Standard Chartered Bank – UAE Branches

Basel II – Pillar 3 Disclosures

31 December 2015

Standard Chartered Bank – UAE Branches

Basel II – Pillar 3 Disclosures

Contents

Appendix A

Pillar 3 Disclosures

Note: Table 6, 8, 9 , 11 & 12 are not applicable for the Bank

Appendix B

Relevant notes from Statutory Financial Statements

APPENDIX A

Standard Chartered Bank - UAE Branches
Basel II - Pillar 3 Disclosures

Table (1)

Information on subsidiaries and significant investments as on 31 December 2015
Basis of consolidation: (Since there are no subsidiaries or significant investments, this disclosure is reported as NIL)

	Country of incorporation	% Ownership	Description	Accounting treatment	Surplus capital	Capital deficiencies	Total interests
Subsidiaries:	-	-	-	-	-	-	-
Significant investments:	-	-	-	-	-	-	-

Standard Chartered Bank UAE is a branch of Standard Chartered PLC, which is incorporated in the United Kingdom and therefore does not have any subsidiary in UAE.

KPMG
Stamped for the Purpose of Identification only

Standard Chartered Bank - UAE Branches

Basel II - Pillar 3 Disclosures

Consolidated capital structure as on: **31 December 2015**

Table (2)
(AED 000's)

	Summary terms and conditions of main features of all capital instruments	**Amount**
Tier 1 Capital		
1. Paid up share capital/common stock	*This represents the amount received from the Head Office as capital for the UAE branches of the Bank*	2,288,850
2. Reserves		
a. Statutory reserve	*In accordance with Article 82 of the Union Law of 1980, banks need to allocate a minimum of 10% of their annual net profits for the establishment of a statutory reserve until such reserve equals 50% of the assigned capital of the Bank. The Bank has continued to make such transfers during the year.*	1,080,531
b. Special reserve		-
c. General reserve 2	*This include the Fair value reserve, Cash flow hedged reserve and actuarial gain on retirement benefits scheme.*	7,394
3. Minority interests in the equity of subsidiaries		-
4. Innovative capital instruments 1		-
5. Other capital instruments	*This represents the retained earnings / unremitted profit*	2,182,946
6. Surplus capital from insurance companies		-
Sub-total		**5,559,721**
Less: Deductions for regulatory calculation	*This includes the intangible assets*	(14,942)
Less: Deductions from Tier 1 capital		-
Tier 1 Capital - subtotal		**5,544,779**
Tier 2 capital	*This primarily represents Sub-debt capital injected by the Head Office of AED 1,737 million subject to 20% haircut for the debts with residual tenor of less than 5 years. The details of various subordinated loans obtained from Head Office is disclosed in Note 15 of the statutory accounts. Further it also includes the Portfolio impairment provisions / general provisions of AED 559.0 million related to standardised portfolio.*	2,296,231
Less: Other deductions from capitals		-
Tier 3 capital		-
Total eligible capital after deductions		**7,841,010**

1. Include minority interests in equity accounts of consolidated subsidiaries that take form of SPVs and moderate step ups in instruments issued through SPV's, as well as directly issued Tier I instruments, subject to stringent conditions (refer to Basel Committee's press release, Instruments eligible for inclusion in Tier I capital 27 October 1988) and limited to a maximum of 15% of Tier I capital.

2. Including undisclosed reserves, revaluation reserves, general provisions/general loan loss reserves Hybrid debt capital instruments and subordinated debt.

Capital adequacy on 31 December 2015 **Table (3a and 3b)**

a) Qualitative disclosures
Please refer to note 27 of the statutory financial statements for detailed risk management framework covering credit, market and operational risk. Please also refer to note 27.8 of the same statutory financial statements for specific disclosures on the capital management process.

b) Quantitative disclosures	Capital charge (AED 000's)	Capital ratio (%)
Capital requirements		
1. Credit risk		
a. Standardised approach	5,365,456	
b. Foundation IRB	-	
c. Advanced IRB	-	
2. Market risk		
a. Standardised approach	230,851	
b. Models approach	-	
3. Operational risk		
a. Basic indicator approach	-	
b. Standardised approach/ASA	632,327	
c. Advanced measurement approach	-	
Total capital requirements	**6,228,634**	
Capital ratio		
a. Total for top consolidated group		15.11%
b. Tier 1 ratio only for top consolidated group		10.68%
c. Total for each significant bank subsidiary		**Nil**

Standard Chartered Bank - UAE Branches
Basel II - Pillar 3 Disclosures

Qualitative disclosures

Table 4(a)

Definition of past due and impaired (for accounting purposes)
Please refer note # 27.3 of statutory financial statements which pertains to the Risk Management Framework of the bank and includes in detail the Credit Risk Management and policies relating to impairment and provisioning followed by the Bank.

Description of approaches followed for specific and general allowances and statistical methods	
Specific	*Please refer note # 27.3 of statutory financial statements which pertains to the risk management framework of the bank and includes in detail the Credit Risk Management process and policies relating to impairment and provisioning followed by the Bank. Further also refer the note # 3 (f) (viii) of statutory financial statements relating to impairment of financial assets.*
General	

Discussion of Bank's credit risk management policy
Please refer note # 27.3 of statutory financial statements which pertains to the Risk Management Framework of the bank and includes in detail the Credit Risk Management and policies relating to impairment and provisioning followed by the Bank.

Partial adoption of foundation IRB/advanced IRB

Approach	Description of exposures	Plans and timing of migration to implement fully higher approach
Standardised approach	*All the assets exposure of the Bank are coverd under Standardised Approach which also include fixed assets and other assets.*	N/A
Foundation IRB	N/A	N/A
Advanced IRB	N/A	N/A

Standard Chartered Bank - UAE Branches
Basel II - Pillar 3 Disclosures

Table 4(b)
(AED 000's)

Gross credit exposures by currency type as on 31 December 2015

	Loans	Debt securities	Total funded	Commitments	OTC derivatives	Other off-balance sheet exposures	Total non-funded exposures	Total
Foreign currency	17,899,827	2,463,938	**20,363,765**	1,094,111	63,359,049	11,715,179	**76,168,339**	**96,532,104**
AED	19,183,323	498,500	**19,681,823**	48,953	271,040,665	4,207,735	**275,297,353**	**294,979,176**
Total	**37,083,150**	**2,962,438**	**40,045,588**	**1,143,064**	**334,399,714**	**15,922,914**	**351,465,692**	**391,511,280**

Standard Chartered Bank - UAE Branches
Basel II - Pillar 3 Disclosures

Table 4(c)
(AED 000's)

Gross credit exposures by geography as on 31 December 2015

Geographic distribution	Loans	Debt securities	Total funded	Commitments	OTC derivatives	Other off-balance sheet exposures	Total non-funded exposures	Total
United Arab Emirates	35,363,785	425,854	**35,789,639**	1,038,383	86,916,420	11,289,995	**99,244,798**	**135,034,437**
GCC excluding UAE	299,982	607,243	**907,225**	-	38,173,035	352,357	**38,525,392**	**39,432,617**
Arab League (excluding GCC)	42,686	-	**42,686**	-	2,029,834	143,725	**2,173,559**	**2,216,245**
Asia	405,945	844,275	**1,250,220**	-	14,904,237	2,508,129	**17,412,366**	**18,662,586**
Africa	209,486	498,500	**707,986**	-	552	127,912	**128,464**	**836,450**
North America	17,323	146,363	**163,686**	-	3,797,436	665,231	**4,462,667**	**4,626,353**
South America	91,560	-	**91,560**	-	23,266	-	**23,266**	**114,826**
Caribbean	205,853	-	**205,853**	-	1,101,457	1,099	**1,102,556**	**1,308,409**
Europe	446,530	330,769	**777,299**	104,681	187,453,477	831,264	**188,389,422**	**189,166,721**
Australia		109,434	**109,434**	-	-	3,202	**3,202**	**112,636**
Others	-	-	**-**	-	-		**-**	**-**
Total	**37,083,150**	**2,962,438**	**40,045,588**	**1,143,064**	**334,399,714**	**15,922,914**	**351,465,692**	**391,511,280**

Stamped for the Purpose of Identification only

Standard Chartered Bank - UAE Branches
Basel II - Pillar 3 Disclosures

Gross credit exposure by industry segment as on 31 December 2015

Table 4(d)
(AED 000's)

Industry segment	Loans	Debt securities	Total funded	Commitments	OTC derivatives	Other off-balance sheet exposures	Total non-funded exposures	Total
Agriculture, fishing & related activities	139,568	-	**139,568**	-		1,003	**1,003**	**140,571**
Crude oil, gas, mining & quarrying	57,323	-	**57,323**	173,807	509,845	2,836,614	**3,520,266**	**3,577,589**
Manufacturing	2,540,437	-	**2,540,437**	169,635	1,917,175	1,753,957	**3,840,767**	**6,381,204**
Electricity & water	218	-	**218**	-		552,059	**552,059**	**552,277**
Construction & Real Estate	3,466,995	-	**3,466,995**	467,408	2,870,838	2,578,962	**5,917,208**	**9,384,203**
Trade	10,736,902	-	**10,736,902**	-	9,655,925	2,713,069	**12,368,994**	**23,105,896**
Transport, storage & communication	1,300,546	-	**1,300,546**	-	5,951,252	383,775	**6,335,027**	**7,635,573**
Financial institutions	3,193,773	2,555,489	**5,749,262**	-	307,209,309	4,340,102	**311,549,411**	**317,298,673**
Services	1,327,155	-	**1,327,155**	323,825	6,285,370	763,373	**7,372,568**	**8,699,723**
Government	-	406,949	**406,949**	-			**-**	**406,949**
Retail/Consumer banking	14,320,233	-	**14,320,233**	8,389			**8,389**	**14,328,622**
All others	-	-	**-**	-			**-**	**-**
Total	**37,083,150**	**2,962,438**	**40,045,588**	**1,143,064**	**334,399,714**	**15,922,914**	**351,465,692**	**391,511,280**

KPMG
Stamped for the Purpose
of Identification only

Standard Chartered Bank - UAE Branches
Basel II - Pillar 3 Disclosures

Gross credit exposures by residual contractual maturity as on 31 December 2015

Table 4(e)
(AED 000's)

Residual contractual maturity	Loans	Debt securities	Total funded	Commitments	OTC derivatives	Other off-balance sheet exposures	Total non-funded exposures	Total
Less than 3 months	14,326,823	-	**14,326,823**	137,510	168,479,372	4,626,062	**173,242,944**	**187,569,767**
3 months to one year	6,873,896	809,579	**7,683,475**	121,411	102,631,866	5,862,789	**108,616,066**	**116,299,541**
One to five years	9,551,908	2,152,859	**11,704,767**	884,143	45,997,371	5,352,822	**52,234,336**	**63,939,103**
Over five years	6,330,523	-	**6,330,523**	-	17,291,105	81,241	**17,372,346**	**23,702,869**
Grand total	**37,083,150**	**2,962,438**	**40,045,588**	**1,143,064**	**334,399,714**	**15,922,914**	**351,465,692**	**391,511,280**

Standard Chartered Bank - UAE Branches
Basel II - Pillar 3 Disclosures

Impaired loans by industry segment as on 31 December 2015

Table 4(f)
(AED 000's)

Industry segment	Neither past due nor impaired loans	Past due but not impaired loans			Impaired loans	Total loans	Provisions & IIS		Adjustments		Total impaired assets net of provisions and IIS
		Less than 90 days	90 days and above	Total			Specific + IIS	General	Write-offs	Write-backs	
Agriculture, fishing & related activities	137,778	-	-	-	1,790	139,568	1,790	-	-	-	-
Crude oil, gas, mining & quarrying	57,323	-	-	-		57,323		-	-	-	-
Manufacturing	2,180,540	6,761	139,224	145,985	213,912	2,540,437	199,287	-	-	-	14,625
Electricity & water	215	3	-	3		218		-	-	-	-
Construction & Real Estate	3,094,395	6,778	-	6,778	365,822	3,466,995	333,745	-	-	-	32,077
Trade	8,179,978	182,728	-	182,728	2,374,196	10,736,902	1,650,526	-	-	-	723,670
Transport, storage & communication	1,174,744	15,844	-	15,844	109,958	1,300,546	51,418	-	-	-	58,540
Financial institutions	2,248,883	-	-	-	944,890	3,193,773	174,584	-	-	-	770,306
Services	1,289,808	32,498	-	32,498	4,849	1,327,155	4,849	-	-	-	-
Government	-	-	-	-	-	-		-	-	-	-
Retail/Consumer banking	13,443,162	678,820	-	678,820	198,251	14,320,233	145,200	142,067	-	-	(89,016)
All others	-	-	-	-		-	37,855	531,262	-	-	(569,117)
Grand Total	**31,806,826**	**923,432**	**139,224**	**1,062,656**	**4,213,668**	**37,083,150**	**2,599,254**	**673,329**	**-**	**-**	**941,085**

Note: General provision relating to Corporate and SME customers; and provision relating to AIR have been shown in "All Others" industry segment.

Standard Chartered Bank - UAE Branches
Basel II - Pillar 3 Disclosures

Impaired loans by geographical segment as on 31 December 2015

TABLE 4(g)
(AED 000's)

Geographic distribution	Neither past due nor impaired loans	Past due but not impaired loans			Impaired loans	Total loans	Provisions & IIS		Adjustments		Total impaired assets net of provisions and IIS
		Less than 90 days	90 days and above	Total			Specific + IIS	General	Write-offs	Write-backs	
United Arab Emirates	30,087,461	923,432	139,224	1,062,656	4,213,668	35,363,785	2,599,254	673,329	-	-	941,085
GCC excluding UAE	299,982	-	-	-	-	299,982	-	-	-	-	-
Arab League (excluding GCC)	42,686	-	-	-	-	42,686	-	-	-	-	-
Asia	405,945	-	-	-	-	405,945	-	-	-	-	-
Africa	209,486	-	-	-	-	209,486	-	-	-	-	-
North America	17,323	-	-	-	-	17,323	-	-	-	-	-
South America	91,560	-	-	-	-	91,560	-	-	-	-	-
Caribbean	205,853	-	-	-	-	205,853	-	-	-	-	-
Europe	446,530	-	-	-	-	446,530	-	-	-	-	-
Australia	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
Grand total	**31,806,826**	**923,432**	**139,224**	**1,062,656**	**4,213,668**	**37,083,150**	**2,599,254**	**673,329**	**-**	**-**	**941,085**

Standard Chartered Bank - UAE Branches
Basel II - Pillar 3 Disclosures

Table 4(h)

Reconciliation of changes in provision for impaired loans
for the year ended 31 December 2015

	Description	**AED 000's**
	Opening balance of provisions for impaired loans	2,151,954
Add:	Charge for the year	1,893,242
	• *Specific provisions*	*1,284,738*
	• *General provisions*	*435,483*
	• *Interest in suspense*	*173,021*
Less:	Write-off of impaired loans to income statement	(278,979)
Less:	Recovery of loan loss provisions	-
Less:	Recovery of loans previously written-off	-
Less:	Write-back of provisions for loans	
	• *Specific provisions*	(107,129)
	• *General provisions*	(282,954)
	• *Interest in suspense*	(103,551)
	Adjustments of loan loss provisions - reclass from the other liabilities	
	Closing balance of provisions for impaired loans	**3,272,583**

Standard Chartered Bank - UAE Branches
Basel II - Pillar 3 Disclosures

TABLE 4 I (i)

Loan portfolio as per standardised approach as on 31 December 2015

(AED 000's)

Asset classes	On balance sheet	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assts
See Basel II, June 2006, para 50 to 81, and Central Bank National Discretions	Gross outstanding	Net exposure after credit conversion factors (CCF)	Exposure before CRM	CRM	After CRM	
Claims on sovereigns	12,456,165	277,163	12,733,329	-	12,733,329	-
Claims on non-central government public sector entities (PSEs)	-	-	-	-	-	-
Claims on multi lateral development banks	975,632	439,190	1,414,822	-	1,414,822	-
Claims on banks	8,141,218	6,563,271	16,650,282	-	14,704,489	7,371,065
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	18,698,890	7,562,410	31,796,959	229,449	26,261,299	25,821,515
Claims included in the regulatory retail portfolio	8,266,861	367,768	10,714,227	492,643	8,634,629	6,922,938
Claims secured by residential property	6,935,499	3,963	6,943,424	-	6,939,462	2,718,711
Claims secured by commercial real estate	-	-	-	-	-	-
Past due loans	4,386,275	2,606	1,792,223	1,020,262	1,789,620	1,013,882
High risk categories	-	-	-	-	-	-
Other assets	1,390,228	377,654	1,767,881	-	1,767,881	864,022
Claims on securitised assets	-	-	-	-	-	-
Credit derivatives (banks selling protection)	-	-	-	-	-	-
Total claims	**61,250,767**	**15,594,025**	**83,813,147**	**1,742,354**	**74,245,531**	**44,712,132**

Standard Chartered Bank - UAE Branches
Basel II - Pillar 3 Disclosures

Table 5 (a & b)

a) Qualitative disclosures
- For all externally rated portfolio and exposures, the Bank used the following rating agencies: (1) Standard & Poor's (2) Moodys (3) Fitch

Loan portfolio as per standardised approach as on 31 December 2015

(AED 000's)

b) Quantitative	Gross credit exposures					Exposures subject to deduction				
Asset Class	**Rated**	**Unrated**	**Total**	**Post CRM**	**RWA post CRM**	**Rated**	**Unrated**	**Total**	**Post CRM**	**RWA post CRM**
Claims on sovereigns	12,733,329	-	12,733,329	12,733,329	-	-	-	-	-	-
Claims on public sector entities	-		-	-	-	-	-	-	-	-
Claims on multilateral development banks	1,414,822	-	1,414,822	1,414,822	-	-	-	-	-	-
Claims on securities firms	-		-			-	-	-	-	-
Claims on banks	15,730,611	919,671	16,650,282	14,704,489	7,371,065	-	-	-	-	-
Claims on corporate	1,151,906	30,645,053	31,796,959	26,261,299	25,821,515	-	-	-	-	-
Regulatory & other retail exposure	-	10,714,227	10,714,227	8,634,629	6,922,938	-	-	-	-	-
Residential retail exposure	-	6,943,424	6,943,424	6,939,462	2,718,711	-	-	-	-	-
Commercial real estate	-		-	-	-	-	-	-	-	-
Past due loans	-	4,391,484	4,391,484	1,789,620	1,013,882	-	-	-	-	-
Other assets	-	1,767,881	1,767,881	1,767,881	864,022	-	-	-	-	-
Claims on securitised assets	-		-	-	-	-	-	-	-	-
Credit derivatives (banks selling protection)	-		-	-	-	-	-	-	-	-
Grand Total	**31,030,668**	**55,381,740**	**86,412,408**	**74,245,531**	**44,712,132**	**-**	**-**	**-**	**-**	**-**

KPMG
Stamped for the Purpose of identification only

Standard Chartered Bank - UAE Branches
Basel II - Pillar 3 Disclosures

Credit risk mitigation: disclosures for standardised approach as on 31 December 2015 Table 7 (a, b & c)

a) Qualitative disclosures

- Please refer to the note 3 (f) (ix) for policies and procedures on offsetting financial assets and liabilities.
- Please refer to the note 27.3 policies and procedures on risk mitigation.

(AED 000's)

b) Quantitative disclosures		**Exposures**	**Risk weighted assets**
	Gross exposure prior to credit risk mitigation and CCF	**83,813,147**	**55,141,633**
Less:	Impact of CCF	(7,825,262)	(8,563,364)
Less:	Exposures covered by eligible financial collateral	(1,476,543)	(1,728,090)
Less:	Exposures covered by guarantees	(265,810)	(138,047)
Less:	Exposures covered by credit derivatives	-	-
	Net exposures after credit risk mitigation	74,245,531	**44,712,132**

CCF=Credit Conversion Factors

Standard Chartered Bank - UAE Branches

Basel II - Pillar 3 Disclosures

Table 10

Total capital requirement for market risk under standardised approach as on 31 December 2015

(AED 000's)

Market risk	**Amount**
Interest rate risk	227,926
Equity position risk	-
Foreign exchange risk	2,925
Commodity risk	-
Total capital requirement	**230,851**

Standard Chartered Bank - UAE Branches
Basel II - Pillar 3 Disclosures

Equity position in the banking book as of 31 December 2015

Table 13
(AED 000's)

a) Qualitative disclosures
SCB UAE does not hold any equity investment as at 31 December 2015.

b) Quantitative disclosures

1. Quantitative details of equity position:

(AED 000's)

Type	Current year		Previous year	
	Publicly traded	Privately held	Publicly traded	Privately held
Equities	-	-	-	-
Collective investment schemes	-	-	-	-
Any other investment	-	-	-	-
Total	-	-	-	-

2. Realised, unrealised and latent revaluation gains (loses) during the year:

(AED 000's)

Gains (Losses)	Amount
Realised gains (losses) from sales and liquidations	-
*Unrealised gains (losses) recognised in the balance sheet but not through profit and loss account	-
**Latent revaluation gains (losses) for investment recorded at cost but not recognised in balance sheet or profit and loss account	-
Total	-

3. Items in (2) above included in tier 1/tier 2 capital:

(AED 000's)

Tier Capital	Amount
Amount included in Tier I capital	-
Amount included in Tier II capital	-
Total	-

Equity position in the banking book as of 31 December 2010

4. Capital requirments by equity

(AED 000's)

Grouping	Amount
Strategic investments	-
Available for sale	-
Held for trading	-
Total capital requirement	-

KPMG
Stamped for the Purpose of identification only

Table 14

Interest rate risk in the banking book (IRRBB) as of 31 December 2015

Interest rate risk from non-trading book portfolios is transferred to the Financial Markets where it is managed by the ALM desk under the supervision of the Asset and Liability Committees (ALCO). ALM deals in the market in approved financial instruments in order to manage the net interest rate risk, subject to approved VaR and risk limits.

Sensitivity analysis - interest rate risk

Interest rate risk is also assessed by measuring the impact of reasonable possible interest rate movements. The following table is based on the PV01 exposures of the Banking Book (ALM) as at 31st Dec15, stressing the yield curves by +/-200 bps and indentifying the impacts on Profit before tax

(AED 000's)

Shift in yield curves	Net interest income	Regulatory capital
+200 basis point	(49,670)	(39,736)
-200 basis point	49,670	39,736

APPENDIX B

3 (f) *(viii)* *Identification and measurement of impairment*

The Bank assesses at each reporting date whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows relating to the asset that can be reliably estimated.

The Bank considers evidence of impairment at both individual asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in equity security, a significant or prolonged decline in its fair value below its cost is an objective evidence of impairment.

In assessing collective impairment, the Bank uses the higher of 1.5% of Credit Risk weighted Assets computed as per Central Bank of UAE guidelines and a statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the financial assets' carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate. Losses are recognised in the statement of profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value, less any impairment loss recognised previously in the statement of profit or loss, out of other comprehensive income to the statement of profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through the statement of profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

3 (f) *(ix)* *Offsetting*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to offset the amounts and intends either to settle on a net basis or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activities.

15 Subordinated loan

This represents tier two capital injected by the Head Office in order to meet the local regulatory capital adequacy requirements. The details of various subordinated loans obtained from the Head Office are as follows:

2015

Currency	**Face amount USD 000**	**Face amount AED 000**	**Maturity date**	**Interest rate**
USD	100,000	367,292	26 November 2020	3 month USD Libor plus 300 basis points
USD	85,000	312,198	26 November 2020	3 month USD Libor plus 300 basis points
USD	75,000	275,469	31 October 2022	3 month USD Libor plus 305 basis points
USD	80,000	293,834	31 October 2022	3 month USD Libor plus 305 basis points
USD	170,000	624,396	23 December 2023	3 month USD Libor plus 250 basis points
		1,873,189		

2014

Currency	Face amount USD 000	Face amount AED 000	Maturity date	Interest rate
USD	100,000	367,299	26 November 2020	3 month USD Libor plus 300 basis points
USD	85,000	312,204	26 November 2020	3 month USD Libor plus 300 basis points
USD	75,000	275,474	31 October 2022	3 month USD Libor plus 305 basis points
USD	80,000	293,839	31 October 2022	3 month USD Libor plus 305 basis points
USD	170,000	624,409	23 December 2023	3 month USD Libor plus 250 basis points
		1,873,225		

27 Financial risk management

27.1 Introduction and overview

The Bank has exposure to the following material risks from its use of financial instruments and operations:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- Reputational risk
- Capital risk

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

27.2 Risk management framework

Effective risk management is fundamental to being able to generate profits consistently and sustainably and is therefore a central part of the financial and operational management of the Bank.

Through our Risk Management Framework we manage enterprise-wide risks, with the objective of maximising risk‑adjusted returns while remaining within our risk tolerance.

As part of this framework, we use a set of principles that describe the risk management culture we wish to sustain:

- **Balancing risk and return**
  - We manage our risks to build a sustainable franchise, in the interests of all our stakeholders.
  - We only take risk within our risk tolerances and risk appetite, and where consistent with our approved strategy.
  - We manage our risk profile so as to maintain a low probability of an unexpected loss event that would materially undermine the confidence of our investors.
- **Conduct of business**
  - We demonstrate we are Here for good through our conduct, and are mindful of the reputational consequences of inappropriate conduct.
  - We seek to achieve good outcomes for clients, investors and the markets in which we operate, while abiding by the spirit and letter of laws and regulations.
  - We treat our colleagues fairly and with respect.
- **Responsibility and accountability**
  - We take individual responsibility to ensure risk-taking is disciplined and focused, particularly within our area of authority.
  - We make sure risk-taking is transparent, controlled and reported in line with the Risk Management Framework, within risk appetite and risk tolerance boundaries and only where there is appropriate infrastructure and resource.
  - Our approach is to work with clients who are committed to managing their impacts on communities and the environment in a sustainable manner.
- **Anticipation**
  - We seek to anticipate material future risks, learn lessons from events that have produced adverse outcomes and ensure awareness of known risks.
- **Competitive advantage**
  - We seek to achieve competitive advantage through efficient and effective risk management and control.

27 Financial risk management (continued)

27.2 Risk management framework (continued)

Risk Governance

The Country Risk Committee (CRC) is responsible for the management of all risks other than those managed by the Asset & Liability Committee (ALCO). The CRC is responsible for the compliance with policies relating to credit risk, country cross-border risk, market risk, operational risk, pension risk and reputational risk. The ALCO is responsible for the management of capital and compliance with, policies relating to balance sheet management, including management of our liquidity, capital adequacy, structural foreign exchange and interest rate risk. The CRC is chaired by the Country Chief Risk Officer (CCRO) and the ALCO is chaired by the Chief Executive Officer.

The Regional Credit Officer is responsible for credit risk in the segments of Corporate & Institutional Clients (C&I) and Commercial Clients (CC); the Country Credit Head – Retail Clients is responsible for credit risk in the Retail Clients segment; the Head of Special Assets Management is responsible for remedial risk management; and the Head of Market & Liquidity Risk is responsible for liquidity risk and risks associated with price movements arising from interest and exchange rate movements.

The Bank has established polices, procedures, processes and controls and has provided the Risk team with adequate support by way of risk systems and tools for measuring and reporting risk for monitoring, controlling, reviewing and managing risk.

27.3 Credit risk

Credit risk management

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the Bank in accordance with agreed terms. Credit exposures arise from both the banking and trading books. Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework.

The Bank manages its credit exposures following the principle of diversification across products, geographies, industries, collateral types and client segments.

Credit policies and procedures set key control standards on credit origination and credit risk assessment, concentration risk and large exposures, credit risk mitigation, credit monitoring, collection and recovery management. In addition, there are other policies integral to the credit risk management such as those relating to stress testing, risk measurement and impairment provisioning.

Credit Risk mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral and guarantees. The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor.

Collateral is held to mitigate credit risk exposures and risk mitigation policies determine the eligibility of collateral types.

Collateral types that are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit.

In order to be recognised as security and for the loan to be classified as secured, all items pledged must be valued independently and an active secondary resale market for the collateral must exist. Documentation must be held to enable the Bank to realise the asset without the cooperation of the asset owner in the event that this is necessary. The Bank also seeks to diversify its collateral holdings across asset classes and markets.

27 Financial risk management (continued)

27.3 Credit risk (continued)

Credit Risk mitigation (continued)

Regular valuation of collateral is required in accordance with the Bank's credit risk mitigation policy, which prescribes both the process of valuation and the frequency of valuation for different collateral types. The collateral must be independently valued prior to drawdown and regularly thereafter. The valuation frequency is typically annually and more frequent valuations are driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Risk mitigation benefits may be removed where the collateral value is not supported by a recent independent valuation.

Collateral values are, where appropriate, adjusted to reflect current market conditions, the probability of recovery and the period of time to realise the collateral in the event of possession. Where guarantees or credit derivatives are used as credit risk mitigation, the creditworthiness of the guarantor is assessed and established using the credit approval process in addition to that of the obligor or main counterparty.

Concentration risk

Credit concentration risk may arise from a single large exposure to a counterparty or a group of connected counterparties, or from multiple exposures across the portfolio that are closely correlated.

Large exposure concentration risk is managed through concentration limits set by counterparty or group of connected counterparties.

At the portfolio level, credit concentration thresholds are set and monitored to control concentrations, where appropriate, by country, industry, product, tenor, collateral type, collateralisation level and credit risk profile.

Traded products

Credit risk from traded products is managed within the overall credit risk appetite for corporates and financial institutions.

The credit risk exposure from traded products is derived from the positive mark-to-market value of the underlying instruments, and an additional component to cater for potential market movements. In line with International Accounting Standards (IAS) 32, derivative exposures are presented on a net basis in the financial statements only if there is a legal right to offset and there is intent to settle on a net basis or realise the assets and liabilities simultaneously.

Investment securities

Day to day credit risk management activities for traded securities are carried out by a specialist team within the Risk function whose activities include oversight and approval within the levels delegated by the Underwriting Committee. Issuer credit risk, including settlement and pre-settlement risk, and price risk are controlled by the Risk function.

The following table provides analysis of the debt securities and equity shares which are neither past due nor impaired. The standard credit ratings used by the Bank are those assessed by Standard & Poors or their equivalent. Debt securities held which have a short-term rating are reported against the long-term rating of the issuer. For securities which are unrated, the Bank applies an internal credit rating.

27 Financial risk management (continued)

27.3 Credit risk (continued)

Investment securities (continued)

Analysis of the debt securities and equity shares

Rating	2015			2014		
	Debt Securities AED 000	**Equity Shares AED 000**	**Total AED 000**	Debt Securities AED 000	Equity Shares AED 000	Total AED 000
AAA	1,194,616	-	**1,194,616**	455,820	-	455,820
AA- to AA+ *	8,338,926	-	**8,338,926**	9,212,891	-	9,212,891
A- to A+	74,855	-	**74,855**	76,730	-	76,730
BBB- to BBB+	-	-	**-**	-	-	-
Lower than BBB-	-	-	**-**	-	-	-
Unrated	1,040,642	-	**1,040,642**	356,297	-	356,297
	10,649,039	**-**	**10,649,039**	10,101,738	-	10,101,738

** Certificates of deposit issued by the Central Bank of the UAE amounting to AED 7,687 million (2014:AED 8,265 million) are included in this category based on the Bank's internal rating. The same is included in cash and balances with the Central Bank of UAE in the statement of financial position.*

Credit measurement

Risk measurement plays a central role, along with judgment and experience, in informing risk taking and portfolio management decisions.

A standard alphanumeric credit risk grade (CG) system for Corporate, Institutional and Commercial clients is used. The numeric grades run from 1 to 14 and some of the grades are further sub-classified. Lower credit grades are indicative of a lower likelihood of default. Credit grades 1 to 12 are assigned to performing customers or accounts, while credit grades 13 and 14 are assigned to non-performing or defaulted customers. An analysis by credit grade of those loans that are neither past due nor impaired is set out in note 27.3 (e).

For Retail client IRB portfolios, we use application and behaviour credit scores which are calibrated to generate a probability of default and then mapped to the standard alphanumeric credit risk grade system.

Credit monitoring

The Bank regularly monitor credit exposures, portfolio performance, and external trends that may impact risk management outcomes.

Internal risk management reports are presented to risk committees, containing information on key environmental, political & economic trends across major portfolios and countries; portfolio delinquency and loan impairment performance; and IRB portfolio metrics including credit grade migration.

Typically, all Corporate & Institutional Clients, Commercial Clients and Private Banking Clients past due accounts are managed by GSAM. For Retail Clients’ exposures, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked and considered for lending decisions. Accounts that are past due are subject to a collections process, managed independently by the Risk function. Charged-off accounts are managed by specialist recovery teams. In some countries, aspects of collections and recovery functions are outsourced.

27 Financial risk management (continued)

27.3 Credit risk (continued)

Problem credit management and provisioning

Clients or portfolios are placed on early alert when they display signs of actual or potential weakness. For example, where there is a decline in the client's position within the industry, financial deterioration, a breach of covenants, non-performance of an obligation within the stipulated period, or there are concerns relating to ownership or management.

Such accounts and portfolios are subjected to a dedicated process overseen by Credit Issues Committee. Client account plans and credit grades are re-evaluated. In addition, remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exiting the account or immediate movement of the account into the control of Group Special Assets Management (GSAM), our specialist recovery unit. Typically, all Corporate, Institutional, Commercial and Private Banking past due accounts are managed by GSAM.

Retail accounts that are past due are subject to a collections process, managed independently by the Risk function. Charged-off accounts are managed by specialist recovery teams.

Loan portfolio

During 2015, gross loans and advances to customers have decreased by AED 3,675 million (2014: increased by AED 467 million) to AED 36,600 million (2014: 40,276 million).

a) Analysis of gross loans and advances by industry segment

	2015	2014
	AED 000	AED 000
Agriculture and Allied Activities	**139,442**	171,707
Mining & Quarrying	**57,323**	14,387
Manufacturing	**2,497,289**	2,790,704
Electricity, Gas and Water	**218**	54,027
Construction & Real Estate	**3,404,156**	4,207,433
Trade	**10,483,856**	12,386,748
Transport, Storage & Communication	**1,294,560**	1,272,969
Financial Institutions	**3,115,996**	4,194,558
Other Services	**1,325,979**	933,936
Government	**-**	-
Loans to Individuals	**14,281,674**	14,249,115
	36,600,493	40,275,584

b) Analysis of gross loans and advances by geography

	2015	2014
	AED 000	AED 000
United Arab Emirates	**34,881,127**	38,511,556
Other GCC	**299,982**	230,868
India	**126,475**	269,529
Others	**1,292,909**	1,263,631
	36,600,493	40,275,584

Concentration by location for loans and advances is based on the location of the borrower and/ or country of residence.

27 Financial risk management (continued)

27.3 Credit risk (continued)

c) Analysis of loan portfolio by credit quality

Particulars	2015						2014					
		Loans to customers						Loans to customers				
	Loans to banks	Corporate & Institutional	Commercial	Private Banking	Retail Clients	Total	Loans to banks	Corporate & Institutional	Commercial	Private Banking	Retail Clients	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Impaired loans	-	3,389,858	170,658	12,288	158,207	3,731,011	-	3,805,012	127,693	12,288	195,428	4,140,421
Past due but not impaired loans	1,585	321,657	62,179	-	678,820	1,062,656	-	413,828	198,802	-	594,265	1,206,895
Neither past due nor impaired loans	4,025,379	16,357,159	1,962,672	941,889	12,545,106	31,806,826	3,679,035	18,597,193	2,706,354	1,004,562	12,620,159	34,928,268
Specific impairment provision	-	(1,910,215)	(97,559)	(12,288)	(96,535)	(2,116,597)	-	(942,526)	(112,538)	(12,288)	(150,615)	(1,217,967)
Portfolio impairment provision	(1,671)	(493,878)	(37,384)	(132,287)	(9,780)	(673,329)	(2,134)	(331,734)	(21,161)	(44,857)	(123,048)	(520,800)
	4,025,293	17,664,581	2,060,566	809,602	13,275,818	33,810,567	3,676,901	21,541,773	2,899,150	959,705	13,136,189	38,536,817

d) Loans and advances past due but not impaired

The following tables set out the ageing of loans and advances which are past due but not impaired and for which no individual impairment provision has been raised. A loan is considered to be past due when the counterparty has failed to make a principal or interest payment when contractually due. Past due status of a loan does not necessarily mean that the counterparty is impaired.

Particulars	2015						2014					
		Loans to customers						Loans to customers				
	Loans to banks	Corporate & Institutional	Commercial	Private Banking	Retail Clients	Total	Loans to banks	Corporate & Institutional	Commercial	Private Banking	Retail Clients	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Up to 30 days past due	1,585	174,439	51,720	-	525,034	751,193	-	293,364	116,614	-	476,581	886,559
Between 31-60 days past due	-	7,994	5,369	-	113,660	127,023	-	99,133	70,980	-	70,629	240,742
Between 61-90 days past due	-	-	5,090	-	40,126	45,216	-	21,331	11,208	-	47,055	79,594
Between 91-150 days past due	-	139,224	-	-	-	139,224	-	-	-	-	-	-
More than 150 days past due	-	-	-	-	-	-	-	-	-	-	-	-
	1,585	321,657	62,179	-	678,820	1,062,656	-	413,828	198,802	-	594,265	1,206,895

e) Loans and advances neither past due nor impaired by Credit Grades

The following tables set out an analysis of loans and advances by internal credit grading which are not past due and for which no individual impairment provision has been raised. Whilst there is no direct relationship between these credit grading and those of external rating agencies, investment, sub-investment and non-investment grading approximately equate to the expectation of default, with a higher rate of default expected within the non-investment grade category.

Particulars	2015						2014					
		Loans to customers						Loans to customers				
	Loans to banks	Corporate & Institutional	Commercial	Private Banking	Retail Clients	Total	Loans to banks	Corporate & Institutional	Commercial	Private Banking	Retail Clients	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Grades 1-5: Investment grade	3,478,007	5,162,183	46,787	941,889	9,290,355	15,441,214	2,501,586	4,339,437	215,738	1,004,562	9,541,237	15,100,974
Grades 6-8: Sub-investment grade	540,434	7,002,225	769,025	-	2,198,419	9,969,669	1,133,109	10,081,823	1,089,129	-	2,051,245	13,222,197
Grades 9-11: Non-investment grade	6,938	4,085,680	1,143,227	-	1,049,973	6,278,880	44,340	3,942,756	1,398,556	-	1,022,426	6,363,738
Grade 12: Watch list	-	107,071	3,633	-	6,359	117,063	-	233,177	2,931	-	5,251	241,359
	4,025,379	16,357,159	1,962,672	941,889	12,545,106	31,806,826	3,679,035	18,597,193	2,706,354	1,004,562	12,620,159	34,928,268

27 Financial risk management (continued)

27.3 Credit risk (continued)

f) Analysis of loans by security

The table below presents an analysis of the non-performing loans at the reporting date, split between fully secured, partially secured and unsecured, based on the loan coverage by collateral:

	2015	2014
	AED 000	AED 000
Fully secured	**718,202**	747,608
Partially secured	**1,527,573**	1,304,254
Unsecured	**1,485,236**	2,088,559
	3,731,011	4,140,421

g) Collateral and other credit enhancements possessed or called upon

The value of the collateral possessed/called upon by the Bank during the year are as below:

	2015	2014
	AED 000	AED 000
Vehicles	**2,401**	3,697
	2,401	3,697

27 Financial risk management (continued)

27.4 Market risk

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The Bank's exposure to market risk arises in support of its client activities, facilitation of which entails the Bank's taking moderate market risk positions. All trading teams support client activity; there are no proprietary trading teams. Hence, income earned from market risk related activities is broadly stable.

The primary categories of market risk for the Bank are:

• interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options;

• currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options;

The Credit and Market Risk Committee (CMRC), under authority ultimately delegated by the Group Risk Committee (GRC), is responsible for setting business and desk level VaR and stress loss triggers for market risk within the levels set by GRC. The CMRC is also responsible for policies and other standards for the control of market risk and overseeing their effective implementation. These policies cover both trading and non-trading books of the Bank.

The Market and Traded Credit Risk function (MTCR) approves the limits within delegated authorities and monitors exposures against these limits. Additional limits are placed on specific instruments and position concentrations where appropriate. Sensitivity measures are used in addition to VaR as risk management tools.

The Bank uses historic simulation to measure VaR. As at 31 December 2015, the VaR of the Bank amounted to AED 8.91 million (2014: AED 5.43 million).

Interest rate risk from non-trading book portfolios is transferred to the Financial Markets where it is managed by the ALM desk under the supervision of the Asset and Liability Committees (ALCO). ALM deals in the market in approved financial instruments in order to manage the net interest rate risk, subject to approved VaR and risk limits.

Sensitivity analysis - interest rate risk

Interest rate risk is also assessed by measuring the impact of reasonably possible interest rate movements. Assuming a fluctuation in interest rates of 1 basis point, the Bank estimates the following impact on the net profit before taxation for the year:

	2015	2014
	AED 000	AED 000
Movement in yield by 1 bp	**+/- 251**	+/- 74
Impact on equity after tax	**+/- 201**	+/- 59

The substantial portion of the Bank's assets and liabilities are re-priced within one year. The interest rate sensitivities set out above are economic value based and illustrative only. The result does not incorporate actions that could be taken by the management to mitigate the effect of interest rate movements.

27 Financial risk management (continued)

27.4 Market risk (continued)

Interest rate sensitivity of asset and liabilities

The Bank's interest rate gap position on assets and liabilities based on the contractual re-pricing dates is as follows:

Particulars	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Non Interest bearing	Total	Effective interest rate 2015 / (2014)
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	%
2015								
Cash and balances with the Central Bank of the UAE	940,053	2,440,178	2,598,958	1,707,412	-	4,869,751	12,556,352	0.40/ (0.55)
Loans and advances to banks	2,294,520	1,405,893	285,089	41,462	-	(1,671)	4,025,293	1.23 / (1.41)
Due from the Head Office and other branches	1,723,158	103,530	100,617	24,261	137,401	799,245	2,888,212	0.40 / (0.50)
Loans and advances to customers	15,241,806	6,467,190	4,044,171	6,778,374	1,189,762	89,264	33,810,567	4.15 / (4.62)
Investment securities	55,949	773,744	1,398,020	734,725	-	-	2,962,438	1.95 / (1.92)
Property and equipment	-	-	-	-	-	23,442	23,442	-
Intangible assets	-	-	-	-	-	14,942	14,942	-
Other assets including acceptances	-	-	-	-	-	4,200,527	4,200,527	-
Total assets	**20,255,486**	**11,190,535**	**8,426,855**	**9,286,234**	**1,327,163**	**9,995,500**	**60,481,773**	
Due to banks	2,536,393	128,000	55	18,419	18,365	1,350,847	4,052,079	0.36 / (0.38)
Due to the Head Office and other branches	2,222,684	766,931	-	171,836	48,358	305,842	3,515,651	0.33 / (0.50)
Deposits from customers	9,118,767	6,120,846	5,491,298	1,505,957	950,628	17,597,656	40,785,152	0.65 / (0.55)
Other liabilities including acceptances	-	-	-	-	-	4,695,981	4,695,981	-
Subordinated loans	-	-	-	-	1,873,189	-	1,873,189	3.14 / (3.07)
Equity	-	-	-	-	-	5,559,721	5,559,721	-
Total liabilities and equity	**13,877,844**	**7,015,777**	**5,491,353**	**1,696,212**	**2,890,540**	**29,510,047**	**60,481,773**	
On balance sheet interest rate sensitivity gap - 2015	**6,377,642**	**4,174,758**	**2,935,502**	**7,590,022**	**(1,563,377)**	**(19,514,547)**	**-**	
Cumulative interest rate sensitivity gap - 2015	**6,377,642**	**10,552,400**	**13,487,902**	**21,077,924**	**19,514,547**	**-**	**-**	
On balance sheet interest rate sensitivity gap - 2014	5,771,498	7,033,235	6,809,750	(959,205)	2,583,349	(21,238,627)	-	
Cumulative interest rate sensitivity gap - 2014	5,771,498	12,804,733	19,614,483	18,655,278	21,238,627	-	-	

27 Financial risk management (continued)

27.5 Liquidity risk

Liquidity risk is the risk that the Bank either do not have sufficient financial resources available to meet its obligations as they fall due, or can only access these financial resources at excessive cost.

Management of liquidity risk

It is the Bank's policy to maintain adequate liquidity at all times, and for all currencies, and hence to be in a position to meet obligations as they fall due. The Bank manages liquidity risk both on a short term and structural basis. In the short term, the focus is on ensuring that the cash flow demands can be met where required. In the medium term, the focus is on ensuring that the balance sheet remains structurally sound and is aligned to our strategy.

The Asset and Liability Committee (ALCO) is the responsible governing body that approves liquidity management policies. Liquidity is managed by the ALCO within the pre-defined liquidity limits and in compliance with Group Liquidity Policies and local regulatory requirements; duly supported by ALM function. MTCR and Group Treasury propose and oversee the implementation of policies and other controls relating to the above risks.

ALCO is responsible for ensuring that the country is self-sufficient and is able to meet all its obligations to make payments as they fall due by operating within the liquidity limits set for the country.

The Bank’s liquidity risk management framework requires limits to be set for prudent liquidity management for its operations. There are limits on:

- The local and foreign currency cash flow gaps;
- The level of external wholesale funding to ensure that the size of this funding is proportionate to the local market and the Bank’s operations;
- Commitments, both on and off balance sheet, to ensure there are sufficient funds available in the event of drawdown;
- The advances to deposits ratio to ensure that commercial advances are funded by stable sources and that customer lending is funded by customer deposits;
- The amount of medium-term assets that have to be funded by medium-term funding; and
- The amount of assets that may be funded from other currencies.
- Basel 3 Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as per Group guidance

The Bank has significant levels of marketable securities, principally government securities and bank paper, that can be monetised or pledged as collateral in the event of liquidity stress. In addition, the Bank maintains a liquidity crisis management plan which is reviewed and approved annually.

27 Financial risk management (continued)

27.5 Liquidity risk (continued)

a) Maturity profile of asset and liabilities

The following table analyses the contractual maturities of assets and liabilities based on the remaining period at the reporting date

Particulars	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Cash and balances with the Central Bank of the UAE	2,327,650	5,922,332	2,598,958	1,707,412	-	12,556,352
Loans and advances to banks	2,292,849	1,405,893	285,089	41,462	-	4,025,293
Due from the Head Office and other branches	2,521,620	104,313	100,617	24,261	137,401	2,888,212
Loans and advances to customers	6,121,230	4,933,010	2,049,108	4,824,788	15,882,431	33,810,567
Investment securities	-	-	-	809,579	2,152,859	2,962,438
Property and equipment	-	-	-	-	23,442	23,442
Intangible assets					14,942	14,942
Other assets including acceptances	797,128	510,850	455,328	246,834	2,190,387	4,200,527
Total assets	**14,060,477**	**12,876,398**	**5,489,100**	**7,654,336**	**20,401,462**	**60,481,773**
Due to banks	3,843,292	128,000	55	18,419	62,313	4,052,079
Due to the Head Office and branches	2,528,425	221,396	-	171,836	593,994	3,515,651
Deposits from customers	26,502,440	6,138,747	5,518,362	1,558,014	1,067,589	40,785,152
Other liabilities including acceptances	1,537,852	551,633	441,512	352,928	1,812,056	4,695,981
Subordinated loan	-	-	-	-	1,873,189	1,873,189
Equity	-	-	-	-	5,559,721	5,559,721
Total liabilities and equity	**34,412,009**	**7,039,776**	**5,959,929**	**2,101,197**	**10,968,862**	**60,481,773**
Net on balance sheet liquidity gap 2015	**(20,351,532)**	**5,836,622**	**(470,829)**	**5,553,139**	**9,432,600**	**-**
Off balance sheet items						
Letters of credit	553,360	871,754	169,146	356,561	94,954	2,045,775
Guarantees	1,251,864	1,949,084	2,265,159	3,071,923	5,339,109	13,877,139
	1,805,224	**2,820,838**	**2,434,305**	**3,428,484**	**5,434,063**	**15,922,914**
At 31 December 2014:						
Total assets	21,509,100	16,263,377	7,084,609	5,571,071	23,801,034	74,229,191
Total liabilities and equity	39,758,167	12,659,967	4,896,688	3,788,470	13,125,899	74,229,191
Net on balance sheet liquidity gap 2014	(18,249,067)	3,603,410	2,187,921	1,782,601	10,675,135	-
Letters of credit	3,105,138	1,636,824	1,777,460	709,870	499,734	7,729,026
Guarantees	1,260,061	1,510,966	2,328,389	3,024,489	4,798,145	12,922,050
	4,365,199	3,147,790	4,105,849	3,734,359	5,297,879	20,651,076

27 Financial risk management (continued)

27.5 Liquidity risk (continued)

b) Contractual cash flows payable for the Bank's financial liabilities (excluding derivative financial instruments) on an undiscounted basis

The following table analyses the contractual cash flows payable for the Bank’s financial liabilities by remaining contractual maturities on an undiscounted basis. The financial liability balances in the below table will not agree to the balances reported in the balance sheet as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments.

Particulars		2015					2014				
		Carrying amount	3 months or less	3 month to 1 years	1 to 5 years	More than 5 years	Carrying amount	3 months or less	3 month to 1 years	1 to 5 years	More than 5 years
		AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Due to banks	- Principal	**4,052,079**	**3,971,292**	**18,474**	**62,313**	**-**	6,956,770	6,780,603	54	176,113	-
	- Interest		**1,456**	**185**	**5,377**	**-**	-	935	-	1,102	-
Due to the Head Office and branches	- Principal	**3,515,651**	**2,749,821**	**171,836**	**593,994**	**-**	6,942,644	4,675,342	553,464	60,992	1,652,846
	- Interest		**1,738**	**450**	**37,379**	**-**	-	19,249	33,101	25,804	25,757
Deposits from customers	- Principal	**40,785,152**	**32,641,187**	**7,076,376**	**1,067,589**	**-**	45,565,462	37,007,611	7,238,169	1,319,682	-
	- Interest		**40,279**	**126,583**	**5,516**	**-**	-	34,350	47,704	57,426	-
Subordinated debt	- Principal	**1,873,189**	**-**	**-**	**569,303**	**1,303,886**	1,873,225	-	-	-	1,873,225
	- Interest		**15,410**	**46,230**	**246,557**	**106,012**	-	14,462	43,386	231,389	146,773
Other liabilities including acceptances	- Principal	**2,162,643**	**1,623,745**	**356,698**	**182,200**	**-**	3,665,195	3,172,550	288,067	204,578	-
Total liabilities (principal only)		**52,388,714**	**40,986,045**	**7,623,384**	**2,475,399**	**1,303,886**	65,003,296	51,636,106	8,079,754	1,761,365	3,526,071

27 Financial risk management (continued)

27.6 Operational risk

Operational risk (OR) is the potential for loss resulting from inadequate or failed internal processes, people, or technology or the impact of external events, inlcuding legal risks. The Bank seek to control operational risks to ensure that operational losses do not cause material damage to the Bank's franchise.

OR exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring. Locally, the Head of Operational Risk is responsible for operational risk along with other Risk control owners (e.g. Legal & Compliance, Finance per the Risk Management Framework risk sub types). OR is managed by the Country Operational Risk Committee ("CORC"), which exercises oversight of the Bank's OR exposures to ensure that it is aligned with the Bank's Risk Management Framework.

The responsibility for daily management of OR exposures rests with the business. Senior Operational Risk Officers have been appointed to ensure that the OR management framework is implemented and that OR exposures are effectively controlled.

27.7 Reputational risk

Reputational risk is the potential for damage to the franchise, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the organisation or its actions. Failures in behaviours or systems may affect stakeholders' perceptions of the Group's commitment to its Here for good brand promise.

At the country level, the Country Head of Corporate Affairs is the RCO for reputational risk supported by the Country Management Team to identify, report and manage material risks. Given the broad nature of reputational risk, these existing processes will not capture every eventuality. Therefore it is imperative that staff are aware of reputational risks and their consequences and act as the first line of defence. This is enforced through the Code of Conduct, Speaking up Procedures and mandatory e-learning modules. Risks should be reported to Corporate Affairs as soon as they are identified rather than waiting for formal governance meetings, such as Country Risk Committees, Country Operational Risk Committees, Responsibility and Reputational Risk Committees, client segment or product group meetings to take place.

Reputational risk is registered, recorded and reviewed by the CEO through the CRC. Whilst the CRC covers all forms of reputational risk in country, any significant business related reputational risk identified is escalated to the Business Responsibility and Reputational Risk Committee. Corporate Affairs has representation on this committee. Monthly reporting from Corporate Affairs to Group Corporate Affairs is in place to ensure that no significant risks are missed.

27 Financial risk management (continued)

27.8 Capital risk management

The Bank's capital management approach is driven by its desire to maintain a strong capital base to support the development of its business in the UAE and to meet the regulatory capital requirements of the Central Bank of the UAE at all times. The Central Bank of the UAE also requires the Pillar 2 – Supervisory Review Process to focus on the Bank's Internal Capital Adequacy Assessment Process (ICAAP) in addition to Pillar 1 capital calculations. The ICAAP includes a risk based, forward looking view of Credit, Market and Operational risk capital.

The Asset Liability Management Committee (ALCO) in the UAE is responsible for ensuring that the Bank maintains a strong and comfortable capital position in UAE. Based on the balance sheet plan, the Bank prepares a capital plan to determine the capital requirement, which is reviewed and approved by the country ALCO and Group Treasury. An update on the capital position is provided to the country ALCO on a regular basis.

During the year, as required by Central Bank of UAE, the Bank switched its capital calculation methodology from Internal Rating Based Approach to the Standardized Approach (effective 31 December 2015).

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, includes share capital, reserves and retained earnings and the element of fair value reserve relating to unrealised gains / losses on financial assets classified as available-for-sale and cash flow hedges.

- Tier 2 capital includes qualifying subordinated liabilities.

The Bank has complied with all regulatory requirements issued by the Central Bank of the UAE during the year. The following is the Bank's capital adequacy position under Basel II at 31 December:

	2015 **AED 000**	2014 AED 000
Basel II capital adequacy ratio (CAR)		
Capital Base		
Tier 1 capital	**5,544,779**	6,128,193
Tier 2 capital	**2,296,231**	1,947,122
Total capital base (sum of tier 1 and tier 2 capital)	**7,841,010**	8,075,315
Risk Weighted Assets		
Credit Risk	**44,712,132**	38,207,112
Market Risk	**1,923,755**	1,354,512
Operational Risk	**5,269,393**	6,076,604
Total risk weighted assets (RWA)	**51,905,280**	45,638,228
Total regulatory capital expressed as % of RWA (Minimum 12%)	**15.11%**	17.69%
Tier 1 capital ratio expressed as % of RWA (Minimum 8%)	**10.68%**	13.43%