Residential property	**45,950**	30,650
Other	**500**	500
Total collateral held	**1,273,920**	595,473

Collateral values reflect the maximum exposure or the value of the collateral whichever is lower.