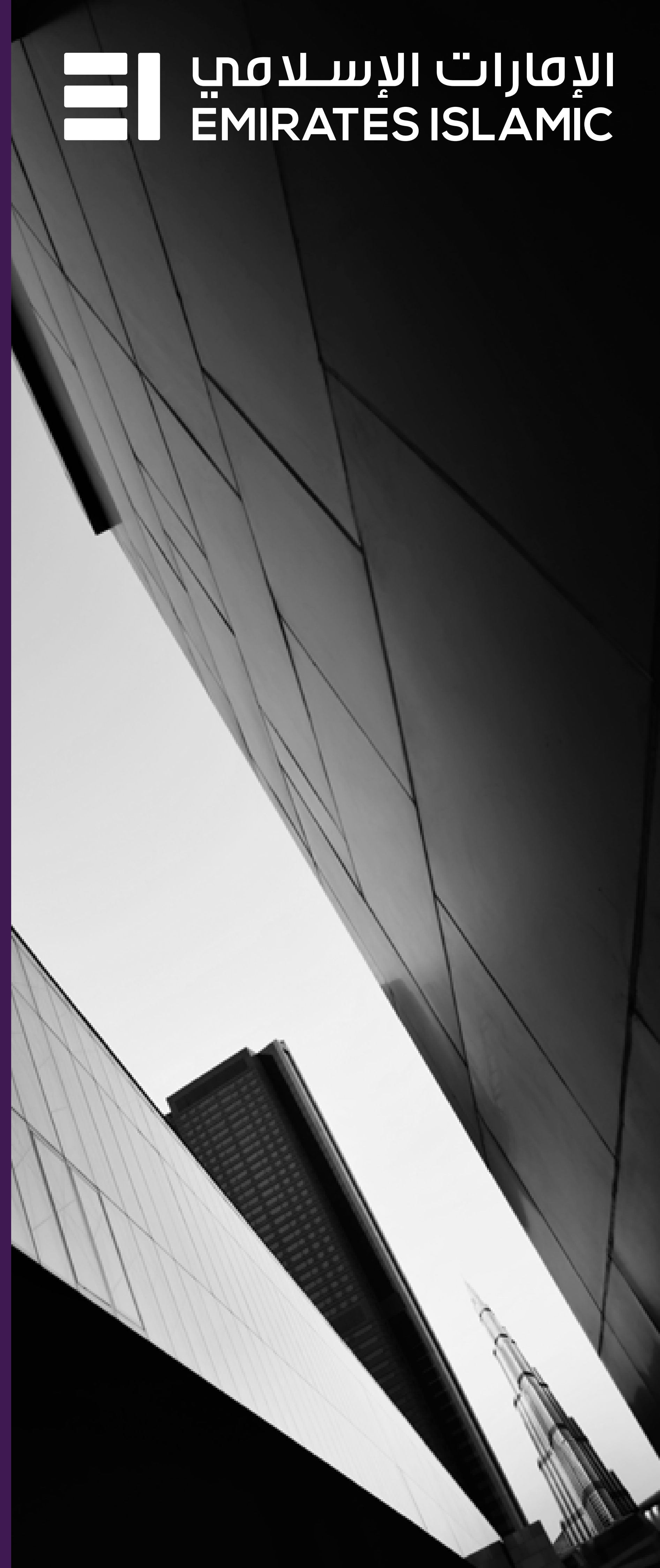


# 2015 ANNUAL REPORT

2015 ANNUAL REPORT

In the name of Allah,
The Merciful,
The Very Merciful


# EMIRATES ISLAMIC BANK
## (PUBLIC JOINT STOCK COMPANY)

Head Office
3rd Floor, Building 16,
Dubai Health Care City, Dubai
Tel.: +97 1 4 3160336
Fax: +97 1 4 3582659
P.O. Box: 6564, Dubai,
United Arab Emirates
emiratesislamic.ae

**Group Consolidated Financial Statements For the year ended 31 December 2015**

**His Highness Sheikh Khalifa Bin Zayed Al Nahyan**
President of the United Arab Emirates

**His Highness Sheikh Mohammed Bin Rashid Al Maktoum**
Vice President and Prime Minister
of the United Arab Emirates and Ruler of Dubai

# CONTENTS

## OUR VISION

To be the leading provider of high standard Shari'a-compliant innovative financial products, quality service and superior value for our customers, shareholders, employees and the community.

## OUR MISSION

Providing innovative and high standard financial products and services governed by Islamic Shari'a provision to enrich the society.

# CHAIRMAN´S MESSAGE

Since its inception over 40 years ago in the United Arab Emirates, Islamic banking has grown rapidly to become a key pillar and driver of the nation's economy. Emirates Islamic was launched in 2004, with a clear mandate to drive the growth of Shari'a-compliant banking in the UAE, and the wider region. Today, I am proud to announce that the Bank has recorded another year of record-breaking success, emerging as one of the fastest growing banks in the UAE.

Despite challenging market conditions, Emirates Islamic achieved a net profit of AED 641 million, a 76% year-on-year increase. The Bank's total net income (net of customers' share of profit) during 2015 rose to AED 2.43 billion, up 25% compared to AED 1.95 billion last year.

In 2015, the UAE economy posted strong growth of 3%, showing resilience to the challenges in global markets and laying the foundation for continued success and expansion in the region. Oil prices and equity markets remain volatile but the UAE economy is based on strong fundamentals and will continue growing. I am pleased that Emirates Islamic is growing year-on-year and that we are keeping pace with the growth of our nation. The focus for Emirates Islamic is to continue on this growth journey and momentum to reaffirm its position as a leader in the Islamic banking sector.

We strongly believe that the current market situation provides a unique opportunity for Islamic banking. I see Islamic banking playing an increasingly significant role in the UAE's economy as we create the solutions that support the evolving needs of individuals, corporates and SMEs. With a clearly defined roadmap for the future, I am confident that Emirates Islamic will continue to be a key driving force in fulfilling the vision of His Highness Sheikh Mohammed Bin Rashid Al Maktoum, Vice President and Prime Minister of UAE and Ruler of Dubai, in making Dubai the global capital of Islamic economy.

Emirates Islamic reported strong customer acquisition during the year, up 26% from the previous year, as we create market-leading innovative banking solutions that cater to individuals, businesses and institutions that seek a trustworthy Islamic banking partner. With 2016 marked as the Year of Reading, Emirates Islamic will continue to take the lead in raising awareness on Islamic banking through key initiatives. Creating an informed and empowered customer base is an important step towards further uptake of Islamic banking and we will continue to deepen our efforts towards this initiative.

To conclude, I would like to thank our Board of Directors, the CEO and Senior Management, and all Emirates Islamic employees for their efforts and contribution to our achievements and performance in 2015. I would also like to thank our customers and shareholders for their ongoing support and loyalty as we look forward to reaching new heights and achieving more success in 2016.

**Hesham Abdulla Al Qassim**
Chairman of Emirates Islamic

# AMBITION

**Our vision is limitless and we work together to make it a reality**

# CEO'S MESSAGE

I am delighted to report another year of strong performance for Emirates Islamic. 2015 has been a very successful year for the Bank as we report strong results for the fourth consecutive year, with a 76% increase in net profit to AED 641 million. On the back of our transformation strategy launched in 2011, coupled with the determined focus of the management team, the Bank today stands as a true leader in the Islamic banking industry.

We continue to be one of the fastest growing banks in the UAE, reporting total net income (net of customers' share of profit) of AED 2.43 billion, up 25% from 2014, while deposits grew by 25% to AED 39.3 billion. On the back of several first-to-market product innovations and enhanced customer service, we witnessed a 26% increase in our customer base this year across our three core segments, namely Corporate, Small & Medium Enterprises (SMEs) and Personal banking.

In September 2015, Fitch, the global ratings agency, assigned Emirates Islamic a long term Issuer Default Rating (IDR) of 'A+' with a Stable Outlook, Short-term IDR of 'F1', and a Viability Rating (VR) at 'bb-'. The rating agency also affirmed the Bank's support rating of '1'. This rating places Emirates Islamic among the highest ranked banks in the UAE and is a key milestone on the Bank's road to growth and success.

As part of our commitment to furthering the uptake of Shari'a-compliant banking in the UAE, we created the UAE's first consumer focused survey on Islamic Banking – ISLAMIC BANKING INDEX by EMIRATES ISLAMIC™. The index is an important first step for the UAE's burgeoning Islamic banking industry to gain an 'on-the-ground' understanding on current market-size, existing perceptions and challenges to growth as well as key drivers to future growth. Our findings highlight a significant opportunity for the growth and development of Islamic banking, with nearly three out of four people in the UAE open to considering an Islamic banking product to fulfil their financial needs.

The Bank's journey of innovation continued in 2015, as we launched a range of products and services that set the benchmark across the Islamic banking industry. We introduced EI Trade, a customised Shari'a-compliant online trade and supply chain platform for our business and corporate customers. We also expanded our banking channels with the launch of EI World, a mobile banking app that allows Emirates Islamic customers to conduct banking transactions in an entertaining and engaging environment.

Our efforts to advance excellence in Islamic banking have resulted in global and industry recognition as we won several awards including 'Best Retail Bank – UAE', 'Best Commercial Bank – UAE' and 'Best Wealth Management – ME' at CPI Financial's Islamic Business & Finance Awards; 'Best Islamic Bank in the UAE' by World Finance magazine for the second time in three years; 'Best Savings Account' and 'Best New SME product' at the Banker Middle East Product Awards 2015; and the 'Euromoney Award for Innovation in Islamic Finance' for the Bank's Nasdaq Dubai Murabaha platform.

In conclusion, I would like to thank our Chairman and Board of Directors for their leadership and guidance, our Senior Management Team and all the employees for their hard work, commitment and integrity which brought us another year of success. At Emirates Islamic, we look forward to a successful 2016 insha'Allah.

**Jamal Bin Ghalaita**
CEO of Emirates Islamic

# CUSTOMER FIRST

**We strive to exceed customer expectations and help them realise their dreams**

# BOARD OF DIRECTORS' REPORT

Distinguished Shareholders of Emirates Islamic Bank PJSC,
Peace and Mercy of Allah be upon you.

It gives me great honour to report the 2015 results of Emirates Islamic Bank PJSC (EIB), announcing solid growth for the fourth consecutive year. Our 2015 results are a strong confirmation of our trajectory towards becoming the leading Islamic Bank in the UAE. The transformation initiatives launched in late 2011 have resulted in remarkable growth in 2015, with operating profits, before allowances for impairment, rising by 26% over 2014. EIB continues to be recognised and acknowledged as one of the fastest growing banks in the country.

The key pillars of EIB's strategy driving growth are as follows:

- Evolution of our three core customer segments: Corporate, Retail and SME
- Innovation across our entire suite of products and services
- Active expansion of the network, leading to increased customer acquisition
- Delivery of superior customer experience across all our channels

In September 2015, Fitch, the global ratings agency, assigned EIB a long term Issuer Default Rating (IDR) of 'A+' with a Stable Outlook, Short-term IDR of 'F1', and a Viability Rating (VR) at 'bb-'. The rating agency also affirmed the Bank's support rating of '1'. This rating places EIB among the highest ranked banks in the UAE and is a key milestone on the Bank's road to growth and success.

Taking the lead in furthering the uptake of Islamic banking, the Bank announced the launch of the ISLAMIC BANKING INDEX by EMIRATES ISLAMIC™, a first-of-its-kind consumer focused survey on Islamic banking in the UAE, creating a pathway to the solutions that will enable its continued growth in the UAE. In addition, EIB introduced EI Trade, a customised Shari'a-compliant online trade and supply chain platform for its business and corporate customers. The Bank also expanded its banking channels with the launch of EI World, a mobile banking app that allows EIB customers to conduct banking transactions in a fun and engaging environment.

The Bank's impressive performance continued to be recognised across the industry, winning awards including 'Best Retail Bank – UAE', 'Best Commercial Bank – UAE' and 'Best Wealth Management – ME' at CPI Financial's Islamic Business & Finance Awards; 'Best Islamic Bank in the UAE' by World Finance magazine for the second time in three years; 'Best Savings Account' and 'Best New SME product' at the Banker Middle East Product Awards 2015; and the Euromoney Award for Innovation in Islamic Finance 2015 for the Bank's Nasdaq Dubai Murabaha platform.

**Basis of Preparation of Financial Statements**

The Bank's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and the applicable requirements of the laws of the UAE, and as per Islamic Shari'a guidance.

# BOARD OF DIRECTORS' REPORT (CONT.)

**Full Year 2015 Financial Highlights:**

1. Net profit of AED 641 million compared to AED 364 million in 2014, a 76% year-on-year increase.
2. Operating income, before allowances for impairment, rising by 26% to AED 1.5 billion.
3. Impairment allowances net of recoveries, made during the year, reached AED 810 million maintaining the NPL coverage ratio to 90%.
4. Earnings per share improved to AED 0.163 compared to AED 0.093 in 2014.
5. Return on average total assets of 1.33% compared to 0.88% in 2014.
6. Return on capital employed of 13.35% compared to 8.41% in 2014.
7. Capital Adequacy Ratio stands at 13.2% at December 2015.

**Shareholders' Equity:**

Total shareholders' equity as at the end of 2015 stands at AED 5.1 billion compared to AED 4.5 billion at the end of 2014.

**Auditors:**

Ernst and Young were appointed as auditors of Emirates Islamic Bank PJSC for 2015 financial year in the Annual General Meeting held on 4th March 2015.

**Recommendations:**

The Board of Directors raises the following recommendations to the Annual General Meeting:

1. To approve the consolidated financial statements for the year ended 31st December 2015
2. Transfer to reserves amounting to AED 128 million
3. Discharge of "Zakat" of AED 33.4 million due on shareholders' equity (excluding capital) as per clause of 72-G of Articles of Association

In the end, the Board of Directors extend their gratitude to the Shareholders for their boundless support and to all customers for their continuous trust and loyalty, as well as to the executive management of the Bank and staff members for their dedication and commitment, praying to Almighty Allah for the best achievements in the New Year.

We pray to Almighty Allah to guide us all to the best.

**On Behalf of the Board of Directors**

**Jamal Bin Ghalaita**
CEO of Emirates Islamic

# INNOVATION

**We seek out and try new things for growth**

# SHARI'A SUPERVISORY BOARD'S REPORT

To the Shareholders of Emirates Islamic,

السلام عليكم ورحمة الله وبركاته

We submit as members of the Fatwa and Shari'a Supervisory Board (the **"Shari'a Supervisory Board"**) of Emirates Islamic Bank PJSC (the **"Bank"**), the following Annual Report in relation to transactions executed in the year 2015.

The Shari'a Supervisory Board has reviewed the contracts relating to the transactions and applications introduced by the Bank during the period ended. We have also conducted due review to ensure that the Bank has complied with the Shari'a Principles and Rulings and also with the specific Fatwa, rulings and guidelines issued by the Shari'a Board during the year ended 2015.

To take into consideration and ensuring that the Bank functions in accordance with Shari'a Principles and Rulings is the duty of the Bank's Management. It is our responsibility to form an independent opinion based on our review of the operations of the Bank, and to report to you.

The Shari'a Supervisory Board of Emirates Islamic conducted, through Shari'a Audit of the Bank, review which included examining, on a test basis of each type of transaction, the relevant documentation and procedures adopted by the Bank and on the basis of reports of Shari'a Audit and Coordination and queries raised by the internal Shari'a Department of the Bank throughout the year. The Shari'a Supervisory Board endeavored through reasonable assurance that the Bank has not violated Shari'a Principles & Rulings.

Based on these insights, the conclusive view is of that:

1. The contracts, transactions and dealings, which were reviewed by us, and executed by the Bank during the year 2015 were found in compliance with the Shari'a Principles and Rulings;
2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with the Shari'a Principles and Rulings;
3. All earnings that have been realised from sources or by means prohibited by the Shari'a Principles and Rulings have been set aside for disbursement to charitable causes as approved by the Shari'a Supervisory Board;
4. The mechanism of calculation Zakat is in compliance with the Shari'a Principles and Rulings and as per the Bank's Articles of Association, the Bank is authorised to pay it on behalf of the shareholders.

We pray to Allah the Almighty to grant all of us the ultimate success and straight-forwardness.

والسلام عليكم ورحمة الله وبركاته

**On Behalf of the Shari'a Supervisory Board – Emirates Islamic**

**Dr. Yousef Abdullah Alshubaily**
Chairman & Executive Member

# DUE ZAKAT ON EMIRATES ISLAMIC BANK'S SHAREHOLDERS FOR THE YEAR 2015

Article (72-G) of the Articles of Association stipulates that: "The shareholders shall independently provide Zakat (Alms) for their money (paid up capital) and the Company shall calculate for them the due Zakat per share and notify them thereof every year. As for the money held by the Company as reserves, retained earnings and others, on which Zakat is due, the Company shall pay their Zakat as decided by the Fatwa and Shari'a Supervisory Board and transfer such Zakat to the Zakat Fund stipulated in Article (75) of Chapter 10 of the Articles of Association."

**Shares' Zakat may be calculated using one of the following methods:**

- **First Method**

Zakat on shares purchased for trading purposes (to sell them when the market value rises) is as follows:
Zakat pool per share = Share quoted value + Cash dividends per share for the year
Zakat per share = Zakat pool per share x 2.5775%
Net Zakat per share = Zakat per share – 0.8519 UAE Fils (Zakat on reserves and retained earnings per share, paid by the Bank)
Total Zakat payable on shares = Number of shares x Net Zakat per share

* Note: Zakat is calculated at 2.5775% for the Gregorian year, and at 2.5% for Hijri year, due to the eleven days difference between the two calendars.

- **Second Method**

Zakat on shares purchased for acquisition (to benefit from the annual return):
Shares' Zakat = Total shares' dividends for the year x 10%

# INDEPENDENT AUDITORS' REPORT
## TO THE SHAREHOLDERS OF EMIRATES ISLAMIC BANK PJSC

**Report on the Consolidated Financial Statements**
We have audited the accompanying consolidated financial statements of Emirates Islamic Bank PJSC (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, Islamic Sharia's rules and principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*
Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

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

**Report on other legal and regulatory requirements**
As required by the UAE Federal Law No. (2) of 2015, we report that:

i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015, and the Memorandum and Articles of Association of the Bank;
iii) the Group has maintained proper books of account;
iv) the consolidated financial information included in the Directors' report is consistent with the books of account and records of the Group;
v) investments in shares and stocks are included in note 7 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2015;
vi) note 31 reflects the disclosures relating to related party transactions and the terms under which they were conducted;
vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2015, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum and Articles of Association which would materially affect its activities or its consolidated financial position as at 31 December 2015; and
viii) note 37 reflects the social contributions made during the year.

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

Ernst & Young

Signed by:
Joseph Murphy
Partner
Registration No. 492

17 January 2016
Dubai, United Arab Emirates

## GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

| | Notes | 2015 AED '000 | 2014 AED '000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with U.A.E. Central Bank | 5 | 7,255,674 | 3,818,565 |
| Due from banks | 6 | 7,372,715 | 7,341,122 |
| Investments | 7 | 2,287,105 | 3,205,611 |
| Financing and investing receivables | 8 | 34,180,420 | 26,101,963 |
| Investment properties | 9 | 805,937 | 1,191,997 |
| Customer acceptances | | 563,379 | 549,432 |
| Other assets | 10 | 570,011 | 592,822 |
| Property and equipment | 11 | 166,937 | 111,707 |
| **TOTAL ASSETS** | | **53,202,178** | **42,913,219** |
| | | | |
| **LIABILITIES** | | | |
| Customers' accounts | 12 | 39,301,172 | 31,446,622 |
| Due to banks | 13 | 3,061,714 | 1,423,663 |
| Sukuk financing instruments | 14 | 3,672,500 | 3,673,000 |
| Customer acceptances | | 563,379 | 549,432 |
| Payables and other liabilities | 15 | 1,475,179 | 1,301,403 |
| Zakat payable | | 33,483 | 16,826 |
| **TOTAL LIABILITIES** | | **48,107,427** | **38,410,946** |
| | | | |
| **EQUITY** | | | |
| Share capital | 16 | 3,930,422 | 3,930,422 |
| Statutory reserve | 17 | 329,423 | 265,355 |
| General reserve | 17 | 235,202 | 171,134 |
| Fair value reserve | | (4,127) | 10,591 |
| Retained earnings | | 603,831 | 124,771 |
| **TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP** | | **5,094,751** | **4,502,273** |
| **TOTAL LIABILITIES AND EQUITY** | | **53,202,178** | **42,913,219** |
| **CONTINGENCIES AND COMMITMENTS** | 19 | **8,613,314** | **8,258,744** |

**Chairman** **Chief Executive Officer**

The attached notes 1 to 37 form an integral part of these Group consolidated financial statements.





## GROUP CONSOLIDATED STATEMENT OF INCOME AS AT 31 DECEMBER 2015

| | Notes | 2015 AED '000 | 2014 AED '000 |
|---|---|---|---|
| **INCOME** | | | |
| Income from financing and investing activities | 20 | 1,766,705 | 1,415,734 |
| Income from investment securities | 21 | 97,721 | 121,735 |
| Income from Group Holding Company | 22 | 190,857 | 264,462 |
| Commissions and fees income | 23 | 483,154 | 367,921 |
| Other income | 24 | 211,816 | 87,775 |
| **TOTAL INCOME** | | **2,750,253** | **2,257,627** |
| | | | |
| **EXPENSES** | | | |
| Personnel expenses | | (624,814) | (504,438) |
| General and administrative expenses | 25 | (326,105) | (263,669) |
| Depreciation of property and equipment | | (30,730) | (25,729) |
| **TOTAL EXPENSES** | | **(981,649)** | **(793,836)** |
| | | | |
| **NET OPERATING PROFIT BEFORE ALLOWANCES FOR IMPAIRMENT AND DISTRIBUTIONS** | | **1,768,604** | **1,463,791** |
| Allowances for impairment, net of recoveries | 26 | (810,105) | (791,456) |
| **NET OPERATING PROFIT** | | **958,499** | **672,335** |
| Customers' share of profit and distribution to sukuk holders | 27 | (317,820) | (308,144) |
| **NET PROFIT FOR THE YEAR** | | **640,679** | **364,191** |
| **Earnings per share (AED)** | 29 | **0.163** | **0.093** |

The attached notes 1 to 37 form an integral part of these Group consolidated financial statements.

## GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AS AT 31 DECEMBER 2015

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| | | |
| **NET PROFIT FOR THE YEAR** | **640,679** | **364,191** |
| | | |
| Items that may be reclassified subsequently to Income statement: | | |
| Other comprehensive income | | |
| | | |
| Cumulative changes in fair value of available-for-sale investments | | |
| - Net change in fair value | (22,974) | 22,219 |
| - Net amount transferred to income statement | 8,256 | (24,816) |
| Total other comprehensive income for the year | **(14,718)** | **(2,597)** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **625,961** | **361,594** |

The attached notes 1 to 37 form an integral part of these Group consolidated financial statements.



EMIRATES ISLAMIC BANK PJSC

## GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

| | ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP | | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Statutory reserve | General reserve | Fair value reserve | (Accumulated losses)/ retained earnings | Total |
| | AED '000 | AED '000 | AED '000 | AED '000 | AED '000 | AED '000 |
| As at 1 January 2014 | 3,930,422 | 228,936 | 134,715 | 13,188 | (149,756) | 4,157,505 |
| Net profit for the year | - | - | - | - | 364,191 | 364,191 |
| Other comprehensive loss for the year | - | - | - | (2,597) | - | (2,597) |
| Total comprehensive income for the year | - | - | - | (2,597) | 364,191 | 361,594 |
| Transfer to reserves | - | 36,419 | 36,419 | - | (72,838) | - |
| Zakat for the year | - | - | - | - | (16,826) | (16,826) |
| **As at 31 December 2014** | **3,930,422** | **265,355** | **171,134** | **10,591** | **124,771** | **4,502,273** |
| | | | | | | |
| As at 1 January 2015 | 3,930,422 | 265,355 | 171,134 | 10,591 | 124,771 | 4,502,273 |
| Net profit for the year | - | - | - | - | 640,679 | 640,679 |
| Other comprehensive loss for the year | - | - | - | (14,718) | - | (14,718) |
| Total comprehensive income for the year | - | - | - | (14,718) | 640,679 | 625,961 |
| Transfer to reserves | - | 64,068 | 64,068 | - | (128,136) | - |
| Zakat for the year | - | - | - | - | (33,483) | (33,483) |
| **As at 31 December 2015** | **3,930,422** | **329,423** | **235,202** | **(4,127)** | **603,831** | **5,094,751** |

The attached notes 1 to 37 form an integral part of these Group consolidated financial statements.

## GROUP CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

| | Notes | 2015 AED '000 | 2014 AED '000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net profit for the year | | 640,679 | 364,191 |
| *Adjustments:* | | | |
| Allowances for impairment on financing and investing receivables | | 741,902 | 610,503 |
| Allowances for impairment on investments | | 72,021 | 236,202 |
| Reversal of allowance for impairment on investment properties | | (3,818) | (55,249) |
| Dividend income | | (12,354) | (19,626) |
| Gain on sale of available-for-sale investments | | (29,294) | (46,047) |
| Gain on sale of investment properties | | (142,889) | (12,630) |
| Depreciation on investment properties | | 27,458 | 28,683 |
| Depreciation on property and equipment | | 30,730 | 25,729 |
| **Operating profit before changes in operating assets and liabilities** | | **1,324,435** | **1,131,756** |
| | | | |
| Changes in balances with UAE Central Bank | | (1,693,191) | (982,435) |
| Changes in due from banks | | (119,778) | 3,357,833 |
| Changes in financing and investing receivables | | (8,820,359) | (5,029,256) |
| Changes in other assets | | 22,811 | (97,761) |
| Changes in customers' accounts | | 7,854,550 | 2,553,760 |
| Changes in due to banks | | 126,864 | (115,417) |
| Changes in other liabilities | | 173,776 | 119,266 |
| Zakat paid | | (16,826) | (7,287) |
| **Net cash (used in)/ generated from operating activities** | | **(1,147,718)** | **930,459** |
| | | | |
| **INVESTING ACTIVITIES** | | | |
| Purchase of investment securities | | (1,652,993) | (2,955,423) |
| Proceeds from sale of investment securities | | 2,514,054 | 1,532,071 |
| Dividend income received | | 12,354 | 19,626 |
| Additions in investment properties | | (32,651) | (51,321) |
| Proceeds from sale of investment properties | | 537,960 | 36,176 |
| Changes in property and equipment | | (85,960) | (31,233) |
| **Net cash generated from / (used in) investing activities** | | **1,292,764** | **(1,450,104)** |
| | | | |
| **FINANCING ACTIVITIES** | | | |
| Repayment of Ministry of Finance Wakala | | - | (1,081,872) |
| **Cash used in financing activities** | | **-** | **(1,081,872)** |
| | | | |
| **Net change in cash and cash equivalents** | | **145,046** | **(1,601,517)** |
| Cash and cash equivalents at the beginning of the year | | 3,024,081 | 4,625,598 |
| Effect of foreign exchange | | (500) | - |
| **Cash and cash equivalents at the end of the year** | 30 | **3,168,627** | **3,024,081** |

The attached notes 1 to 37 form an integral part of these Group consolidated financial statements.





## NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 1. LEGAL STATUS AND ACTIVITIES

Emirates Islamic Bank PJSC (formerly Middle East Bank) (the "**Bank**") was incorporated by a decree of His Highness the Ruler of Dubai as a conventional Bank with a limited liability in the Emirate of Dubai on 3rd of October 1975. The Bank was reregistered as a Public Joint Stock Company in July 1995 and is regulated by the Central Bank of United Arab Emirates.

At an extraordinary general meeting held on 10th of March 2004, a resolution was passed to transform the Bank's activities to be in full compliance with the Sharia rules and principles. The entire process was completed on 9th of October 2004 (the "Transformation Date") when the Bank obtained the UAE Central Bank and other UAE authorities' approvals.

The Bank is a subsidiary of Emirates NBD PJSC, Dubai (the "Group Holding Company"). The ultimate parent company of the Group Holding Company is Investment Corporation of Dubai, a company in which the Government of Dubai is the major shareholder. The Bank is listed in the Dubai Financial Market.

In addition to its head office in Dubai, the Bank operates through 60 branches in the UAE. The financial statements combine the activities of the Bank's head office, its branches and the following subsidiaries (together referred to as "the Group").

| | Date of incorporation & country | Principal activity | Ownership % 2015 | Ownership % 2014 |
|---|---|---|---|---|
| Emirates Islamic Financial Brokerage Co. LLC | 26 April 2006, UAE | Financial brokerage services | 100% | 100% |
| EIB Sukuk Company Limited | 6 June 2007, Cayman Islands | Special Purpose Entity | 100% | 100% |
| EI Funding Limited | 15 May 2014, Cayman Islands | Special Purpose Entity | 100% | 100% |

The Bank provides full commercial and banking services and offers a variety of products through Islamic financing and investing instruments in accordance with Islamic Sharia.

The Bank's registered office address is P.O. Box 6564, Dubai, United Arab Emirates.

The Group consolidated financial statements for the year ended 31 December 2015 have been approved for issuance by the Board of Directors on 17 January 2016.

The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the existing Federal Law No. 8 of 1984. The Bank is currently assessing the impact of the new law and expects to be fully compliant on or before the end of grace period on 30 June 2016.

### 2. BASIS OF PREPERATION

**a) Statement of compliance**

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB), and the applicable requirements of the laws of the UAE. The principal accounting policies adopted in the preparation of the Group consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

**b) Basis of measurement**

The Group consolidated financial statements have been prepared under the historical cost convention except for the following, which are measured at fair value:

- Financial assets at fair value through profit or loss, and
- Financial assets available for sale.

## 2 BASIS OF PREPARATION (continued)

**b) Basis of measurement (continued)**

The Group consolidated financial statements are presented in United Arab Emirates Dirham (AED), which is the Group's functional currency. Except where indicated, financial information presented in AED has been rounded to the nearest thousand.

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

**c) Principles of consolidation**

i) Subsidiaries

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The list of Group's subsidiary companies is shown in Note 1.

Basis of consolidation

The Group consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the Group consolidated financial statements are prepared for the same reporting date as the Bank. Consistent accounting policies are applied to similar transactions and events in similar circumstances.

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

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

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

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

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







## 2 BASIS OF PREPARATION (continued)

**c) Principles of consolidation (continued)**

i) Subsidiaries

Basis of consolidation (continued)

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

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill.

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

ii) Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific funding transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

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

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

The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment is made at each statement of financial position date.

Information about the Group's securitisation activities is included in note 14.

iii) Transactions with non-controlling interests

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

### a) Use of estimates and judgments

The preparation of the Group consolidated financial statements in conformity with IFRS requires the management to use certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired financing receivables as well as allowances for impairment provision for unquoted investment securities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant items which require use of estimates and judgments are outlined below:

i. Allowances for impairment of financing and investing receivables

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

In addition to specific allowance against individually impaired financing receivable, the Group also makes a collective impairment allowance to recognize, at any reporting date that there will be an amount of financing products which are impaired even though a specific trigger point for recognition of the loss has not yet occurred (known as the “emergence period”).

ii. Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the Group consolidated statement of financial position cannot be derived from quoted prices, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not possible, a degree of judgment is required in establishing fair values.

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

Impairment of available-for-sale investment securities

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

iii. Impairment of non-financial assets

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

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







## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### a) Use of estimates and judgments (continued)

iii. Impairment of non-financial assets (continued)

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

iv. Held-to-maturity investment securities

The Group follows the guidance of IAS 39 in classifying certain non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Group evaluates its intention and ability to hold such investment securities to maturity.

### c) Fair value measurement

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

- In the principal market for asset or liability; or
- In the absence of principal market, in the most advantageous market for assets and liabilities

If an asset or a liability measurement at fair value has a “bid” price and “ask” price then the Group measure assets and long positions at a “bid” price and liabilities and short positions at an “ask” price.

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

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

### d) Income from financing and investing receivables

Income from the following financing and investing receivables is recognised on the as follows:

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### d) Fees and commission

Fees and commission that are integral part of financing arrangement are included in the measurement of the effective yield.

Other fees and commission income, including portfolio and management fees, front end fees, Sukuk management fees are recognised as the related services performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

### e) Earnings prohibited by the Shari'a

Earnings prohibited by the Shari'a are set aside for charitable purposes or otherwise dealt with in accordance with the directions of the Shari'a Supervisory Board.

### f) Income from financial assets at fair value through profit or loss

Income from financial assets at fair value through profit or loss comprises gains less losses related to financial assets designated through profit or loss and includes all realized and unrealised fair value changes, profits, dividends, and foreign exchange differences.

### g) Dividend

Dividend income is recognised in the Group consolidated statement of income when Group's right to receive income is established.

### h) Rental income

Rental income from investment properties is recognised in the Group consolidated statement of income on a straight line basis over the term of lease.

### i) Customer loyalty programme

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

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

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



EMIRATES ISLAMIC BANK PJSC

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### j) Financial Instruments

i. <u>Classification</u>

**Financial assets**

The Group classifies its financial assets in one of the following categories:

- Financing receivables;
- Held to maturity;
- Available-for-sale; and
- Fair value through profit or loss.

**Financing and investing receivables**

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

The following terms are used in financing and investing receivables:

- **Murabaha:** An agreement whereby the Group sells to a customer a commodity or a property 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 of the cost of the commodity and an agreed profit margin.

- **Financing Ijarah:** An agreement whereby the Group (lesser) leases an asset to a customer (lessee), for a specific period against certain rent installments. Ijarah could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the Group transfers substantially all the risks and returns related to the ownership of the leased asset to the lessee.

- **Istisna'a:** An agreement between the Group and a customer, whereby the Group develops and sells a property to the customer according to the specifications agreed upon. The Group may develop the property on its own or through a subcontractor, and then hand it over to the customer on a pre-agreed date and against fixed price.

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

- **Mudaraba:** An agreement between two parties; one of them provides the funds and is called Rab-Ul-Mal, and the other provides efforts and expertise and is called Mudarib who is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of profit as Mudaraba fee. In case of normal loss; Rab-Ul-Mal would bear the loss of his funds while Mudarib would bear the loss of his efforts. However, in case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, the Mudarib would bear the losses. The Group may acts as Mudarib when accepting funds from the holders of investment, saving and wakala accounts and as Rub-Ul-Mal when investing such funds on Mudaraba basis.

- **Musharaka:** An agreement between the Group and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### j) Financial Instruments

i. Classification

**Financial assets**

**Investment securities**

- **Held-to-maturity**

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

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

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

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

- **Available-for-sale**

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

Available-for-sale (AFS) financial assets may be freely sold. All AFS financial assets are measured at fair value.

The differences between cost and fair value is taken to the Statement of Other Comprehensive Income and recognised as a separate component in the statement of financial position, except in the case of impairment where the cumulative loss is taken to the income statement. When the financial asset is sold, the full quantum of the difference between the fair value and cost, posted previously to the Statement of Other Comprehensive Income, is transferred to the income statement.

- **Designated at fair value through profit or loss**

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

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

Financial liabilities:

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





## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### J) Financial Instruments (continued)

II. Recognition

The Group initially recognises financing receivables, investments, customer accounts and Wakala on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the assets. All other assets and liabilities (including assets and liabilities designated through profit or loss) are recognised initially on the trade date, which is the date the Group becomes a party to the contractual provisions of the instrument.

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

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

III. Derecognition

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

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

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

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

IV. Measurement

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

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

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

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### J) Financial Instruments (continued)

V. Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

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

VI. Gains and losses on subsequent measurement

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

VII. Impairment

Impairment of financing receivables

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

Individually assessed financing receivables

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

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



EMIRATES ISLAMIC BANK PJSC

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### J) Financial Instruments (continued)

VII. Impairment (continued)

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

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

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

Collectively assessed financing receivables

Impairment is assessed on a collective basis in two circumstances:

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

Incurred but not yet identified impairment (Corporate financing receivables)

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

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### J) Financial Instruments (continued)

VII. Impairment (continued)

Incurred but not yet identified impairment (Corporate financing receivables) (continued)

The collective impairment allowance is determined after taking into account:

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

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

Homogeneous groups of financing receivables (Consumer financing receivable)

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

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

The allowance on collective basis is calculated as follows:

When appropriate empirical information is available, the Group utilises roll rate methodology. This methodology employs statistical analyses of historical data and experience of delinquency and default to estimate the amount of financing receivables that will eventually be written off as a result of the events occurring before the balance sheet date which the Group is not able to identify on an individual financing basis, and that can be reliably estimated. Under this methodology, financing receivables are grouped into ranges according to the number of days past due and statistical analysis is used to estimate the likelihood that financing receivables in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable.

In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio, though sometimes it provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, when there have been changes in economic, regulatory or behavioral conditions which result in the most recent trends in portfolio risk factors being not fully reflected in the statistical models. In these circumstances, the risk factors are taken into account by adjusting the impairment allowances derived solely from historical loss experience.

Write-off of financing receivables

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

Reversals / write backs of impairment

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





NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

J) Financial Instruments (continued)

VII. Impairment (continued)

Impairment of available-for-sale financial assets

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

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

The impairment methodologies for available-for-sale financial assets are set out in more detail below.

Available-for-sale debt securities

When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, the Group considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganization, or the disappearance of an active market for the debt security because of financial difficulties relating to the issuer.

These types of specific event and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually or in combination, to determine if there is objective evidence of impairment of a debt security.

Available-for-sale equity securities

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

Reversal of impairment

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

- for an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in Group consolidated statement of other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Group consolidated.

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### J) Financial Instruments (continued)

VII. Impairment (continued)

Reversal of impairment (continued)

statement of income, the impairment loss is reversed through the Group consolidated statement of income to the extent of the increase in fair value; and

- for an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in Group consolidated statement of other comprehensive income. Impairment losses recognised on the equity security are not reversed through the Group consolidated statement of income. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the Group consolidated statement of income, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

viii. Offsetting

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

### k) Cash and cash equivalent including reserve as per Central Bank of UAE

Central Bank of UAE requires certain percentage of customer account balances to be kept as cash reserve with the central Bank. Such reserve is not available for day to day operation and doesn't earn any profit.

Cash and cash equivalent consists of cash at bank, current account with the UAE Central Bank, due from banks and Group Holding Company (including short-term Murabaha) less due to banks and Group Holding Company. Cash equivalents are short-term liquid investments that are readily convertible to known amounts of cash with outstanding maturities up to three months from the date of original maturity.

### l) 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 expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labor;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised financing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property or equipment have different useful lives, 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 profit or loss.







## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### l) Property and equipment

ii. Subsequent costs

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

iii. Depreciation and amortisation

Items of property and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the assets are completed and ready for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is recognised in profit or loss. Land is not depreciated.

The estimated useful lives for the current and comparative periods of significant items of property and equipment are as follows:

| | |
|---|---|
| • Leasehold improvements | 7 years |
| • Furniture | 5 years |
| • Equipment | 5 years |
| • Motor vehicles | 3 years |
| • Computer hardware | 4 years |
| • Computer software | 4 years |

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

Capital work-in-progress is stated at cost. When commissioned, they are transferred to the appropriate fixed assets category and depreciated in accordance with the Group's policies.

### m) Investment properties

Investment property is a property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is initially measured at cost and subsequently at cost less depreciation and impairment, includes expenditure that is directly attributable to the acquisition of the investment property. Investment properties are depreciated over a period of 25 years on a straight line basis.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When an investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

Investment properties are de-recognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the Group consolidated statement of income in 'Other operating income' in the year of retirement or disposal.

Transfers are made to investment properties when, and only when there is a change in use evidenced by ending of owner-occupation on commencement of an operating lease of a significant portion of the property to another party. Transfers are made from investment properties when and only when there is a change in use based on the business model.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

**n) Customer accounts and Sukuk issued**

Customer accounts, Sukuk issued and Wakala investments are the Group's sources of funding.

i. Customer accounts

The Bank accepts customer investment and savings accounts either on Mudaraba basis or on Wakala basis.

ii. Sukuk

When Group sells a group of financial assets and simultaneously enters into an agreement to repurchase similar group of financial assets at a fixed price on future date under securitization of such group of assets. Such arrangement is accounted for as a Sukuk liability and the underlying group of assets continues to be recognized in the Group consolidated financial statements.

iii. Wakala

Investment Wakala is an agreement whereby one party (the "Muwakkil" / "Principal") appoints an investment agent (the "Wakeel" / "Agent") to invest the Muwakkil's funds (the "Wakala Capital") on the basis of an agency contract (the "Wakala") in return for a specified fee. The agency fee can be a lump sum or a fixed percentage of the Wakala Capital and is payable regardless the said Wakala generates profit or loss; while the share of the profit, if any, is an incentive for the Wakeel to achieve a return higher than expected. The Wakala profit, if any, goes to the Muwakkil, and he bears the loss. However, the Wakeel bears the loss in cases of default, negligence or violation of any of the terms of the Investment Wakala.

**o) Provision**

A provision is recognised if, as a result of a past event, the Group 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, where appropriate, the risks specific to the liability.

The unwinding of the discount is recognised as finance cost.

i. Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

ii. Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

**p) Financial guarantees and financing commitments**

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The financial guarantee liability is initially measured at fair value and the initial fair value is amortised over the life of the guarantee. The liability is subsequently carried at the higher of this amortised amount and present value of any expected payments to settle the liability when a payment under the contract has become probable.





NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

**q) Provision for end of service benefits**

Provision is made for end of service benefits to the group expatriate employees in accordance with the UAE labor law. The entitlement of these benefits is based upon the employees' basic salary and length of service, subject to a completion of a minimum service period. These benefits are accrued over the period of employment. Provision for employees' end of service benefits at the reporting date is included under "Other Liabilities".

With respect to its UAE national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are recognised in the Group consolidated statement of income.

**r) Earnings per share**

Basic and diluted earnings per share are calculated by dividing the profit or loss for the year by the weighted average number of shares outstanding during the year. The group has not issued any instrument which has a dilutive effect on earnings per shares.

**s) Related parties**

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

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

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

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

**t) Operating Segment reporting**

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers' report directly to the management of the Group who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 32.

**u) Profit distribution**

Profit distribution between the unrestricted account holders (investment, saving and Wakala accounts) and the Shareholders, is according to the instructions of the Bank's Fatwa and Sharia supervisory board.

- Net income realised from Mudaraba Pool, at the end of each quarter, represents the net profit available for distribution.
- Net profit available for distribution between unrestricted account holders and shareholders is calculated after deducting the Mudarib fee as per the agreed and declared percentage.

Profit Distribution is on a pro rata-basis of the weighted average balances of unrestricted customers' accounts and Shareholders' funds. No priority is given to either party in the Mudaraba Pool.

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### v) Zakat

The Bank discharges Zakat (Alms) as per its Articles of Association. The Bank calculates Zakat based on the guidance of its Fatwa and Sharia Supervisory Board as follows:

- Zakat on shareholders' equity (except paid up capital) is discharged from the retained earnings
- Zakat is disbursed to Sharia channels through a committee formed by management
- Shareholders themselves are responsible to pay Zakat on their paid up capital

Zakat on the general provision or on other reserves, if any, is calculated and discharged from the share of profit of the respective parties participating in the Mudaraba Pool.

### w) Foreign currency transactions

Monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In Group consolidated financial statements, assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at rates of exchange ruling at the reporting date, and the resulting gains and losses are taken to the Group consolidated income statement. Income and expense items are translated at the average rates for the period, unless exchange rate fluctuates significantly during the period.

Foreign currency differences arising on retranslation are generally recognised in profit or loss. However, foreign currency differences arising from the retranslation of the available-for-sale equity instruments are recognized in other comprehensive income (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss).





NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### x) New standards and interpretations not yet effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2015, with the Group not opting for early adoption. These have, therefore, not been applied in preparing these Group consolidated financial statements.

| Standard | Description | Effective date (early adoption permitted) |
|---|---|---|
| Amendments to IAS 1 – Disclosure Initiative | The amendments provide clarifications and narrow-focus improvements on materiality, presentation of primary statements, structure of notes, disclosure of accounting policies, and presentation of OCI arising from equity accounted investments.<br><br>The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose and how to structure notes in their financial statements. | 1 January 2016 |
| IFRS 10 Consolidated Financial Statements and IAS 28 – Investments in Associates & Joint Ventures | The amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:<br><br>a) require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations).<br><br>b) require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture. | 1 January 2016 |
| Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities – Applying the consolidation exception | The amendments define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.<br><br>These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10. | 1 January 2016 |
| Amendments to IFRS 11 – Accounting for acquisition of interests in Joint Operations | The amendments clarify that when acquiring an interest in a joint operation where the activity of the joint operation constitutes a business, all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in IFRS 11, are to be applied.<br><br>The requirements apply to the acquisition of both the initial interest and additional interests in a joint operation but any previously held interest in the joint operation would not be re-measured. | 1 January 2016 |
| Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortization | The amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. | 1 January 2016 |

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### x) New standards and interpretations not yet effective

| | | |
|---|---|---|
| IFRS 15, 'Revenue From contracts with Customers'. | This is the converged standard on revenue recognition. It replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations.<br><br>Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service.<br><br>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.<br><br>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 |
| IFRS 9, 'Financial instruments' | The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.<br><br>**(a) Classification and measurement**<br><br>IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets:<br>a) amortised cost,<br>b) fair value through other comprehensive income (OCI); and<br>c) fair value through profit and loss.<br><br>The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.<br><br>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.<br><br>**(b) Impairment**<br><br>There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis.<br><br>**(c) Hedging**<br><br>IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. | 1 January 2018 |



EMIRATES ISLAMIC BANK PJSC

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

### x) New standards and interpretations not yet effective (continued)

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

## 4. BUSINESS COMBINATION – ACQUISITION OF FINANCIAL ASSETS AND CUSTOMER DEPOSITS FROM DUBAI BANK PJSC

As part of an overall strategy to manage two sharia compliant banking businesses within the Emirates NBD Group, majority of assets and liabilities of Dubai Bank PJSC were transferred to Emirates Islamic Bank PJSC by virtue of a Sale Purchase Agreement dated November 30, 2012.

The objective of the combination was to manage two sharia compliant Islamic banking businesses under one roof in a cost effective manner.

## 5. CASH AND BALANCES WITH UAE CENTRAL BANK

| | 2015 | 2014 |
|---|---:|---:|
| | AED '000 | AED '000 |
| | | |
| Cash in hand | 330,963 | 217,134 |
| **Balances with UAE Central Bank :** | | |
| Current accounts | 1,067,039 | 489,418 |
| Reserve requirements | 3,351,933 | 2,710,431 |
| Murabaha | 2,505,739 | 401,582 |
| | **7,255,674** | **3,818,565** |

The reserve requirements which are kept with the Central Bank of the UAE in AED and US Dollar are not available for use in the Group's day to day operations and cannot be withdrawn without the Central Bank of the UAE's approval. The level of reserves required changes every month in accordance with the Central Bank of the UAE's directives.

## 6. DUE FROM BANKS

| | 2015 | 2014 |
|---|---:|---:|
| | AED '000 | AED '000 |
| **Due from local banks** | | |
| Current accounts | 45 | 25 |
| Interbank placements with other banks | - | 205,590 |
| Murabaha with Group Holding Company | 5,477,265 | 4,665,806 |
| Receivables from Dubai Bank (note 4 and note 31) | 1,505,040 | 2,301,836 |
| Wakala deposit with Group Holding Company | 100,000 | - |
| | 7,082,350 | 7,173,257 |
| **Due from foreign banks** | | |
| Current accounts | 290,365 | 167,865 |
| | 7,372,715 | 7,341,122 |

## NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 7. INVESTMENTS

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| **Available-for-sale** | | |
| Equity shares | 692,616 | 698,942 |
| Funds | 702,246 | 734,279 |
| Sukuks | 1,351,027 | 2,084,270 |
| | 2,745,889 | 3,517,491 |
| **Held-to-maturity** | | |
| Sukuks | 220,048 | 333,571 |
| | 2,965,937 | 3,851,062 |
| Less: Allowance for impairment | (678,832) | (645,451) |
| | 2,287,105 | 3,205,611 |
| **Investment securities comprise:** | | |
| Quoted | 1,503,652 | 2,363,862 |
| Unquoted | 783,453 | 841,749 |
| | **2,287,105** | **3,205,611** |
| **Held-to-maturity investments located:** | | |
| Within UAE | 91,813 | 202,015 |
| Outside UAE | 19,971 | 23,293 |
| | **111,784** | **225,308** |
| **Available-for-sale investments located:** | | |
| Within UAE | 879,010 | 868,208 |
| Outside UAE | 1,296,311 | 2,112,095 |
| | **2,175,321** | **2,980,303** |
| | **2,287,105** | **3,205,611** |
| **Movements in allowances for impairment:** | | |
| Balance at the beginning of the year | 645,451 | 405,785 |
| Allowances for impairment made during the year (note 26) | 77,553 | 248,621 |
| Recoveries / write backs during the year (note 26) | (5,532) | (12,419) |
| Write off / transfer during the year | (38,640) | 3,464 |
| **Balance at the end of the year** | **678,832** | **645,451** |





NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 8. FINANCING AND INVESTING RECEIVABLES

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| Murabaha | 24,469,111 | 19,035,747 |
| Ijarah | 12,237,722 | 9,408,935 |
| Istisna'a | 1,205,460 | 1,109,847 |
| Financing wakala | 667,397 | 594,562 |
| Mudarabah | 166,749 | 233,645 |
| Secured overdraft | 216,802 | 257,830 |
| Credit card receivables | 788,025 | 620,552 |
| | 39,751,266 | 31,261,118 |
| Less: Deferred income | (2,634,719) | (2,495,012) |
| Less: Allowances for impairment | (2,936,127) | (2,664,143) |
| | **34,180,420** | **26,101,963** |
| Total of impaired financing and investing receivables | **3,279,067** | **2,948,262** |
| By Segment : | | |
| Retail banking | 20,292,865 | 15,889,991 |
| Corporate banking | 13,887,555 | 10,211,972 |
| | **34,180,420** | **26,101,963** |
| **Movements in allowances for specific impairment:** | | |
| Balance at the beginning of the year | 2,002,979 | 2,407,019 |
| Allowances for impairment made during the year | 987,440 | 757,246 |
| Recoveries / write backs during the year | (277,713) | (186,045) |
| Transfer from Dubai Bank PJSC | 78,446 | - |
| Write off | (548,364) | (975,241) |
| **Balance at the end of the year** | **2,242,788** | **2,002,979** |
| **Movements in allowances for collective impairment:** | | |
| Balance at the beginning of the year | 661,164 | 621,862 |
| Allowances for impairment made during the year | 32,175 | 39,302 |
| **Balance at the end of the year** | **693,339** | **661,164** |
| **Total** | **2,936,127** | **2,664,143** |

## 9. INVESTMENT PROPERTIES

| | Land AED '000 | Building AED '000 | Work-in-progress AED '000 | Total AED '000 |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance as at 1 January 2015 | 391,283 | 1,154,100 | 8,230 | 1,553,613 |
| Additions | - | 32,651 | - | 32,651 |
| Disposals | (15,770) | (386,652) | - | (402,422) |
| **Balance at 31 December 2015** | **375,513** | **800,099** | **8,230** | **1,183,842** |
| | | | | |
| **Accumulated depreciation and impairment** | | | | |
| Balance as at 1 January 2015 | - | (152,317) | - | (152,317) |
| Charge during the year | - | (27,458) | - | (27,458) |
| Relating to disposals | - | 7,350 | - | 7,350 |
| Total accumulated depreciation | - | (172,425) | | (172,425) |
| | | | | |
| Allowances for impairment | (27,849) | (181,449) | - | (209,298) |
| Reversal of impairment | - | 3,818 | - | 3,818 |
| Total accumulated impairment | (27,849) | (177,631) | - | (205,480) |
| **Balance as at 31 December 2015** | **(27,849)** | **(350,056)** | **-** | **(377,905)** |
| **Net Book Value at 31 December 2015** | **347,664** | **450,043** | **8,230** | **805,937** |

| | Land AED '000 | Building AED '000 | Work-in-progress AED '000 | Total AED '000 |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance as at 1 January 2014 | 556,266 | 840,889 | 128,683 | 1,525,838 |
| Additions | 663 | - | 50,658 | 51,321 |
| Transfer | (142,100) | 313,211 | (171,111) | - |
| Disposals | (23,546) | - | - | (23,546) |
| **Balance at 31 December 2014** | **391,283** | **1,154,100** | **8,230** | **1,553,613** |
| | | | | |
| **Accumulated depreciation and impairment** | | | | |
| Balance as at 1 January 2014 | - | (123,634) | - | (123,634) |
| Charge during the year | - | (28,683) | - | (28,683) |
| Total accumulated depreciation | - | (152,317) | - | (152,317) |
| | | | | |
| Allowances for impairment | (151,091) | (113,457) | - | (264,548) |
| Transfer | 55,249 | (55,249) | - | - |
| Reversal of impairment | - | 55,249 | - | 55,249 |
| Total accumulated impairment | (95,842) | (113,457) | - | (209,299) |
| **Balance as at 31 December 2014** | **(95,842)** | **(265,774)** | **-** | **(361,616)** |
| **Net Book Value at 31 December 2014** | **295,441** | **888,326** | **8,230** | **1,191,997** |

All investment properties are located within the United Arab Emirates.

The fair value of investment properties as at 31 December 2015 is not materially different from their carrying value.

During the year, the Group recognised a gain on sale of some investment properties amounting to AED 142,889,000 (2014: AED 12,630,000). The gain was recognized under other income in the Group consolidated statement of income. There was no rental income earned on the said property.





NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

## 10. OTHER ASSETS

| | 2015 AED '000 | 2014 AED '000 |
|---|---|---|
| Dividend and profit receivable | 13,003 | 21,927 |
| Overdraft accounts (profit free) | 90,564 | 137,118 |
| Bills under Letters of Credit | 2,913 | 33,148 |
| Prepaid expenses | 53,815 | 46,440 |
| Deferred sales commission | 51,916 | 47,745 |
| Goods available-for-sale | 237,802 | 159,778 |
| Others | 119,998 | 146,666 |
| | **570,011** | **592,822** |

## NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 11. PROPERTY AND EQUIPMENT

| | Freehold land | Leasehold improvements | Furniture | Equipment | Motor vehicles | Computer hardware & software | Capital work in progress | Total |
|---|---|---|---|---|---|---|---|---|
| | AED '000 | AED '000 | AED '000 | AED '000 | AED '000 | AED '000 | AED '000 | AED '000 |
| **Cost** | | | | | | | | |
| As at 1 January 2015 | 50,580 | 99,509 | 46,249 | 40,804 | 2,584 | 77,227 | 20,818 | 337,771 |
| Additions | 24,000 | 11,326 | 571 | 2,114 | - | 9,936 | 48,336 | 96,283 |
| Transfers | 11 | 12,393 | 1,028 | 969 | - | 32,703 | (47,104) | - |
| Disposals | - | (31,018) | (6) | (230) | - | (30) | - | (31,284) |
| **As at 31 December 2015** | **74,591** | **92,210** | **47,842** | **43,657** | **2,584** | **119,836** | **22,050** | **402,770** |
| **Accumulated depreciation** | | | | | | | | |
| As at 1 January 2015 | - | (89,546) | (39,229) | (35,620) | (2,423) | (59,246) | - | (226,064) |
| Charge for the year | - | (10,807) | (788) | (2,262) | (138) | (16,735) | - | (30,730) |
| Relating to disposals | - | 20,695 | 6 | 230 | - | 30 | - | 20,961 |
| **As at 31 December 2015** | **-** | **(79,658)** | **(40,011)** | **(37,652)** | **(2,561)** | **(75,951)** | **-** | **(235,833)** |
| **Net book value** | | | | | | | | |
| **As at 31 December 2015** | **74,591** | **12,552** | **7,831** | **6,005** | **23** | **43,885** | **22,050** | **166,937** |





## NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 11. PROPERTY AND EQUIPMENT (continued)

| | Freehold land | Leasehold improvements | Furniture | Equipment | Motor vehicles | Computer hardware & software | Capital work in progress | Total |
|---|---|---|---|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| **Cost** | | | | | | | | |
| As at 1 January 2014 | 50,580 | 93,020 | 45,469 | 37,424 | 2,571 | 65,310 | 12,302 | 306,676 |
| Additions | - | 1,110 | 720 | 2,242 | 13 | 3,717 | 23,453 | 31,255 |
| Transfers | - | 5,379 | 82 | 1,192 | - | 8,284 | (14,937) | - |
| Disposals | - | - | (22) | (54) | - | (84) | - | (160) |
| **As at 31 December 2014** | **50,580** | **99,509** | **46,249** | **40,804** | **2,584** | **77,227** | **20,818** | **337,771** |
| **Accumulated depreciation** | | | | | | | | |
| As at 1 January 2014 | - | (77,859) | (38,464) | (32,719) | (2,246) | (49,185) | - | (200,473) |
| Charge for the year | - | (11,687) | (787) | (2,955) | (177) | (10,123) | - | (25,729) |
| Relating to disposals | - | - | 22 | 54 | - | 62 | - | 138 |
| **As at 31 December 2014** | **-** | **(89,546)** | **(39,229)** | **(35,620)** | **(2,423)** | **(59,246)** | **-** | **(226,064)** |
| **Net book value** | | | | | | | | |
| **As at 31 December 2014** | **50,580** | **9,963** | **7,020** | **5,184** | **161** | **17,981** | **20,818** | **111,707** |

## 12. CUSTOMERS' ACCOUNTS

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| Current accounts | 16,105,255 | 12,057,995 |
| Saving accounts | 9,032,267 | 8,293,011 |
| Investment accounts | 5,301,657 | 5,561,164 |
| Wakala accounts | 8,524,228 | 5,289,400 |
| Margins | 337,765 | 245,052 |
| | **39,301,172** | **31,446,622** |

| | | |
|---|---|---|
| Customers' accounts are concentrated as follows | | |
| Resident customer accounts | 38,836,547 | 30,773,587 |
| Non-resident customer accounts | 464,625 | 673,035 |
| | **39,301,172** | **31,446,622** |
| By Segment: | | |
| | | |
| Retail banking | 33,974,095 | 26,360,454 |
| Corporate banking | 5,327,077 | 5,086,168 |
| | 39,301,172 | 31,446,622 |

## 13. DUE TO BANKS

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| Current Accounts | 2,149 | 5,409 |
| Overdrafts | - | 1,761 |
| Interbank obligations – Other banks | 277,105 | - |
| Investment accounts | - | 71,923 |
| Wakala Deposits from Group Holding Company | 806,992 | 402,230 |
| Other balances from Group Holding Company & its subsidiaries | 1,975,468 | 942,340 |
| | **3,061,714** | **1,423,663** |
| **Due to banks are concentrated as follows:** | | |
| Due to local banks | 3,059,376 | 1,346,703 |
| Due to foreign banks | 2,338 | 76,960 |
| | **3,061,714** | **1,423,663** |

## 14. SUKUK FINANCING INSTRUMENTS

The Bank, through a Shari'a compliant sukuk financing arrangement, raised two tranches of US Dollar denominated medium term finance amounting to USD 500,000,000 each.

The sukuks are listed on the London Stock Exchange. The terms of the arrangement include transfer of certain identified assets (the "Co-Owned Assets") of the Bank to a sukuk company, EIB Sukuk Company Limited – (the "Issuer"), a special purpose entity formed for the issuance of the sukuk. In substance, the co-owned assets remain in control of the Bank. Accordingly these assets continue to be recognized by the Bank. In case of any default, the Holding Company has provided an undertaking to make good all losses to the sukuk holders. The sukuks will be due for maturity during January 2017 and January 2018 respectively. The assets are in the control of the Bank and shall continue to be serviced by the Bank.







## 14. SUKUK FINANCING INSTRUMENTS (continued)

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

The sukuks carry a fixed profit rate of 4.718% and 4.14% per annum respectively. Such profits are payable on a semi-annual basis.

## 15. PAYABLES AND OTHER LIABILITIES

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| Investment, saving and wakala accounts' share of profit | 134,272 | 103,882 |
| Provision for employee benefits | 152,534 | 131,586 |
| Manager Cheques | 366,805 | 310,914 |
| Trade payables | 214,713 | 222,041 |
| Property related liabilities | 202,997 | 182,191 |
| Forfeited income | 142 | 2,985 |
| Others | 403,716 | 347,804 |
| | **1,475,179** | **1,301,403** |

## 16. SHARE CAPITAL

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| | | |
| **Authorized Share Capital** | | |
| 5,000,000,000 (2014: 5,000,000,000) ordinary shares of AED 1 each (2014: AED 1 each) | **5,000,000** | **5,000,000** |
| | | |
| **Issued and fully paid up capital** | | |
| | | |
| 3,930,422,000 (2014: 3,930,422,000) ordinary shares of AED 1 each (2014: AED 1 each) | **3,930,422** | **3,930,422** |

## 17. STATUTORY RESERVE & GENERAL RESERVE

In accordance with the Bank's Articles of Association, Article (82) of Union Law no. 10 of 1980 and Federal Commercial Companies Law, the Bank transfers 10% of Shareholders' net profit for the year, if any, to the statutory reserve until such reserve equals 50% of the paid-up share capital. This reserve is restricted and is not available for distribution.

A further 10% of shareholders' net profit for the year, if any, is transferred to the general reserve until it reaches 10% of the paid-up capital. This transfer may be suspended by an ordinary General Meeting, based on Board of Directors' recommendation. The Board of Directors proposes the use of the general reserve at its discretion.

## 18. ASSET SECURITISATION

On 15 May 2014, EI Funding Limited (the "SPE") was incorporated under Companies Law of Cayman Islands as a Special Purpose Entity. The principal activities of the company are to purchase portfolio of assets through issuance of notes. The securitisation will result in a certificate pool that will be listed on the NASDAQ clearing system (off market) for private-purpose, over-the-counter dealing. The underlying Sharia structure has been approved by the Bank's Sharia Supervisory Board.

The group has transferred part of its investment portfolio to EI Funding Limited (incorporated under Cayman Islands laws). However, the Group retains control over the transferred assets and hence the Group continues to recognize these assets as financing and the investment assets.

## 19. CONTINGENCIES AND COMMITMENTS

a) The Bank provides letters of guarantee and letters of credit to meet the requirements of its customers. These commitments have fixed limits and expirations, and are not concentrated in any period, and are arising in the normal course of business, as follows:

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| Letters of guarantee | 5,221,185 | 4,685,772 |
| Letters of credit | 1,061,975 | 951,835 |
| Liability on risk participation | 217,794 | 158,601 |
| Irrevocable financing commitments* | 2,024,598 | 2,374,283 |
| Capital expenditure commitments | 86,402 | 88,253 |
| Commitments in respect of operating lease | 1,360 | - |
| | **8,613,314** | **8,258,744** |
| | | |
| **Commitments in respect of operating lease** | | |
| Less than one year | 1,360 | - |
| Between one and five years | - | - |
| | 1,360 | - |

Capital commitments are on account of certain IT related projects and branches.

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

b) Acceptances

Under IAS 39, acceptances are recognized in Group consolidated statement of financial position with a corresponding liability. Accordingly, there is no off balance sheet commitment for acceptances.





## 20. INCOME FROM FINANCING AND INVESTING ACTIVITIES

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| Commodities murabaha | 620,947 | 527,870 |
| Ijarah | 506,135 | 487,629 |
| Vehicles murabaha | 271,758 | 255,927 |
| Syndication murabaha | 15,312 | 9,208 |
| Real estate murabaha | 970 | 6,709 |
| Istisna'a | 31,485 | 24,499 |
| Financing wakala | 17,581 | 12,186 |
| Mudaraba | 4,921 | 10,587 |
| Commercial consumer finance | 57,608 | 27,354 |
| Business finance | 124,319 | 27,516 |
| Liquidity murabaha | 93,480 | - |
| Others | 22,189 | 26,249 |
| | **1,766,705** | **1,415,734** |

## 21. INCOME FROM INVESTMENT SECURITIES

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| Realised gain on sale of investments at fair value through profit or loss | - | 12,196 |
| Realised gain on sale of available for sale investments | 29,294 | 33,851 |
| Dividend Income | 12,354 | 19,626 |
| Investing profit - available-for-sale investments | 53,930 | 54,802 |
| Investing profit - held-to-maturity investments | 2,143 | 1,260 |
| | **97,721** | **121,735** |

## 22. INCOME FROM GROUP HOLDING COMPANY

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| | | |
| Short term murabaha | 195,844 | 270,835 |
| Investment wakala | (4,987) | (6,373) |
| | **190,857** | **264,462** |

## 23. COMMISSION AND FEES INCOME

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| Commission and fees | 491,914 | 375,763 |
| Portfolio and management fees | 1,841 | 887 |
| Front end fees | 2,969 | 3,461 |
| Others | 23,234 | 20,079 |
| | **519,958** | **400,190** |
| Less: Commissions and fees paid | (36,804) | (32,269) |
| | **483,154** | **367,921** |

## 24. OTHER INCOME

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| | | |
| Rental income | 54,657 | 50,447 |
| Gain on sale of investment properties | 142,889 | 12,630 |
| Property related income | 6,031 | 4,926 |
| Depreciation of investment properties | (27,458) | (28,683) |
| Foreign exchange gains and losses | 96,363 | 77,206 |
| Others | (60,666) | (28,751) |
| | **211,816** | **87,775** |

## 25. GENERAL AND ADMINISTRATIVE EXPENSES

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| Occupancy cost | (96,501) | (86,465) |
| Equipment & supplies | (24,405) | (21,216) |
| Computer running cost | (4,612) | (2,864) |
| Communication cost | (20,819) | (20,278) |
| Service, legal and professional fees | (8,812) | (10,520) |
| Marketing related expenses | (21,081) | (20,430) |
| Others | (149,875) | (101,896) |
| | **(326,105)** | **(263,669)** |



EMIRATES ISLAMIC BANK PJSC

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

## 26. ALLOWANCES FOR IMPAIRMENT, NET OF RECOVERIES

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| **Financing and investing receivables** | | |
| Allowances made during the year | (1,019,615) | (796,548) |
| Recoveries | 277,713 | 186,045 |
| | (741,902) | (610,503) |
| | | |
| **Investments** | | |
| Allowances made during the year (note 7) | (77,553) | (248,621) |
| Reversal (Note 7) | 5,532 | 12,419 |
| | **(72,021)** | **(236,202)** |
| | | |
| **Investment properties** | | |
| Allowances made during the year | - | - |
| Reversal | 3,818 | 55,249 |
| | 3,818 | 55,249 |
| | **(810,105)** | **(791,456)** |

## 27. CUSTOMERS' SHARE OF PROFIT AND DISTRIBUTION TO SUKUK HOLDERS

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| Customer accounts | (153,372) | (145,338) |
| Sukuk issued | (164,448) | (162,806) |
| | **(317,820)** | **(308,144)** |

The distribution of profit between unrestricted account holders (investment, saving and wakala accounts) and shareholders is made, quarterly, in accordance with the method approved by the Bank's Fatwa and Sharia Supervisory Board.

## 28. DIRECTORS' FEE

Sitting fees, amounting to AED 2,355,000 (2014: AED 2,755,000) was paid and charged to the Group consolidated statement of income.

## 29. EARNINGS PER SHARE

The calculation of earnings per share is based on profit of AED 640,679,000 (2014: profit of AED 364,191,000), for the year divided by the weighted average of the number of shares outstanding during the year: 3,930,422,000 shares (2014: 3,930,422,000 shares).

No figures for diluted earnings per share have been presented as the Group has not issued any instruments which would have a dilutive impact on earnings per share when exercised.

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| Net profit for the year | 640,679 | 364,191 |
| | | |
| Weighted average no of shares outstanding during the year | 3,930,422 | 3,930,422 |
| | | |
| Share capital available throughout the year | 3,930,422 | 3,930,422 |
| **Earnings per share (AED)** | **0.163** | **0.093** |

## 30. CASH AND CASH EQUIVALENTS

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| Cash in hand (note 5) | 330,963 | 217,134 |
| Current account with U.A.E Central Bank (note 5) | 1,067,039 | 489,418 |
| Murabaha with U.A.E Central Bank | 1,052,468 | - |
| Due from banks | 3,502,766 | 3,590,951 |
| Due to banks | (2,784,609) | (1,273,422) |
| | **3,168,627** | **3,024,081** |

## 31. RELATED PARTY TRANSACTIONS

The ultimate parent of the Group is Investment Corporation of Dubai (55.6%), a company in which the Government of Dubai is the major shareholder.

Customer accounts and financing to Government related entities other than those that have been individually disclosed amount 11.01% and 2.05% (2014: 8.23% and 3.90%) of the total customers' accounts and financing receivables of the Group, respectively.

These entities are independently run business entities, and all the financial dealings with the Group are on normal commercial terms.

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







## 31. RELATED PARTY TRANSACTIONS (continued)

Related party transactions are as follows:

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| **Group consolidated statement of income** | | |
| Income from Group Holding Company | 190,857 | 264,462 |
| Key management personnel compensations | (22,755) | (20,525) |
| Key management personnel compensations - retirements benefits | (265) | (351) |
| | | |
| **Balances with related parties are as follows:** | | |
| | 2015 | 2014 |
| | AED '000 | AED '000 |
| **Group consolidated statement of financial position** | | |
| Due from Group Holding Company & subsidiaries | 2,794,805 | 3,321,236 |
| Financing receivables - Ultimate Parent Company | 184,011 | 183,455 |
| Investment in Ultimate Parent Company | 44,206 | 90,436 |
| Deposits from Ultimate Parent Company | 1,322,261 | (300,001) |
| Due from Dubai Bank PJSC (note 6) | 1,505,040 | 2,301,836 |
| Financing receivables - Directors & affiliates | 1,212 | 3,463 |
| Financing receivables - Key management personnel & affiliates | 26,040 | 25,940 |
| Current and Investment accounts - Directors | (830) | (1,222) |
| Current and Investment accounts - Key management personnel & affiliates | (23,314) | (18,174) |
| Investment in Government Related Entities | 298,086 | 652,804 |

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

No impairment losses have been recorded against balances outstanding during the year with key management personnel and their immediate relations at the year end. As explained in Note 4, the Group has acquired certain assets and liabilities from Dubai Bank PJSC - a subsidiary of the Group Holding Company.

## 32. OPERATING SEGMENTS

The Group's activities comprise the following main business segments:

**Corporate and Investments**
Within this business segment, the Bank provides to corporate customers a range of products and services and accepts their deposits. This segment invests in investment securities, sukuks, funds and Real Estate sector.

**Retail**
Retail segment provides a wide range of products and services to individuals and accepts their deposits.

**Treasury**
This segment mainly includes Murabaha deals with Group Holding Company.

## NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 32. OPERATING SEGMENTS (continued)

| | Corporate & Investments | | Retail | | Treasury | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| **Group consolidated statement of income** | | | | | | | | |
| Segment income | 645,614 | 583,943 | 1,163,760 | 887,853 | 204,259 | 264,462 | 2,013,633 | 1,736,258 |
| Inter-segment wakala income | (200,335) | (236,567) | 137,479 | 181,277 | 62,856 | 55,290 | - | - |
| Commission, fees & other income | 328,922 | 261,129 | 406,415 | 261,945 | 1,283 | (1,705) | 736,620 | 521,369 |
| **Total income** | **774,201** | **608,505** | **1,707,654** | **1,331,075** | **268,398** | **318,047** | **2,750,253** | **2,257,627** |
| General and administrative expenses | (139,032) | (187,882) | (822,745) | (602,706) | (19,872) | (3,248) | (981,649) | (793,836) |
| **Total expenses** | **(139,032)** | **(187,882)** | **(822,745)** | **(602,706)** | **(19,872)** | **(3,248)** | **(981,649)** | **(793,836)** |
| **Net operating income** | **635,169** | **420,623** | **884,909** | **728,369** | **248,526** | **314,799** | **1,768,604** | **1,463,791** |
| Allowances for impairment, net of recoveries | (422,020) | (558,031) | (388,085) | (233,425) | - | - | (810,105) | (791,456) |
| | **213,149** | **(137,408)** | **496,824** | **494,944** | **248,526** | **314,799** | **958,499** | **672,335** |
| Customers' share of profit and distribution to sukuk holders | (20,852) | (31,791) | (127,012) | (81,981) | (169,956) | (194,372) | (317,820) | (308,144) |
| **NET PROFIT/ (LOSS) FOR THE YEAR** | **192,297** | **(169,199)** | **369,812** | **412,963** | **78,570** | **120,427** | **640,679** | **364,191** |





## NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 32 OPERATING SEGMENTS (continued)

| | Corporate & Investments | | Retail | | Treasury | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| **Group consolidated statement of financial position** | | | | | | | | |
| **Assets** | | | | | | | | |
| Segment assets | 17,699,369 | 14,629,099 | 20,137,699 | 16,419,904 | 11,276,456 | 8,449,256 | 49,113,524 | 39,498,259 |
| Central Bank reserve requirements | 183,134 | 92,893 | 3,168,799 | 2,617,538 | - | - | 3,351,933 | 2,710,431 |
| | 17,882,503 | 14,721,992 | 23,306,498 | 19,037,442 | 11,276,456 | 8,449,256 | 52,465,457 | 42,208,690 |
| Unallocated assets | | | | | | | 736,721 | 704,529 |
| **Total Assets** | | | | | | | **53,202,178** | **42,913,219** |
| **Liabilities** | | | | | | | | |
| Segment liabilities | 5,993,156 | 4,847,453 | 34,038,678 | 27,174,797 | 6,734,214 | 5,174,834 | 46,766,048 | 37,197,084 |
| Unallocated liabilities | | | | | | | 6,436,130 | 5,716,135 |
| **Total Liabilities** | | | | | | | **53,202,178** | **42,913,219** |

## 33. RISK MANAGEMENT

**Risk management framework**

The Group manages identification, measurement, aggregation and effective management of risk through a comprehensive risk management framework which incorporates organizational structure, risk measurement and monitoring processes.

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

- The Board of Directors ("the Board") has the overall responsibility for the establishment and oversight of the Group's risk management framework;
- The Group's risk appetite is determined by the Executive Committee (EXCO) and approved by the Board;
- Board committees meet regularly and are responsible for monitoring compliance with the risk management policies and procedures, and reviewing the adequacy of the risk management framework;
- Reporting any policy or major practice changes, unusual situations, significant exceptions and new strategies to the Board of Directors for review, approval and/or ratification through various Board Committees; and
- The Group's overall risk management process is managed by the Group risk management function operating under its Head of Risk with oversight function exercised by the ENBD Group Risk's Chief Risk Officer ("CRO"). This function is independent of the business divisions.

Group Risk assists senior management in controlling and actively managing the Group's overall risk profile. This function also ensures that:

- Risk policies, procedures and methodologies are consistent with the Group's risk appetite;
- The Group's overall business strategy is consistent with its risk appetite; and
- Appropriate risk management architecture and systems are developed and implemented.

**Risk management process**

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

**a) Credit Risk**

Credit is the risk that a customer or counterparty will fail to meet a commitment, thereby resulting in financial loss to the Group. Credit risk also captures 'Credit Concentration risk' and 'Settlement risk', which is the risk of a counterparty failing to deliver on a financial markets transactions at settlement, and 'Residual risk', which arises from an insufficient ability to realize collaterals later.

**Credit risk management and structure**

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

The Group's credit policy focuses on the core credit principles and includes guidelines on financing parameters, target businesses, policy guidelines, sharia guidelines, management of high risk customers and provisioning.

The Board of Directors (BOD) has delegated authority to the Board Credit and Investment Committee ("BCIC") Management Credit and Investment Committee ("MCIC") and CEO to facilitate and effectively manage the business. However, the Board and the BCIC retain the ultimate authority to approve credits above MCIC authority.







## 33 RISK MANAGEMENT (continued)

**Risk management process (continued)**

**a) Credit Risk (continued)**

The following general guidelines are followed for account classification into non-impaired and impaired credits:

**Normal Credits**

- Financings which bear normal banking risk, whereby information available to the bank assures repayment as agreed are classified as "Normal credits".

**Watch list credits**

- Financings which show some weaknesses in the obligor's financial condition and credit worthiness, requiring more than normal attention but not allocation of provisions are classified as "Watch-list credits".

**Impaired credits**

i. Those accounts where adverse factors may hinder repayment or weaken security or lead to some loss are classified as "Substandard credits". In general these are credit exposures where agreed payments of principal and/or profit are more than 90 consecutive days in arrears.

ii. Those accounts where full recovery of profit and principal seems doubtful on the basis of information available, leading generally to a loss of part of these financings are classified as "Doubtful credits".

iii. Those accounts where the bank has exhausted all courses of action available but failed to recover anything or where there is a possibility that nothing shall be recovered are classified as "Loss credits".

**Management of corporate credit risk**

The process of managing corporate credit risk is as follows:

- Corporate credit risk appetite is set as per the risk strategy approved at the Board Risk Committee;
- Credit facilities are granted based on the detailed credit risk assessment of the counterparty. The assessment considers, amongst other things, the purpose of the facility, sources of re-payment, prevailing and potential macro-economic factors, industry trends, customer's creditworthiness and standing within the industry;
- The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals, maintenance of documentation and proactive controls over maturities, expiry of limits and collateral valuations;
- Obligor risk grading - Internal rating models are used across various business segments to assess credit quality of the obligors and assign risk grades on the rating Master scale. All obligors are mapped to risk grades based on their probability of default. Highest credit quality customers have the lowest probability to default. These internal risk grades are mapped to Central Bank of the UAE categorization on a scale of 1 to 5; and
- Management of Impaired Non Performing Financings (NPF) and Watch List (WL) accounts - The Group has a well-defined process for identification of NPF & WL accounts and dealing with them effectively. This includes identification of delinquent accounts and controls applicable for close monitoring. Policies on profit suspension and provisioning are strictly adhered to in line with UAE Central Bank guidelines. The Group's Remedial Unit manages the problem commercial credit facilities. However, a specialized team in the Holding company ("ENBD") "Financial Restructuring and Remedial" team also handles the management and collection of some of the problem commercial credit facilities.

## 33 RISK MANAGEMENT (continued)

**Risk management process (continued)**

**a) Credit Risk (continued)**

**Management of corporate credit risk**

- Consumer credit risk appetite is set as per the risk strategy approved at the Board Risk Committee;
- The Risk unit approves retail credit policies within the risk appetite set and monitors compliance. All new products are evaluated against approved policy guidelines. The evaluation takes into account the risk versus reward dynamics. Policies are reviewed and updated on a regular basis to ensure that current market trends and portfolio performance are considered on a timely basis;
- Retail financing is granted under approved credit policies for each product. Every application needs to meet the laid down criteria as per the credit policies. Exception, if any, are approved by staff having delegated authority after reviewing the mitigant proposed for these exceptions;
- Risk grading – The risk grade of an account reflects the associated risks measured by the delinquency history and application and behavior probability of defaults ("PDs"); and
- Management of delinquent accounts – Delinquent accounts are monitored closely to ensure the Bank's asset quality is protected. Differential collections strategies are drawn out and higher risk accounts are subject to an accelerated collections strategy.

**Credit risk monitoring**

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

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

Early Alerts

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

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

**Group credit risk mitigation strategy**

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

Portfolio diversification is the basis of the Group's credit risk mitigation strategy. Diversification is achieved by setting customer, industry and geographical limits. The risk transfer in the form of syndicated loans with other banks, where appropriate, is entered to limit the Group exposure.





## 33 RISK MANAGEMENT (continued)

**Risk management process (continued)**

**a) Credit Risk (continued)**

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

**Analysis by economic activity for assets**

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Financing receivables | Others | Financing receivables | Others |
| | AED '000 | AED '000 | AED '000 | AED '000 |
| Agriculture and related activities | 17,389 | - | 6,172 | - |
| Manufacturing | 805,834 | - | 545,486 | - |
| Construction | 1,109,370 | 144,322 | 741,429 | 110,190 |
| Trade | 2,625,818 | - | 2,008,334 | - |
| Transportation and communication | 223,177 | 74,322 | 297,933 | 181,970 |
| Services | 3,528,173 | 51,000 | 2,026,038 | 88,116 |
| Sovereign | 298,086 | 418,310 | 354,864 | 876,626 |
| Personal | 23,512,863 | - | 18,869,859 | - |
| Real estates | 4,546,980 | 817,349 | 3,902,375 | 872,135 |
| Financial institutions | 1,126,229 | 8,684,949 | 1,145,477 | 8,973,414 |
| Others | 1,957,347 | 148,400 | 1,363,151 | 89,733 |
| Total | 39,751,266 | 10,338,652 | 31,261,118 | 11,192,184 |
| Less: Deferred income | (2,634,719) | - | (2,495,012) | - |
| Less: Allowances for impairment | (2,936,127) | (678,832) | (2,664,143) | (645,451) |
| **Net Carrying Value** | **34,180,420** | **9,659,820** | **26,101,963** | **10,546,733** |

**Gross maximum exposure:**

The table below shows the maximum exposure to credit risk for the components of the Group consolidated statement of income. The maximum exposure is shown gross, before the effect of use of master netting and collateral agreements.

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| Balances with UAE Central Bank | 6,924,711 | 3,601,431 |
| Due from banks | 7,372,715 | 7,341,122 |
| Financing and investing receivables | 34,180,240 | 26,101,963 |
| Investments | 2,287,105 | 3,205,611 |
| Other assets | 106,480 | 192,193 |
| **Total** | **50,871,251** | **40,442,320** |
| Contingent liabilities | 8,307,758 | 8,011,890 |
| **Total credit risk exposure** | **59,179,009** | **48,454,210** |

## 33 RISK MANAGEMENT (continued)

**Risk management process (continued)**

**a) Credit Risk (continued)**

Classification of investment securities as per their external ratings:

As at 31 December 2015

| Ratings | Held-to-maturity investment securities | Available-for-sale investment securities | Total |
|---|---|---|---|
| | AED '000 | AED '000 | AED '000 |
| | | | |
| AAA | - | 14,584 | 14,584 |
| AA- to AA+ | - | 56,687 | 56,687 |
| A- to A+ | 91,813 | 924,631 | 1,016,444 |
| Lower than A- | 20,076 | 361,072 | 381,148 |
| Unrated | (105) | 818,347 | 818,242 |
| | **111,784** | **2,175,321** | **2,287,105** |

Of which issued by:

| Ratings | Held-to-maturity investment securities | Available-for-sale investment securities | Total |
|---|---|---|---|
| | AED '000 | AED '000 | AED '000 |
| | | | |
| Governments | - | 462,608 | 462,608 |
| Public sector enterprises | - | 760,550 | 760,550 |
| Private sector and others | 111,784 | 952,163 | 1,063,947 |
| | **111,784** | **2,175,321** | **2,287,105** |







## 33 RISK MANAGEMENT (continued)

**Risk management process (continued)**

**a) Credit Risk (continued)**

As at 31 December 2014

| Ratings | Held-to-maturity investment securities | Available-for-sale investment securities | Total |
|---|---|---|---|
| | AED '000 | AED '000 | AED '000 |
| AAA | - | 684,646 | 684,646 |
| AA- to AA+ | - | 187,885 | 187,885 |
| A- to A+ | - | 402,605 | 402,605 |
| Lower than A- | 116,903 | 546,725 | 663,628 |
| Unrated | 108,406 | 1,158,440 | 1,266,846 |
| | **225,309** | **2,980,302** | **3,205,611** |

Of which issued by:

| Ratings | Held-to-maturity investment securities | Available-for-sale investment securities | Total |
|---|---|---|---|
| | AED '000 | AED '000 | AED '000 |
| Governments | - | 876,625 | 876,625 |
| Public sector enterprises | - | 770,759 | 770,759 |
| Private sector and others | 225,309 | 1,332,918 | 1,558,227 |
| | **225,309** | **2,980,302** | **3,205,611** |

## 33 RISK MANAGEMENT (continued)

**Risk management process (continued)**

**a) Credit Risk (continued)**

**Credit quality analysis:**

The credit quality of financial assets is managed by the Group. The table below shows the credit quality by class of financial assets, based on the Groups credit rating policy.

| 2015 | | Of which neither impaired nor past due on reporting date | | | Of which past due but not impaired on the reporting date | | | | Of which individually impaired | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Low/ Fair risk | Watch list | Re-negotiated terms | < 30 days | 30-60 days | 61-90 days | > 90 days | Carrying amount | Allowance for impairment | Gross amount |
| | AED '000 | | | | | | | | | | |
| Due from banks and Group Holding Company | 7,372,715 | 7,372,715 | - | - | - | - | - | - | - | - | - |
| | | | | | | | | | | | |
| **Financing receivables:** | | | | | | | | | | | |
| Retail | 20,292,865 | 18,639,776 | - | - | 769,623 | 350,991 | 212,612 | - | 319,864 | 182,493 | 502,357 |
| Corporate | 13,887,555 | 9,809,181 | 207,695 | 1,835,650 | 512,053 | 325,471 | 74,723 | 406,367 | 716,415 | 2,060,295 | 2,776,710 |
| | 34,180,420 | 28,448,957 | 207,695 | 1,835,650 | 1,281,676 | 676,462 | 287,335 | 406,367 | 1,036,279 | 2,242,788 | 3,279,067 |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| **Investments:** | | | | | | | | | | | |
| Debt securities | 1,462,810 | 1,442,839 | - | - | - | - | - | - | 19,971 | 108,263 | 128,235 |







## 33 RISK MANAGEMENT (continued)

**Risk management process (continued)**

**a) Credit Risk (continued)**

**Credit quality analysis (continued)**

| 2014 | Carrying amount | Of which neither impaired nor past due on reporting date | | | Of which past due but not impaired on the reporting date | | | | Of which individually impaired | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Low/ Fair risk | Watch list | Re-negotiated terms | < 30 days | 30-60 days | 61-90 days | > 90 days | Carrying amount | Allowance for impairment | Gross amount |
| | AED '000 | | | | | | | | | | |
| Due from banks and Group Holding Company | 7,341,122 | 7,341,122 | - | - | - | - | - | - | - | - | - |
| | | | | | | | | | | | |
| **Financing receivables:** | | | | | | | | | | | |
| Retail | 15,889,991 | 14,738,566 | - | - | 744,793 | 173,253 | 93,381 | - | 139,998 | 157,620 | 297,618 |
| Corporate | 10,211,972 | 7,301,239 | 57,393 | 1,205,277 | 368,251 | 257,527 | 70,136 | 146,864 | 805,285 | 1,845,359 | 2,650,644 |
| | 26,101,963 | 22,039,805 | 57,393 | 1,205,277 | 1,113,044 | 430,780 | 163,517 | 146,864 | 945,283 | 2,002,979 | 2,948,262 |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| **Investments:** | | | | | | | | | | | |
| Debt securities | 2,309,578 | 2,286,284 | - | - | - | - | - | - | 23,293 | 108,263 | 131,556 |

## 33 RISK MANAGEMENT (continued)

**Risk management process (continued)**

**a) Credit Risk (continued)**

**Classification of financing and investing receivables**

Obligor risk grading - Internal rating models are used across various business segments to assess credit quality of the obligors and assign risk grades on the Master rating scale ("MRS") on an ongoing basis. All borrowers are mapped to risk grades based on their probability of default. Highest credit quality customers have the lowest probability to default. These internal risk grades are mapped to Central Bank of the UAE categorization on a scale of 1 to 5 mentioned below;

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

Normal finances (Grades 1a to 4d)

- Financing and investing receivables which bear normal banking risk, whereby information available to the bank assures repayment as agreed are classified as "Normal finances";

Watch-list finances (Grades 4e to 5a)

- Financing and investing receivables which show some weaknesses in the obligor's financial condition and credit worthiness, requiring more than normal attention but not allocation of provisions are classified as "Watch-list finances";

Impaired finances (Grades 5b to 5d)

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

Islamic Financing Receivables

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| Corporate – Performing | 13,611,192 | 9,811,739 |
| Retail – Performing | 20,226,288 | 16,006,105 |
| Impaired financing | 3,279,067 | 2,948,262 |
| Gross financing | 37,116,547 | 28,766,106 |

**Financing with renegotiated terms**
Financing with renegotiated terms are those credits, where the repayment plan has been revised to align with the changed cash flows of the obligor with no other concessions by way of reduction in the amount or profit, but in some instances with improved security. These financings are treated as standard credits and continue to be reported as normal credits in the renegotiated financings category.



EMIRATES ISLAMIC BANK PJSC

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

## 33 RISK MANAGEMENT (continued)

**Risk management process (continued)**

**a) Credit Risk (continued)**

**Past due but not impaired**
Exposures where contractual profit or principal payment are past due for more than 90 days but based upon individual assessment, that the impairment is not appropriate considering the obligor's ability to pay, past track record, overall exposure levels, materiality of the past due, types of collaterals, quality of the obligor's receivables and the stage of collection of the amounts owed to the Group. Amounts that were past due and settled in a short period after the balance sheet date have been excluded.

**Definition of impaired financial assets**

A counterparty is impaired if:

a) In case of corporate exposures, the Group considers the counterparty unlikely to pay due to one of the following conditions:

- A material credit obligation has been put on non-accrual status;
- Distressed restructuring of a credit obligation;
- Selling of a credit obligation at an economic loss; and
- The Group or a third party has filed for the counterparty's bankruptcy.

b) In case of retail, if the exposure is past due for more than 90 days, it is considered to be impaired.

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

**Assessment of specific impairment**

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

Retail Exposure: Criteria for provisions are based on products, namely, credit cards and other retail financings. All retail financings are classified as non-performing after 90 days and provisions are made in line with the Group's income and loss recognition policies.

**Assessment of collective impairment**

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

**Collateral management:**

Collaterals and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed.

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

Collaterals are revalued regularly as per the policy as a general rule. However, periodic valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Group to assess the fair market value of the collateral and ensure that risks are appropriately covered.

## 33 RISK MANAGEMENT (continued)

**Risk management process (continued)**

**b) Market risk**

Market risk is the potential for adverse changes in the market value of portfolio and positions due to fluctuations in profit rates, exchange rates, equity prices, commodity prices, as well as in their correlation and implied volatility. Consistent with the Group's approach to strict compliance with Sharia rules and principles, the Group does not involve in speculative foreign exchange transactions.

The Group's market risk is managed through risk limits set by the ALCO and approved by the Group's Board of Directors. Risk limits are reviewed by the ALCO on an annual basis and are monitored independently by the Market Risk unit on a regular basis, and exceptions, if any, are reported to senior management.

**i. Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is not significantly exposed to currency risk since the majority of the assets and liabilities of the Group are denominated predominately in either AED or in USD-pegged currencies from other GCC countries.

**ii. Price risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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

| | 31 December 2015 | | | 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | % Change in market indices | Effect on net profit AED' 000 | Effect on OCI AED' 000 | % Change in market indices | Effect on net profit AED' 000 | Effect on OCI AED' 000 |
| Equity | 10 | - | 6,081 | 10 | - | 5,199 |
| Sukuk | 10 | - | 135,103 | 10 | - | 208,427 |

**c) Operational risk**

Operational risk is the risk of losses resulting from inadequate or failed internal processes and systems, human error or external events. It thus excludes strategic and reputation risks but includes legal and regulatory risks. The Group has standard policies and procedures for managing each of its divisions, departments and branches so as to minimize losses through a framework to ensure compliance with the Basel II requirements. All related policies are subject to review and approval by the Board of Directors.

The Group manages operational risk through disciplined application and evaluation of internal controls, appropriate segregation of duties, independent authorization of transactions and regular, systematic reconciliation and monitoring of transactions. This control structure is complemented by independent and periodic reviews by the Bank's internal audit department.

The Group has set up the Group operational risk function within Group Risk to establish the framework and governance structure set out in the operational risk policy. This function develops and implements the methods for the identification, assessment and monitoring of operational risks throughout the Group and provides regular and comprehensive reporting on operational risks to senior management. The function supports business and other support units to monitor and manage their individual operational risks.





## 33 RISK MANAGEMENT (continued)

**Risk management process (continued)**

**c) Operational risk (continued)**

Furthermore, the Group operational risk function also provides analysis and reports on operational risks to senior management and conducts independent oversight and monitoring of risks and mitigating measures.

The governance structure of operational risk is regulated through the Group Operational Risk and Compliance Committee ("ORCC"). The ORCC reviews the Group's operational risks on a periodic basis, and the effectiveness of existing controls to mitigate these risks. The ORCC reports to EXCO and requires senior management involvement from every unit and major entity of the Group.

The Group has implemented the following processes to proactively monitor and manage operational risks:

- Assessment of any operational risk of a new or amended product or process prior to its implementation. This enables identification and mitigation of operational risks prior to the introduction of new products, processes, systems or any major change initiatives;
- Identification of inherent and residual risks across all units and entities of the Group and assessment of control efficiencies and estimation of probabilities and potential impact of the operational risks. The identified risks are monitored and reassessed frequently by the line management;
- The internal loss data collection process enables an effective and efficient management of the risk, i.e. analyzing the root cause, improving controls and mitigating the loss potential. The responsibility for the identification of and notification on operational risk events lies with the line managers of the business and support units;
- IT Security processes ensure confidentiality, integrity and availability of Group's information, information systems and its resources through the selection and application of appropriate safeguards. The Holding Company's operational risk function ensures that security processes are integrated with strategic and operational planning processes at the Group;
- A comprehensive insurance program is in place as an integral component of the Group's operational risk mitigation strategy; and
- The Group Business Continuity Management (BCM) policy enables the implementation of measures to protect the Group's resources and maintain the availability of business operations in the event of a disaster.

**d) Liquidity risk**

The risk that an entity may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

*Liquidity risk management*

To guard against this risk, the Group has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents. Liquidity is managed by the Treasury department under guidance from the ALCO, and is monitored using short-term cash-flow reports and medium-term maturity mismatch reports. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. They do not take into account the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

The maturity profile of the Group's assets and liabilities is monitored by management to ensure adequate liquidity is maintained.

## 33 RISK MANAGEMENT (continued)

**Risk management process (continued)**

**d) Liquidity risk (continued)**

*Liquidity risk monitoring*

All funded liquidity risk positions are monitored and evaluated by Group risk to identify mismatches of future cash inflows and corresponding maturity of liabilities over the short term and by major currencies.

The Group ALCO reviews the funding capacity, and its sensitivity to any key event, based on the judgment of Group Treasury that is responsible for maintaining diversified funding sources within capital and money markets.

The Group applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets or aggressive bidding for deposits. The Group's approach to manage the liquidity risk is to ensure that it has adequate funding from diversified sources at all times. The Group ALCO monitors the concentration risk through a combination of indicative triggers (as opposed to prescriptive Limits) that include:

- Depositor concentration;
- Maturity analysis;
- Varied funding programs; and
- Investor diversification.

*Liquidity risk mitigation*

The ALCO, in conjunction with Treasury is primarily responsible for implementing the liquidity management strategies on structural positions, and maintaining adequate liquidity buffers for possible distress situations. Other business units contribute to overall structural liquidity management through product mix strategies and deposit targets.

The ALCO, in line with the best practices, recognises that users and providers of liquidity as a resource should be incentivized an equitable and transparent manner. This is achieved through the Funds Transfer Pricing (FTP) system which is aligned to charge/compensate for liquidity of the underlying assets or structural nature of underlying liabilities.







## 33 RISK MANAGEMENT (continued)

**Risk management process (continued)**

**d) Liquidity risk (continued)**

**MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES**

| 2015 | Within 3 months AED '000 | Over 3 months to 1 year AED '000 | Over 1 year to 3 years AED '000 | Over 3 years to 5 years AED '000 | Over 5 years AED '000 | Total AED '000 |
|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | | | |
| Cash and balances with UAE Central Bank | 5,802,403 | 1,453,271 | - | - | - | 7,255,674 |
| Due from banks | 3,502,766 | 119,579 | 3,750,370 | - | - | 7,372,715 |
| Financing and investing receivables | 4,706,302 | 3,030,063 | 7,194,485 | 8,005,142 | 11,244,428 | 34,180,420 |
| Investments | 304,941 | 120,824 | 923,611 | 445,273 | 492,456 | 2,287,105 |
| Other financial assets | 103,567 | - | - | - | - | 103,567 |
| **TOTAL FINANCIAL ASSETS** | **14,419,979** | **4,723,737** | **11,868,466** | **8,450,415** | **11,736,884** | **51,199,481** |
| **FINANCIAL LIABILITIES:** | | | | | | |
| Customers' accounts | (4,375,257) | (18,368,709) | (16,557,206) | - | - | (39,301,172) |
| Due to banks | (2,784,609) | (277,105) | - | - | - | (3,061,714) |
| Sukuk financing instruments | - | - | (3,672,500) | - | - | (3,672,500) |
| Other financial liabilities | (715,932) | - | - | - | - | (715,932) |
| Zakat payable | (33,483) | - | - | - | - | (33,483) |
| **TOTAL FINANCIAL LIABILITIES** | **(7,909,281)** | **(18,645,814)** | **(20,229,706)** | **-** | **-** | **(46,784,801)** |
| **Liquidity surplus/(deficit)** | **6,510,698** | **(13,922,077)** | **(8,361,240)** | **8,450,415** | **11,736,884** | **4,414,680** |
| **Cumulative liquidity surplus/(deficit)** | **6,510,698** | **(7,411,379)** | **(15,772,619)** | **(7,322,204)** | **4,414,680** | |

## 33 RISK MANAGEMENT (continued)

**Risk management process (continued)**

**d) Liquidity risk (continued)**

**MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES**

| 2014 | Within 3 months AED '000 | Over 3 months to 1 year AED '000 | Over 1 year to 3 years AED '000 | Over 3 years to 5 years AED '000 | Over 5 years AED '000 | Total AED '000 |
|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | | | |
| Cash and balances with UAE Central Bank | 3,416,983 | 401,582 | - | - | - | 3,818,565 |
| Due from banks | 3,590,951 | - | 3,750,171 | - | - | 7,341,122 |
| Financing and investing receivables | 3,168,627 | 2,466,726 | 5,440,763 | 6,313,901 | 8,711,946 | 26,101,963 |
| Investments | 272,897 | 7,512 | 809,193 | 1,135,843 | 980,166 | 3,205,611 |
| Other financial assets | 159,045 | - | - | - | - | 159,045 |
| **TOTAL FINANCIAL ASSETS** | **10,608,503** | **2,875,820** | **10,000,127** | **7,449,744** | **9,692,112** | **40,626,306** |
| **FINANCIAL LIABILITIES:** | | | | | | |
| Customers' accounts | (9,390,330) | (8,493,461) | (13,562,831) | - | - | (31,446,622) |
| Due to banks | (1,273,422) | (150,241) | - | - | - | (1,423,663) |
| Sukuk financing instruments | - | - | (3,673,000) | - | - | (3,673,000) |
| Other financial liabilities | (639,822) | - | - | - | - | (639,822) |
| Zakat payable | (16,826) | - | - | - | - | (16,826) |
| **TOTAL FINANCIAL LIABILITIES** | **(11,320,400)** | **(8,643,702)** | **(17,235,831)** | **-** | **-** | **(37,199,933)** |
| **Liquidity surplus/(deficit)** | **(711,897)** | **(5,767,882)** | **(7,235,704)** | **7,449,744** | **9,692,112** | **3,426,373** |
| **Cumulative liquidity surplus/(deficit)** | **(711,897)** | **(6,479,779)** | **(13,715,483)** | **(6,265,739)** | **3,426,373** | |

The Group is also exposed to financial commitments which are disclosed in note 19 to the financial statements.







## 33 RISK MANAGEMENT (continued)

**Risk management process (continued)**

**d) Liquidity risk (continued)**

**ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES**

| As at 31 December 2015 | | | Contractual outflows | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying amount AED '000 | Gross nominal outflows AED '000 | Within 3 months AED '000 | 3 months to 1 year AED '000 | 1 year to 3 years AED '000 | 3 years to 5 years AED '000 | Over 5 years AED '000 |
| **Financial liabilities** | | | | | | | |
| Customers' accounts | (39,301,172) | (39,453,172) | (10,338,342) | (12,557,624) | (16,557,206) | - | - |
| Due to banks | (3,061,714) | (3,061,714) | (2,783,233) | (278,481) | - | - | - |
| Sukuk financing instrument | (3,672,500) | (3,925,265) | (40,669) | (122,008) | (3,762,588) | - | - |
| | (46,035,386) | (46,440,151) | (13,162,244) | (12,958,113) | (20,319,794) | - | - |

| As at 31 December 2014 | | | Contractual outflows | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying amount AED '000 | Gross nominal outflows AED '000 | Within 3 months AED '000 | 3 months to 1 year AED '000 | 1 year to 3 years AED '000 | 3 years to 5 years AED '000 | Over 5 years AED '000 |
| **Financial liabilities** | | | | | | | |
| Customers' accounts | (31,446,622) | (31,489,811) | (9,397,081) | (8,522,044) | (13,570,686) | - | - |
| Due to banks | (1,423,663) | (1,423,663) | (1,273,422) | (150,241) | - | - | - |
| Sukuk financing instrument | (3,673,000) | (4,087,942) | (40,669) | (122,008) | (3,925,265) | - | - |
| | **(36,543,285)** | **(37,001,416)** | **(10,711,172)** | **(8,794,293)** | **(17,495,951)** | **-** | **-** |

## 33 RISK MANAGEMENT (continued)

**Risk management process (continued)**

**e) Legal risk**

The Group has full-time legal advisor and is actively supported at Group level Legal department who deal, with both routine and more complex legal cases. Situations of a particular complexity and sensitivity are referred to external firms of lawyers, either in the UAE or overseas, as appropriate.

**f) Reputational Risk**

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

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

**g) Regulatory & Compliance Risk**

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

The Group has independent compliance function, with necessary mandate and authority to enforce compliance on a Group wide basis. This includes active monitoring and reporting on Anti Money Laundering (AML) issues and sanctions. The Group follows the holding company ("ENBD") policy in relation to compliance with the Office of Foreign Assets Control (OFAC) regulations which are in line with international practices and guidelines. The Group maintains a "restricted customer" database which is checked when prospective customers of the Group are initially assessed. This database is linked to the OFAC list of sanctioned individuals as updated from time to time.

**h) Business Risk**

Business risk is the potential risk of negative impact on Group's profits and capital, as a result of unforeseen changes in business and regulatory environment and exposure to economic cycles.

The Group measures such risk through stress testing processes and ensure that the Group is adequately capitalized, so that the business model and planned activities are resourced and capitalized consistent with the commercial, economic and risk environment in which the Group operates.

**i) Capital management policies and stress testing**

The Group has a robust capital adequacy assessment, monitoring and reporting process and is pro-actively advancing its internal capital adequacy assessment framework along the lines of Basel II and in anticipation of Basel III.

The forward-looking internal capital adequacy assessment process (ICAAP) is based on the Group's financial budget projections. Stress scenarios are considered to assess the strength of Group's capital adequacy over a three year period.

The ICAAP is based on Economic Capital and defines adequacy as balance of capital supply, in the form of available financial resources, and capital demand, in the form of cushion against unexpected losses.

The Group employs an Integrated Stress Testing Framework to quarterly assess the potential implications of adverse financial conditions and the development of key ratios under stressful conditions. The outcomes of the Integrated Stress Testing Framework influence the setting of the Bank's risk appetite as part of the Bank's periodical Risk Strategy review.

*Capital Adequacy Ratio*

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



EMIRATES ISLAMIC BANK PJSC

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

## 33 RISK MANAGEMENT (continued)

**Risk management process (continued)**

**i) Capital management policies and stress testing (continued)**

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

Tier I capital includes share capital, statutory and general reserves and retained earnings; and

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

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

The Group's capital adequacy ratio is regularly monitored by ALCO and managed by the Group risk, following table shows the details of calculating capital adequacy ratio as at 31 December 2015 and 31 December 2014:

| | 2015 | 2014 |
|---|---|---|
| | AED '000 | AED '000 |
| **TIER I CAPITAL** | | |
| Share capital | 3,930,422 | 3,930,422 |
| Statutory reserve | 329,423 | 265,355 |
| General reserve | 235,202 | 171,134 |
| Retained earnings | 603,831 | 124,771 |
| **Total tier I capital** | **5,098,878** | **4,491,682** |
| | | |
| **TIER II CAPITAL** | | |
| Portfolio impairment provisions - note 8 | 693,339 | 661,164 |
| Fair value reserve | (4,127) | 10,591 |
| **Total tier II capital** | **689,212** | **671,755** |
| | | |
| **Tier II eligible capital** | **482,222** | **422,483** |
| **CAPITAL BASE** | **5,581,100** | **4,914,165** |
| | | |
| **RISK WEIGHTED ASSETS** | | |
| **Credit risk** | **38,907,946** | **32,951,382** |
| **Market risk** | **25,264** | **56,378** |
| **Operational risk** | **3,272,587** | **2,536,508** |
| **Total** | **42,205,797** | **35,544,268** |
| **CAPITAL ADEQUACY RATIO (BASEL II)** | **13.22%** | **13.83%** |

**Internal Audit's role in overall risk management**

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

## 34 GEOGRAPHICAL DISTRIBUTION OF ASSETS, LIABILITIES AND INCOME

| 2015 | GCC AED '000 | Other Middle East AED '000 | Europe AED '000 | North America AED '000 | Asia AED '000 | Far East AED '000 | Others AED '000 | Total AED '000 |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash and balances with UAE Central Bank | 7,255,674 | - | - | - | - | - | - | 7,255,674 |
| Due from banks | 7,115,616 | 1,514 | 184,435 | 68,123 | 1,277 | 125 | 1,625 | 7,372,715 |
| Financing and investing receivables | 33,905,458 | - | 77,063 | - | 143,527 | - | 54,372 | 34,180,420 |
| Investments | 1,595,998 | 8,330 | 91,097 | - | 481,384 | - | 110,296 | 2,287,105 |
| Investment properties | 805,937 | - | - | - | - | - | - | 805,937 |
| Customer acceptances | 563,379 | - | - | - | - | - | - | 563,379 |
| Receivables and other assets | 570,011 | - | - | - | - | - | - | 570,011 |
| Property and equipment | 166,937 | - | - | - | - | - | - | 166,937 |
| **TOTAL ASSETS** | **51,979,010** | **9,844** | **352,595** | **68,123** | **626,188** | **125** | **166,293** | **53,202,178** |
| **LIABILITIES** | | | | | | | | |
| Customers' accounts | 38,959,043 | 118,642 | 115,022 | 19,351 | 42,818 | 10 | 46,286 | 39,301,172 |
| Due to banks | 3,061,572 | 92 | - | 11 | 39 | - | - | 3,061,714 |
| Sukuk financing instruments | 3,672,500 | - | - | - | - | - | - | 3,672,500 |
| Customer acceptances | 563,379 | - | - | - | - | - | - | 563,379 |
| Payables and other liabilities | 1,475,179 | - | - | - | - | - | - | 1,475,179 |
| Zakat payable | 33,483 | - | - | - | - | - | - | 33,483 |
| **TOTAL LIABILITIES** | **47,765,156** | **118,734** | **115,022** | **19,362** | **42,857** | **10** | **46,286** | **48,107,427** |
| Shareholders' equity | 5,094,751 | - | - | - | - | - | - | 5,094,751 |
| **TOTAL EQUITY AND LIABILITIES** | **52,859,907** | **118,734** | **115,022** | **19,362** | **42,857** | **10** | **46,286** | **53,202,178** |
| **TOTAL INCOME NET OF CUSTOMERS' SHARE OF PROFIT** | 2,419,684 | (82) | 1,390 | 8,092 | 3,531 | - | (182) | 2,432,433 |







## 34 GEOGRAPHICAL DISTRIBUTION OF ASSETS, LIABILITIES AND INCOME (continued)

| 2014 | GCC AED '000 | Other Middle East AED '000 | Europe AED '000 | North America AED '000 | Asia AED '000 | Far East AED '000 | Others AED '000 | Total AED '000 |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash and balances with UAE Central Bank | 3,818,565 | - | - | - | - | - | - | 3,818,565 |
| Due from banks | 7,190,835 | 1,689 | 102,668 | 43,999 | 1,252 | 203 | 476 | 7,341,122 |
| Financing and investing receivables | 25,843,963 | 35,451 | 220,082 | 10 | 2,457 | - | - | 26,101,963 |
| Investments | 2,316,865 | 19,900 | 107,573 | 128,555 | 632,718 | - | - | 3,205,611 |
| Investment properties | 1,191,997 | - | - | - | - | - | - | 1,191,997 |
| Customer acceptances | 549,432 | - | - | - | - | - | - | 549,432 |
| Receivables and other assets | 592,822 | - | - | - | - | - | - | 592,822 |
| Property and equipment | 111,707 | - | - | - | - | - | - | 111,707 |
| **TOTAL ASSETS** | **41,616,186** | **57,040** | **430,323** | **172,564** | **636,427** | **203** | **476** | **42,913,219** |
| **LIABILITIES** | | | | | | | | |
| Customers' accounts | 31,033,351 | 123,917 | 132,826 | 35,293 | 70,584 | 1,026 | 49,625 | 31,446,622 |
| Due to banks | 1,421,925 | - | - | 1,738 | - | - | - | 1,423,663 |
| Sukuk financing instruments | 3,673,000 | - | - | - | - | - | - | 3,673,000 |
| Customer acceptances | 549,432 | - | - | - | - | - | - | 549,432 |
| Payables and other liabilities | 1,301,403 | - | - | - | - | - | - | 1,301,403 |
| Zakat payable | 16,826 | - | - | - | - | - | - | 16,826 |
| **TOTAL LIABILITIES** | **37,995,937** | **123,917** | **132,826** | **37,031** | **70,584** | **1,026** | **49,625** | **38,410,946** |
| Shareholders' equity | **4,502,273** | **-** | **-** | **-** | **-** | **-** | **-** | **4,502,273** |
| **TOTAL EQUITY AND LIABILITIES** | **42,498,210** | **123,917** | **132,826** | **37,031** | **70,584** | **1,026** | **49,625** | **42,913,219** |
| **TOTAL INCOME NET OF CUSTOMERS' SHARE OF PROFIT** | 1,940,872 | (545) | 1,932 | 6,672 | 793 | - | (241) | 1,949,483 |

## NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 35 FINANCIAL ASSETS AND LIABILITIES

Accounting classification and carrying values:

| As at 31 December 2015 | Designated at fair value through profit or loss | Held-to-maturity | Available-for sale | Financing and investing receivables | Other Amortised cost | Total carrying Value |
|---|---|---|---|---|---|---|
| | AED '000 | AED '000 | AED '000 | AED '000 | AED '000 | AED '000 |
| **Financial Assets** | | | | | | |
| Cash and balances with UAE Central Bank | - | - | - | - | 7,255,674 | 7,255,674 |
| Due from banks | - | - | - | - | 7,372,715 | 7,372,715 |
| Investments | - | 111,784 | 2,175,321 | - | - | 2,287,105 |
| Financing receivables | - | - | - | 34,180,420 | - | 34,180,420 |
| Other financial assets | - | - | - | - | 103,567 | 103,567 |
| | - | 111,784 | 2,175,321 | 34,180,420 | 14,731,956 | 51,199,481 |
| **Financial liabilities** | | | | | | |
| Customers' accounts | - | - | - | - | 39,301,172 | 39,301,172 |
| Due to banks | - | - | - | - | 3,061,714 | 3,061,714 |
| Sukuk payable | - | - | - | - | 3,672,500 | 3,672,500 |
| Other financial liabilities | - | - | - | - | 715,932 | 715,932 |
| Zakat payable | - | - | - | - | 33,483 | 33,483 |
| | - | - | - | - | 46,784,801 | 46,784,801 |



## NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 35 FINANCIAL ASSETS AND LIABILITIES (continued)

Accounting classification and carrying values:

| As at 31 December 2014 | Designated at fair value through profit or loss | Held-to-maturity | Available-for sale | Financing and investing receivables | Other Amortised cost | Total carrying Value |
|---|---|---|---|---|---|---|
| | AED '000 | AED '000 | AED '000 | AED '000 | AED '000 | AED '000 |
| **Financial Assets** | | | | | | |
| Cash and balances with UAE Central Bank | - | - | - | - | 3,818,565 | 3,818,565 |
| Due from banks | - | - | - | - | 7,341,122 | 7,341,122 |
| Investments | - | 225,308 | 2,980,303 | - | - | 3,205,611 |
| Financing receivables | - | - | - | 26,101,963 | - | 26,101,963 |
| Other financial assets | - | - | - | - | 159,045 | 159,045 |
| | **-** | **225,308** | **2,980,303** | **26,101,963** | **11,318,732** | **40,626,306** |
| **Financial liabilities** | | | | | | |
| Customers' accounts | - | - | - | - | 31,446,622 | 31,446,622 |
| Due to banks | - | - | - | - | 1,423,663 | 1,423,663 |
| Sukuk payable | - | - | - | - | 3,673,000 | 3,673,000 |
| Other financial liabilities | - | - | - | - | 639,822 | 639,822 |
| Zakat payable | - | - | - | - | 16,826 | 16,826 |
| | **-** | **-** | **-** | **-** | **37,199,933** | **37,199,933** |

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

## 35 FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of assets and liabilities

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

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

| | Quoted prices in active markets for identified assets Level 1 | Significant other observable inputs Level 2 | Significant unobservable inputs Level 3 | Total |
|---|---|---|---|---|
| | AED '000 | AED '000 | AED '000 | AED '000 |
| **31 December 2015** | | | | |
| **INVESTMENT SECURITIES** | | | | |
| **Available-for-sale:** | | | | |
| Investment in funds | - | - | 274,884 | 274,884 |
| Investment in equities | 60,813 | - | 488,598 | 549,411 |
| Debt securities | 1,351,026 | - | - | 1,351,026 |
| **TOTAL** | **1,411,839** | **-** | **763,482** | **2,175,321** |
| | | | | |
| **31 December 2014** | | | | |
| **INVESTMENT SECURITIES** | | | | |
| **Available-for-sale:** | | | | |
| Investment in funds | - | | 342,468 | 342,468 |
| Investment in equities | 51,987 | - | 501,577 | 553,564 |
| Debt securities | 2,084,270 | - | - | 2,084,270 |
| **TOTAL** | **2,136,257** | **-** | **844,045** | **2,980,302** |





NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

## 35 FINANCIAL ASSETS AND LIABILITIES (continued)

| | Available for sale financial assets |
|---|---|
| **Reconciliation of financial assets, classified under level 3** | **AED '000** |
| | |
| | |
| **Balance as at 1 January 2015** | 844,045 |
| Settlements | (80,460) |
| FX Adjustment | (103) |
| **Balance as at 31 December 2015** | **763,482** |
| | |
| | |
| | AED '000 |
| | |
| **Balance as at 1 January 2014** | **1,110,885** |
| Settlements | (262,240) |
| FX Adjustment | (4,600) |
| **Balance as at 31 December 2014** | **844,045** |

The fair value of financial instruments classified as level 3 are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by the prices from observable current market transactions in the same instrument and are not based on observable market data. Favorable and unfavorable changes in the value of financial instruments are determined on the basis of changes in the value of the instruments as a result of varying the levels of the unobservable parameters, quantification of which is judgmental.

During the financial year ended 31 December 2015 and 31 December 2014, no transfers were made between Level 1 and Level 2.

## 36 LEGAL PROCEEDINGS

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the information available, no material adverse impact on the financial position of the Group is expected to arise from legal claims as at 31 December 2015 other than the extent already provided, hence no additional provision for any claim needs to be made in these financial statements.

## 37 SOCIAL CONTRIBUTIONS

The social contributions (including donations and charity) made during the year amount to AED 17,863,837 (2014: AED 3,700,000).

## LIST OF DISTRICT BRANCHES

| Branch Name | Branch Location | P. O. Box | Branch Telephone Number |
|---|---|---|---|
| **Abu Dhabi & Al Ain** | | | |
| Abu Dhabi | Sheikh Rashid Bin Saeed Al Maktoum Street, Abu Dhabi | 46077 Abu Dhabi | 02-4464000 |
| Abu Dhabi Corniche | Corniche Street, nearest Landmark – Ministry of Energy, Abu Dhabi | 46077 Abu Dhabi | 02-6160812 |
| Abu Dhabi Mall | Abu Dhabi Mall, ground floor, next to Yateem Optician, Abu Dhabi | 46077 Abu Dhabi | 02-6445903 |
| Al Ain | Jawazat Street, near Sheikha Salama Mosque, Al Ain | 15095 Al Ain | 03-7511159 |
| Al Ain Souq Branch | Oud Al Touba Street, nearest Landmark – NBQ | 15095 Al Ain | 03-7511099 |
| Al Khalidiya | Street No.26, intersecting with Zayed 1st Street, Al Khalidiya, Abu Dhabi | 108330 Abu Dhabi | 02-6679000 |
| Al Mutaradh | Arabian Centre, Show Rooms No. 14, 15 & 16, Al Mutaradh Area, Al Ain | 15095 Al Ain | 03-7559840 |
| Boutik Mall | Remal Mall – Sanaiyya – Khalid Ibn Sultan Street. Nearest Landmark: Next To Etisalat – Beside LuLu | 15095 Al Ain | 03-7034590 |
| Khalifa City | Villa No. 104, Sector SE-02, Khalifa City'A', Abu Dhabi | 46077 Abu Dhabi | 02-5571741 |
| Tourist Club | Al Zarooni Building, Al Meena Street 10, Abu Dhabi | 46077 Abu Dhabi | 02-6448820 |
| **Dubai – Bur Dubai** | | | |
| Al Barsha Mall | Al Barsha Mall, Barsha | 6564 Dubai | 04-3733211 |
| Al Diyafah | Diyafa Street, opp. Dune Centre, Satwa, Dubai | 6564 Dubai | 04-3986768 |
| Al Khaleej Centre | Al Khaleej Centre, Al Mankhool Road, next to Choithram, opp. Ramada Hotel | 6564 Dubai | 04-3550992 |
| Al Mina Road | Al Mina Road, Bur Dubai, after Emirates Petroleum Station, service roadd after 1st signal light | 6564 Dubai | 04-3455554 |
| Bur Dubai | Bank Str, next to Sun & Sand Sports Shop, adjacent to Al Musalla Tower, Bur Dubai | 6564 Dubai | 04-3517161 |
| Dragon Mart | Dragon Mart Complex II – Dubai – Hatta Road, International City, Ground Floor – Zone GB | 6564 Dubai | 04-2803846 |
| Dubai Investment Park | Dubai Investment Park Bldg | 6564 Dubai | 04-8855005 |
| Dubai Mall | Dubai Mall, ground floor | 6564 Dubai | 04-3253777 |
| Dubai Silicon Oasis | Sit Tower, ground floor, Dubai Silicon Oasis, Dubai | 6564 Dubai | 04-3733054 |
| Dubai Souq | Al Souq Al Kabeer Area, Al Falah Street. Toronto Building, Bur Dubai | 6564 Dubai | 04-3192200 |
| DWC Al Maktoum Airport Pay Office & FX Counter | DWC Al Maktoum Airport, Departure Hall | 6564 Dubai | 04-8879443 |
| Health Care City | Building No.16, ground floor, Dubai Health Care City, Dubai | 6564 Dubai | 04-3834726 |
| Oud Metha | Eleganza Apartments, Showroom No. 2 & 3, Oud Mehta Rd, Dubai | 6564 Dubai | 04-3379990 |
| Port Rashid Pay Office & FX Counter | New Cruise Terminal, Zone 4, Ground floor | 6564 Dubai | 04-3597888 |
| Umm Suqeim | Villa A, Jumeirah Beach Road, near Jumeirah Beach Park, Umm Suqeim | 6564 Dubai | 04-3949968 |
| **Dubai – Deira** | | | |
| Al Garhoud | Sunshine Building, next to Al Tayer Showroom, Garhoud, Dubai | 6564 Dubai | 04-2829778 |
| Al Mizher | Aswaq Centre, near Al Mizhar Mall, Al Mizhar 1, Dubai | 6564 Dubai | 04-2845802 |
| Al Riqah | Omar Bin Al Khattab Street, near Ibis Hotel, Riqqa, Deira, Dubai | 6564 Dubai | 04-2248442 |
| Al Twar | Dubai Municipality Bldg, ground level, opp Al Twar Centre, Dubai | 6564 Dubai | 04-7023888 |
| Al Twar Centre | Al Nahda Road, near Al Twar Centre, Dubai | 6564 Dubai | 04-2575182 |
| Baniyas | Baniyas Road, Al Sabkha Area, Al Sabkha Bldg, Dubai | 6564 Dubai | 04-2023999 |





## LIST OF DISTRICT BRANCHES (CONTINUED)

| | | | |
|---|---|---|---|
| **Dubai – Deira** *(continued)* | | | |
| Business Village | Business Village Bldg, Block A, ground level, next to Clock Tower, Deira, Dubai | 6564 Dubai | 04-2367878 |
| Dubai Fesitval City | Dubai Festival Centre, opp Ikea, next to Hyper Panda, Level 1, Dubai | 6564 Dubai | 04-3733201 |
| Hamriya Souq | Shop no. 007, Central Al Hamriya Market Bldg, Hor Al Anz East, near Union Coop, Abu Hail Rd | 6564 Dubai | 04-3733504 |
| Land Department | Dubai Land Dept Bldg, ground level, Baniyas Str, opp Dubai Chamber of Commerce, Dubai | 6564 Dubai | 04-2215301/ 04-2212321 |
| Main Branch | Al Gurg Tower 2, Riggat Al Buteen, near Hilton Creeek Hotel, Deira | 6564 Dubai | 04-2131661 |
| Mamzar | Arabila Bldg, ground level, next to Grand Service Station, Dubai | 6564 Dubai | 04-2651323 |
| Mirdif City Center | Level 1, Mirdif City Center, Dubai | 6564 Dubai | 04-3733055 |
| Nad Al Hamar | Bel Rumaitha Club Bldg, Showroooms no. S-8 & S-9, Al Rebat St, Nad Al Hamar area, Dubai | 6564 Dubai | 04-2845999 (ext. 7900) |
| **Dubai – New Dubai** | | | |
| Al Quoz | Khalifa Bin Dismal Bldg, Show Room no. 1, Al Quoz 3 Area | 6564 Dubai | 04-3809952 |
| Jebel Ali | Banking Complex, Jafza Main Gate, Jebel Ali | 6564 Dubai | 04-8811771 |
| Jebel Ali Jafza Br | Gate No.4, Jafza 16, Jebel Ali | 6564 Dubai | 04-8872555 |
| Jumeirah Beach Residence | Jumeirah Beach Resident, Amwaj 3, Jumeirah, Dubai | 6564 Dubai | 04-4233777 |
| Jumeirah Lakes Towers | Almas Tower, ground floor, Jumeirah Lakes Towers, Dubai | 6564 Dubai | 04-3733225 |
| Media City | Business Central Towers, Showroom No.16, Dubai Media City, Sheikh Zayed Road | 6564 Dubai | 04-4380200 |
| Sheikh Zayed Road | Al Wasl Tower, Showroom 2, Sheikh Zayed Road, Dubai | 6564 Dubai | 04-3311087 (Ext. 4500) |
| Sheikh Zayed Road 2 | Al Kharbash Building, Sheikh Zayed Road, Dubai | 6564 Dubai | 04-3438882/ 04-3439192 |
| **Sharjah & North Emirates** | | | |
| Ajman | Sheikh Khalifa Bin Zayed Road, Ajman | 6688 Ajman | 06-7463338 |
| Al Nadiyah | Ali Abdulla Al Nuaimi Building, Showroom No. 2, Al Nadiyah, Ras Al Khaimah | 5198 Ras Al Khaimah | 07-2359482 |
| Fujairah | Near Choithram Supermarket, Sheikh Hamad Bin Abdulla Street, Fujairah | 1472 Fujairah | 09-2235666 |
| Halawan | Wasit Street, Sheikh Ismail Building | 67621 Sharjah | 06-5663555 (Ext. 4656) |
| Khorfakkan | Corniche Street, Khorfakkan | 18969 Khorfakkan | 09-2371122 |
| Mega Mall | Mega Mall, ground floor, Sharjah | 5169 Sharjah | 06-5064022 |
| Muwaileh | Dr. Faisal Al Qasimi Bldg, Showrooms No. 6 & 7, Maleeha Str., near National Paints Ind. Area no. 15 | 5169 Sharjah | 06-5663555 (Ext. 4656) |
| Nasseriya | My City Center, ground floor, Shop No. G012, Nasseriya, Sharjah | 5169 Sharjah | 06-5064018 |
| Qasimiyah | Al Otaiba Building, King Abdul Aziz Road, Sharjah | 67622 Sharjah | 06-5076666 |
| Ras Al Khaimah | Emirates Islamic Bank Tower, ground floor, Al Muntaser Str., Al Nakheel Area, Ras Al Khaimah | 5198 Ras Al Khaimah | 07-2260363 |
| Sahara Centre | Al Nahda Street, Sahara Centre, Basement, Unit No. B2 + B3 | 5169 Sharjah | 06-5255532 |
| Sharjah | Al Bourj Avenue, Al Arooba Bank Street, near Rolla Square, Sharjah | 5169 Sharjah | 06-5686166 |
| Sharjah Corniche | Ground Floor, EIB Tower, Buheira Corniche, Al Majaz Area, Sharjah | 5169 Sharjah | 06-5444555 |
| Sharjah Crystal Plaza | Crystal Plaza Tower, Sharjah Buhairah Corniche Road, Sharjah | 5169 Sharjah | 06-5750113 |
| Umm Al Quwain | Near Umm Al Quwain Broadcasting Station, King Faisal Road, Umm Al Quwain | 315 Umm Al Quwain | 06-7646112 |

## LIST OF OFFSITE ATMS

| **Abu Dhabi** | **Dubai** *(Continues)* |
|---|---|
| Awqaf Abu Dhabi | Dubai Wholesale Plaza |
| Carrefour, Abu Dhabi Mall | Dubai Women's College |
| Deerfields Mall | Dubai World Central |
| Khalidiyah Mall | Dubai World Trade Centre |
| LuLu Hypermarket, Al Wahda Mall | Emaar Boulevard |
| The Galleria Mall | Emaar Business Park |
| **Ajman** | Emirates Living, The Lakes |
| Ajman Police | Etihad Mall |
| City Center, Ajman | Hyatt Regency Dubai Creek Heights |
| Union Coop, Ajman | Ibn Battuta Mall |
| **Al Ain** | Karama Center |
| Al Ain Mall | Lulu Hypermarket, Al Qusais |
| Bawadi Mall, near Carrefour | Mall of Emirates, near Home Center |
| Bawadi Mall, near Style Studio | Mall of the Emirates, Metro link |
| Al Jimi Mall | Mall of the Emirates, near Ski Dubai |
| **Dubai** | Marina Mall |
| Al Ahli Driving school | Mega Mart, Al Qusais |
| Al Bustan Center | Mirdiff City Centre |
| Al Ghurair Center | Nawaes Al Madina - Al Nahda |
| Al Mulla Plaza | Saudi German Hospital |
| American Hospital, Oud Metha | Sheikh Ahmed Mosque |
| Aswaaq Supermarket, Umm Sequim | Shindagha Carrefour |
| Bin Sougat Center, Airport Road | Sky Gardens DIFC |
| Deira City Center, Etisalat | Souk Al Wasl |
| Deira City Center, near New Look | Union Co-operative- Al Aweer |
| Dubai Airport Terminal 1 | Union Co-operative - Al Hamriya |
| Dubai Airport Terminal 2 | Union Co-operative - Al Twar |
| Dubai Airport Terminal 3 | Union Co-operative  Al Wasl |
| Dubai Cruise Port and Customs | Union Coop, Jumeirah |
| Dubai Health Authority – Al Barsha | Union Coop, Karama |
| Dubai Health Authority - Nad Al Hamar | Union Coop, Rashidya |
| Dubai Health Care City, Building 16 | Union Co-operative - Umm Suqeim |
| Dubai Immigration | **Fujairah** |
| Dubai Mall, Atrium Souq | Fujairah Drive Through (outside the Branch) |
| Dubai Mall, near Costa Café | Khalifa Khamis Matar Al Kaabi |
| Dubai Mall, Food court | **Ras Al Khaimah** |
| Dubai Mall Forex ATM | Al Murjan Resort |
| Dubai Mall, Ice Rink | **Sharjah** |
| Dubai Mall, Kidzania | Al Saqr Business Center |
| Dubai Mall, Sega republic | Ansar Mall |
| Dubai Marina Walk | Mega Mall |
| Dubai Municipality, Al Manara Centre Offsite | Rolla Mall |
| Dubai Police Head Quarters | Sahara Center |
| Dubai Port and Customs | Sharjah International Airport |
| Dubai Taxi ATM | Sharjah Pay Office |