Bank of Baroda - UAE Branches

Financial Statements

For the year ended 31 December 2015

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Financial statements

For the year ended 31 December 2015

Contents

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Independent Auditors' Report

The Chief Executive Officer
Bank of Baroda – UAE Branches

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

KPMG

KPMG Lower Gulf Limited

Muhammad Tariq
Registered Auditor Number: 793
Dubai, United Arab Emirates

Date: 28 MAR 2016

Bank of Baroda - UAE Branches

Statement of financial position

As at 31 December 2015

	Note	2015 AED'000	2014 AED'000
Assets			
Cash and balances with the Central Bank of the UAE	5	**2,654,968**	2,094,682
Due from banks	6	**4,465,250**	8,267,838
Due from head office and other branches	27	**2,288,493**	4,725,048
Loans and advances to customers	7	**16,422,428**	21,041,980
Investment securities	8	**9,366**	26,620
Customers' indebtedness under acceptances	26	**662,773**	2,003,824
Furniture and equipments	9	**5,404**	8,235
Other assets	10	**524,948**	448,585
Total assets		**27,033,630**	38,616,812
Liabilities			
Due to banks	11	**5,055,958**	5,721,493
Due to head office and other branches	27	**1,860,783**	2,274,339
Deposits from customers	12	**15,944,666**	25,406,033
Derivatives	25.7	**4,749**	72,677
Liabilities under acceptances	26	**662,773**	2,003,824
Other liabilities	13	**468,912**	451,869
Total liabilities		**23,997,841**	35,930,235
Equity			
Head Office assigned capital	14	**760,000**	390,000
Statutory reserve	15	**58,191**	58,191
Fair value reserve		**(27,364)**	(23,984)
Retained earnings		**2,244,962**	2,262,370
Total equity		**3,035,789**	2,686,577
Total liabilities and equity		**27,033,630**	38,616,812

The notes on pages 8 to 46 are an integral part of these financial statements.

The independent auditors' report is set out on page 1 and 2.

These financial statements were approved and authorised for issue on 28 March 2016 and signed by:

LM Asthana
Chief Executive Officer - UAE Branches

Bank of Baroda - UAE Branches

Statement of profit or loss

For the year ended 31 December 2015

	Note	2015 AED'000	2014 AED'000
Interest income	*16*	**775,175**	916,828
Interest expense	*17*	**(301,396)**	(398,047)
Net interest income		**473,779**	518,781
Fee and commission income	*18*	**103,074**	112,056
Fee and commission expense	*18*	**(284)**	(570)
Net fee and commission income		**102,790**	111,486
Other operating income	*19*	**95,870**	104,526
Total income		**672,439**	734,793
Personnel expenses	*20*	**(47,985)**	(48,625)
Depreciation	*9*	**(3,507)**	(3,741)
General and administrative expenses	*21*	**(52,399)**	(46,428)
Total expenses		**(103,891)**	(98,794)
Profit before impairment losses and taxation		**568,548**	635,999
Impairment losses (net)	*7.2*	**(541,879)**	(266,050)
Profit for the year before taxation		**26,669**	369,949
Taxation	*22*	**(44,077)**	(223,467)
(Loss) / profit for the year		**(17,408)**	146,482

The notes on pages 8 to 46 are an integral part of these financial statements.

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These financial statements were approved and authorised for issue on 28 March 2016 and signed by:

LM Asthana
Chief Executive Officer - UAE Branches

Bank of Baroda - UAE Branches

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2015

	2015	2014
	AED'000	AED'000
(Loss) / profit for the year	**(17,408)**	146,482
Other comprehensive income		
Items that will not be reclassified to profit or loss	-	-
Items that are or maybe reclassified subsequently to profit or loss:		
Net (loss) / profit from changes in fair value of available for sale investments	**(3,380)**	1,742
Total other comprehensive (loss) / income	**(3,380)**	1,742
Total comprehensive (loss) / income for the year	**(20,788)**	148,224

The notes on pages 8 to 46 are an integral part of these financial statements.

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Bank of Baroda - UAE Branches

Statement of changes in equity

For the year ended 31 December 2015

	Head office assigned capital	Statutory reserve	Fair value reserve	Retained earnings	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Balance at 1 January 2014	390,000	55,047	(25,726)	1,945,387	2,364,708
Impact of deferred tax asset (refer note 22)	-	-	-	173,645	173,645
	390,000	55,047	(25,726)	2,119,032	2,538,353
Profit for the year	-	-	-	146,482	146,482
Other comprehensive income					
Changes in fair value of available for sale investments	-	-	1,742	-	1,742
Total comprehensive income for the year	-	-	1,742	146,482	148,224
Transfer to statuory reserves	-	3,144	-	(3,144)	-
Balance at 31 December 2014	390,000	58,191	(23,984)	2,262,370	2,686,577
Balance at 1 January 2015	**390,000**	**58,191**	**(23,984)**	**2,262,370**	**2,686,577**
Additional capital from the Head office	**370,000**	-	-	-	**370,000**
Loss for the year	-	-	-	**(17,408)**	**(17,408)**
Other comprehensive income					
Changes in fair value of available for sale investments	-	-	**(3,380)**	-	**(3,380)**
Total comprehensive loss for the year	-	-	**(3,380)**	**(17,408)**	**(20,788)**
Balance at 31 December 2015	**760,000**	**58,191**	**(27,364)**	**2,244,962**	**3,035,789**

The notes on pages 8 to 46 are an integral part of these financial statements.

The independent auditors' report is set out on page 1 and 2.

Bank of Baroda - UAE Branches

Statement of cash flows

For the year ended 31 December 2015

	Note	2015 AED'000	2014 AED'000
Profit for the year before taxation		**26,669**	369,949
Adjustments for:			
Impairment losses on loans and advances		**539,079**	266,248
Depreciation		**3,507**	3,741
Write off		**(1,216)**	(3,580)
Fair value loss on derivatives		**(67,928)**	85,101
		500,111	721,459
Change in due from Central Bank of the UAE maturing after three months		**(200,000)**	-
Change in due from banks maturing after three months		**2,966,479**	(2,670,271)
Change in due from head office		**29,384**	18,365
Change in loans and advances to customers		**4,080,473**	(788,907)
Change in other assets		**71,197**	(15,743)
Change in deposits from customers		**(9,461,367)**	1,967,817
Change in due to banks		**72,750**	1,191,933
Change in due to the Head Office and other branches		**(367,300)**	301,552
Change in other liabilities		**33,894**	42,010
Taxes paid		**(208,488)**	(162,997)
Net cash (used in) / generated from operating activities		**(2,482,867)**	605,218
Cash flows from investing activities			
Proceeds on maturity of investment securities		**13,874**	7,322
Purchase of furniture and equipments		**(3,990)**	(4,821)
Proceeds from sale of furniture and equipments		**4,530**	3,759
Net cash generated from investing activities		**14,414**	6,260
Cash flows from financing activities			
Additional assigned capital received from the Head Office		**370,000**	-
Net cash generated from financing activities		**370,000**	-
Net (decrease) / increase in cash and cash equivalents		**(2,098,453)**	611,478
Cash and cash equivalents at 1 January		**7,508,632**	6,897,154
Cash and cash equivalents at 31 December	24	**5,410,179**	7,508,632

The notes on pages 8 to 46 are an integral part of these financial statements.

The independent auditors' report is set out on page 1 and 2.

1 Legal status and activities

Bank of Baroda – UAE Branches ("the Bank") operates in the United Arab Emirates ("UAE") through its six branches located in the Emirates of Abu Dhabi, Dubai, Sharjah and Ras Al Khaimah under a banking license issued by the Central Bank of the UAE. The Head Office of the Bank is Bank of Baroda ("the Head office"), which is incorporated in Baroda, India.

The principal address of the Bank is Zonal office, Sheikh Rashid Building, Dubai, United Arab Emirates and the registered address is P.O. Box 3162, Dubai, United Arab Emirates.

The principal activities of the Bank include accepting deposits, granting loans and advances and providing other banking services to customers in the United Arab Emirates.

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB"). The financial statements comply with the guidelines of Central Bank of the UAE. The financial statements have been prepared in accordance with the International Financial Reporting Standards ('IFRSs') and comply with relevant UAE laws. On 1 April 2015, a new UAE Federal Law No 2 for Commercial Companies ("UAE Companies Law of 2015") was issued with effective date 1 July 2015. As per the transitional provisions of the new law, companies are to ensure compliance by 30 June 2016. The Bank is in the process of adopting the new UAE Companies Law of 2015 and will be fully compliant before the transitional provisions deadline.

(b) Basis of measurement

These financial statements have been prepared under the historical cost basis except for the following:

- derivative financial instruments are measured at fair value; and
- available for sale ("AFS") financial assets are measured at fair value.

(d) Functional and presentation currency

These financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Bank's functional and presentation currency. Except as indicated, financial information presented in AED has been rounded to the nearest thousand.

(e) Use of estimates and judgments

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

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

In particular, information about significant areas of estimation uncertainty and critical judgment in applying accounting policies, that have the most significant effect on the amounts recognised in the financial statements are described in note 4.

3 Significant accounting policies

The Bank has consistently applied the following accounting policies to all period presented in these financial statements:

(a) Foreign currencies

Transactions in foreign currencies are translated into the respective functional currency of the Bank at spot exchange rates at the date of the transactions.

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

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in the statement of profit or loss. However, foreign currency differences arising from the translation of available for sale equity instruments are recognised in other comprehensive income.

(b) Interest income and expense

Interest income and expense are recognised in the statement of profit or loss for all financial instruments measured at amortised cost using the effective interest method. The effective interest rate is a rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates the future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

(c) Fee and commission

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

Other fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed.

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

(d) Operating leases

Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in the statement of profit or loss on a straight line basis over the term of the lease.

(e) Income tax expense

Income tax comprises current and deferred tax. Income tax expense is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

3 Significant accounting policies (continued)

(e) Income tax expense (continued)

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

1) temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

2) temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and

3) taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In determining the amount of current and deferred tax, the Bank considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

(f) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument for another entity.

(i) Classification

The Bank classifies its non-derivative financial assets at initial recognition in the following categories:

1) Loans and advances (refer 3 (h))

2) Financial assets at fair value through profit or loss (refer 3(i) *(i)*)

3) Available for sale (refer 3(i) *(ii)*)

3 Significant accounting policies (continued)

(f) Financial instruments (continued)

(ii) Recognition and initial measurement

The Bank initially recognises loans and advances, deposits and investment securities on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

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

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

(iii) Subsequent measurement

Subsequent to initial recognition, all financial assets at fair value through profit or loss and available for sale assets are measured at fair value, except any instrument that does not have a reliably measurable fair value, in which case financial instruments are measured as set out in the fair value measurement principles in note 3 (f) (iv).

All held-to-maturity financial instruments and loans and advances are measured at amortised cost using the effective interest method less impairment losses, if any.

Amortised cost measurement principles

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal re-payments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts including initial transaction costs are included in the carrying amount of the related instrument.

Gains and losses on subsequent measurement

Gains and losses arising from changes in fair value of investments at fair value through profit or loss are included in the statement of profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available for sale investments are recognised directly in equity through other comprehensive income, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of profit or loss. In cases where available for sale investments with a fixed maturity are reclassified to held to maturity investments, the fair value gains or losses up until the date of the reclassification are held in equity and amortised to the statement of profit or loss over the remaining life of the held to maturity investments using the effective interest rate method.

(iv) Fair value measurement

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

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

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

3 Significant accounting policies (continued)

(f) Financial instruments (continued)

(iv) Fair value measurement (continued)

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

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price. Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio. The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(v) 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 Bank of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank. 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 statistical modeling 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 modeling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off and/or any event resulting in a reduction in impairment loss, decreases the amount of the provision for loan impairment in the statement of profit or loss.

3 Significant accounting policies (continued)

(f) Financial instruments (continued)

(v) Identification and measurement of impairment (continued)

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.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

1) If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

2) If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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 the statement of other comprehensive income to the statement of profit or loss. 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.

(vi) 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 set off 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 Bank of similar transactions such as in the Bank's trading activities.

(vii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. If substantially all the risks and rewards have been neither retained nor transferred and the Bank has retained control, the assets continue to be recognised to the extent of the Bank's continuing involvement. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in the statement of profit or loss.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Bank also derecognises certain assets when it charges off balances pertaining to the assets deemed to be uncollectible.

3 Significant accounting policies (continued)

(f) Financial instruments (continued)

(viii) Derivatives held for risk management purposes

Certain derivative transactions, while providing effective economic hedges under the Bank's asset and liability management and risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore accounted for as derivatives held for trading and the related fair value gains and losses reported in other operating income (expense).

If a derivative is not held for trading and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in statement of profit or loss.

(g) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, balances with the Central Bank of the UAE, loans and advances to banks, deposit from banks and the amounts due to and from the related parties including the Head office and other branches with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Bank for the purposes of meeting short term cash commitment.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(h) Loans and advances

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

Loans and advances are initially measured at fair value plus incremental direct transaction cost and subsequently measured at their amortised cost using the effective interest method.

(i) Investment securities

Investment securities are initially measured at fair value, in case of investment securities not at fair value through profit or loss, plus incremental direct transaction costs and subsequently accounted for depending on their classification as either fair value through profit or loss, available for sale, or held to maturity:

(i) Fair value through profit or loss

Investments held for trading purposes are classified as investments at fair value through profit or loss, with fair value changes recognised immediately in the statement of profit or loss.

(ii) Available for sale

Available for sale investments are non-derivative investments that are not designated as another category of financial assets. Available for sale investments comprises of debt and equity securities. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available for sale investments are carried at fair value after initial recognition.

Interest income is recognised in the statement of profit or loss using the effective interest method. Foreign exchange gains or losses on available for sale debt security investments are recognised in the statement of profit or loss.

Other fair value changes are recognised directly in the statement of comprehensive income until the investment is sold or impaired and the balance in the other comprehensive income is recognised in the statement of profit or loss.

3 Significant accounting policies (continued)

(j) Furniture and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

(ii) Subsequent cost

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

(iii) Depreciation

Depreciation is recognised in the statement of profit or loss on a straight-line basis over the estimated useful lives of items of property and equipment, principally between 3 – 10 years. Where the carrying value of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount with a charge to the statement of profit or loss. Gains and losses on disposal are recognised in the statement of profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in the statement of profit or loss as incurred.

(k) Impairment of non-financial assets

The carrying amount of the Bank's non financial assets, other than deferred tax assets, is 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 that generates cash flows and that largely is independent from other assets. Impairment losses are recognised in the statement of profit or loss.

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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(l) Deposits

Deposits are the Bank's sources of debt funding. Deposits are initially measured at fair value minus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(m) Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of 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.

(n) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs as a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

3 Significant accounting policies (continued)

(n) Financial guarantees and loan commitments (continued)

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected future payment (when a payment under the guarantee has become probable). Financial guarantees at below market interest rates are included within other liabilities.

(o) Staff terminal benefits

The Bank provides for staff terminal benefits based on an estimation of the amount of future benefit that employees have earned in return for their service until their retirement. This calculation is performed based on a projected unit credit method.

The Bank contributes to the pension scheme for UAE nationals under the UAE pension and social security law. This is a defined contribution pension plan and the Bank's contributions are charged to the statement of profit or loss in the period to which they relate. In respect of this scheme, the Bank has a legal and constructive obligation to pay the fixed contributions as they fall due and no obligations exist to pay the future benefits.

(p) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015 and have not been applied in preparing these financial statements. Those that may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early and the Bank is in the process of evaluating the potential effects of this standards.

IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
IFRS 16 Leases (effective 1 January 2019)
IFRS 9 Financial Instruments (effective 1 January 2018)

(i) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

Under IFRS 15, an entity recognises a revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. In addition, extensive disclosures are required by IFRS 15.

(ii) IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. For lessees, the lease becomes an on-balance sheet liability that attracts interest, together with a new asset on the other side of the statement of financial position.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

3 Significant accounting policies (continued)

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

(ii) IFRS 9 Financial Instruments

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the assets contractual terms give rise on specified dates to cash flows that are solely payments of principle and interest on the principle outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for resale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to statement of profit or loss at a later date. However, dividends on such investments are recognised in statement of profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in statement of profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in statement of profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

4 Critical accounting estimates, and judgments in applying accounting policies

The Bank makes assumptions that affect the reported amounts of the assets, liabilities, income and expenses within the next financial year. 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.

(i) Fair value of derivatives

The fair value of derivatives that are not quoted in active markets are determined using valuation techniques. Valuation techniques include using arm's length transactions between knowledgeable, willing parties (if available), reference to the current market value of other instruments that are substantially the same and discounted cash flow analysis. To the extent it is practical, observable data is applied in the valuation techniques, however areas such as credit risk (both own and counterparty), volatilities and correlation requires management to make assumptions. Changes in assumptions relating to these factors could affect the reported fair value of derivatives.

(ii) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a periodic basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an individual loan or from a portfolio of loans before the decrease can be identified with an individual loan in the portfolio.

For individual loans, specific provisions are estimated based on previous experience considering the credit rating of the underlying customer and late payment of installments, interest and penalties.

4 Critical accounting estimates, and judgments in applying accounting policies (continued)

(ii) Impairment losses on loans and advances (continued)

For collective impairment provisions, evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. 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 experience.

(iii) Impairment losses on investment securities

The Bank evaluates its investments securities individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation. Judgment is also exercised while reviewing factors indicating and determining the objective evidence of impairment in respect of investment securities.

(iv) Income taxes

The Bank is subject to income tax in the UAE. Estimates are required in determining the provision for income taxes. There are several transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5 Cash and balances with the Central Bank of the UAE

	2015 **AED'000**	2014 AED'000
Cash in hand	**235,407**	89,880
Balances with UAE Central Bank:		
Certificate of deposits	**1,050,000**	-
Clearing accounts	**337,240**	434,481
Regulatory cash reserve deposits (refer note 5.1)	**1,032,321**	1,570,321
Balance at 31 December	**2,654,968**	2,094,682

5.1 These deposits are not available for the Bank's day to day operations and are non-interest bearing. The Central Bank of the UAE, however, allows banks to overdraw up to the cash reserve balances, provided that at the end of the seven day reporting period, the balance in the account should be positive on a cumulative basis.

6 Due from banks

	2015 **AED'000**	2014 AED'000
Money market placements	**4,458,138**	8,196,688
Nostro balances	**7,112**	71,150
Balance at 31 December	**4,465,250**	8,267,838

7 Loans and advances to customers

	2015 AED'000	2014 AED'000
Overdrafts	**2,676,730**	2,816,475
Term loans	**12,538,678**	15,242,793
Loans against trust receipts	**1,346,583**	1,568,093
Bills discounted	**1,183,731**	2,199,541
Others	**864,757**	664,661
	18,610,479	22,491,563
Provision on loans and advances (includes collective provision) (refer 7.1)	**(1,666,247)**	(1,127,833)
Interest in suspense (refer 7.3)	**(515,019)**	(315,630)
Provision on restructured accounts	**(6,785)**	(6,120)
Net loans and advances to customers	**16,422,428**	21,041,980

7.1 The movement in the provision on loans and advances during the year is as follows:

	2015 AED'000	2014 AED'000
Balance at 1 January	**(1,127,833)**	(861,585)
Provision made during the year (refer 7.2)	**(657,015)**	(313,591)
Provision released to the extent of recoveries made (refer 7.2)	**115,136**	46,035
Amounts written off during the year	**3,465**	1,308
Balance at 31 December	**(1,666,247)**	(1,127,833)

7.2 The charge to the statement of profit or loss for impairment losses during the year consists of the following:

	2015 AED'000	2014 AED'000
Specific provision on loans and advances to customers	**(617,350)**	(275,118)
Collective provision on loans and advances to customers	**(39,665)**	(38,473)
Provision on loans and advances to customers	**(657,015)**	(313,591)
Provision on impaired investments	**-**	1,506
Total provision	**(657,015)**	(312,085)
Provision released to the extent of recoveries made	**115,136**	46,035
	(541,879)	(266,050)

7.3 The movement in the interest in suspense during the year is as follows:

	2015 AED'000	2014 AED'000
Balance at 1 January	**(315,630)**	(6,640)
(Additions) during the year	**(199,389)**	(308,990)
Balance at 31 December	**(515,019)**	(315,630)

8 Investment securities

	2015 AED'000	2014 AED'000
Available for sale		
Opening balances as at 1 January	**26,620**	32,200
Fair Value Reserve (refer 8.1)	**(3,380)**	1,742
Matured during the year	**(13,874)**	(7,322)
Balance at 31 December	**9,366**	26,620

8.1 The movement of fair value reserve is as follows:

	2015 AED'000	2014 AED'000
Balance at 1 January	**(23,984)**	(25,726)
Changes in fair value of available for sale investments	**(3,380)**	1,742
Balance at 31 December	**(27,364)**	(23,984)

9 Furniture and equipment

	Furniture fixtures and premises AED'000	Motor vehicles and other equipment AED'000	Total AED'000
2015			
Cost			
At 1 January 2015	**24,879**	**15,474**	**40,353**
Additions	**3,809**	**181**	**3,990**
Disposals / fully depreciated assets written off	**(3,081)**	**(1,449)**	**(4,530)**
At 31 December 2015	**25,607**	**14,206**	**39,813**
Accumulated depreciation			
At 1 January 2015	**17,403**	**14,715**	**32,118**
Charge for the year	**3,224**	**283**	**3,507**
Disposals / fully depreciated assets written off	**162**	**(1,378)**	**(1,216)**
At 31 December 2015	**20,789**	**13,620**	**34,409**
Net book value at 31 December 2015	**4,818**	**586**	**5,404**
2014			
Cost			
At 1 January 2014	24,051	15,240	39,291
Additions	4,587	234	4,821
Disposals / fully depreciated assets written off	(3,759)	-	(3,759)
At 31 December 2014	24,879	15,474	40,353
Accumulated depreciation			
At 1 January 2014	17,600	14,357	31,957
Charge for the year	3,383	358	3,741
Disposals / fully depreciated assets written off	(3,580)	-	(3,580)
At 31 December 2014	17,403	14,715	32,118
Net book value at 31 December 2014	7,476	759	8,235

10 Other assets

	2015 AED'000	2014 AED'000
Accrued interest receivable	**71,095**	106,345
Prepayments	**11,310**	11,728
Other receivables	**6,291**	41,820
Deferred tax assets (refer note 22)	**436,252**	288,692
Balance at 31 December	**524,948**	448,585

11 Due to banks

	2015 AED'000	2014 AED'000
Demand and call deposits	**235,244**	566,892
Term deposit	**4,820,714**	5,154,601
Balance at 31 December	**5,055,958**	5,721,493

12 Deposits from customers

	2015 AED'000	2014 AED'000
Demand deposits	**5,297,346**	10,571,248
Time deposits	**10,101,335**	14,294,341
Saving deposits	**515,207**	516,015
Other deposits	**30,778**	24,429
Balance at 31 December	**15,944,666**	25,406,033

13 Other liabilities

	2015 AED'000	2014 AED'000
Accrued interest payable	**113,392**	124,245
Staff terminal benefits	**14,284**	14,197
Provision for taxation (refer note 22)	**189,353**	206,204
Others	**151,883**	107,223
Balance at 31 December	**468,912**	451,869

14 Head Office assigned capital

This represents the amount received from the Head Office as Head Office assigned capital for the UAE branches of the Bank. The Bank increased its Head Office assigned capital from AED 390,000 thousand to AED 760,000 thousand by additional funding provided by Head office on 21 December 2015.

15 Statutory reserve

In accordance with Article 82 of the Union Law no. 10 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. During the year, there has been no transfers to Statutory reserve since the Bank incurred a loss of AED 17.4 million for the year ended 31 December 2015.

Bank of Baroda - UAE Branches

Notes (continued)

16 Interest income

	2015 AED'000	2014 AED'000
On loans and advances to financial institutions / banks	**102,355**	149,776
On loans and advances to customers	**672,620**	765,145
On investment securities	**200**	1,907
	775,175	916,828

17 Interest expense

	2015 AED'000	2014 AED'000
On deposits from banks and financial institutions	**122,662**	141,652
On deposits from customers	**178,734**	256,395
	301,396	398,047

18 Fee and commission income and expense

	2015 AED'000	2014 AED'000
Personal Banking	**7,924**	8,781
Corporate Banking	**73,713**	82,899
Others	**21,437**	20,376
	103,074	112,056
Fee expense:		
Fee and commission expense	**284**	570

19 Other operating income

	2015 AED'000	2014 AED'000
Foreign exchange income	**48,217**	59,953
Others	**47,653**	44,573
	95,870	104,526

20 Personnel expenses

	2015 AED'000	2014 AED'000
Staff salaries and allowances	**43,035**	42,717
Pension and retirement benefits	**3,143**	3,001
Others	**1,807**	2,907
	47,985	48,625

21 General and administrative expenses

	2015 AED'000	2014 AED'000
Central management expense	**10,662**	10,927
Rent	**14,016**	12,701
Other miscellaneous expenses	**27,721**	22,800
	52,399	46,428

Bank of Baroda - UAE Branches

Notes (continued)

22 Taxation

Provision for taxation is made in accordance with regulations enacted in the Emirates of Abu Dhabi, Dubai and Sharjah relating to the computation of tax payable.

	2015 AED'000	2014 AED'000
Movement in tax provision		
Balance at 1 January	**206,204**	30,687
Taxes paid	**(206,204)**	(22,822)
Current tax expense	**189,353**	198,339
Balance at 31 December	**189,353**	206,204

	2015 AED'000	2014 AED'000
Current tax expense		
Provision for current year tax	**121,981**	101,526
Provision made for prior year tax	**67,372**	96,813
	189,353	198,339
Prior year tax paid in current year	**2,284**	140,175
Total current tax expense	**191,637**	338,514
Deferred tax - origination of temporary differences	**(147,560)**	(115,047)
Total income tax expense	**44,077**	223,467

Following is the reconciliation of income tax calculated on accounting profits at the applicable tax rate with the income tax expense for the year:

	2015 AED'000	2014 AED'000
Profit before income tax	**26,669**	369,949
Income tax at applicable tax rate	**5,334**	73,990
Tax applicable on non-deductible expenses	**116,647**	27,536
Additional tax assessed for prior year	**69,656**	236,988
Deferred tax	**(147,560)**	(115,047)
Total income tax expense	**44,077**	223,467

The tax charge is determined by applying the official tax rate of 20% to the taxable profit arising in the Emirates of Abu Dhabi, Dubai and Sharjah.

The tax laws do not permit adjustment of a tax loss incurred in one Emirate with a tax profit of another Emirate. Therefore, the tax expense for the Branches has been computed on profits earned in the Emirates of Abu Dhabi, Dubai and Sharjah seperately.

22.1 Deferred tax

Deferred taxation comprises of impairment provisions on loans and advances and interest in suspense. The movement in deferred tax during the year is as follows:

	2015 AED'000	2014 AED'000
Balance at 1 January	**288,692**	173,645
Charge during the year	**147,560**	115,047
Balance at 31 December	**436,252**	288,692

Based on a revised management assessment of the probability of write-offs and recoveries, and therefore the applicability of deferred tax asset recognition, the Bank has recognised deferred tax asset during the year amounting to AED 148 million (31 December 2014: AED 115 million). Deferred tax asset for the years before year ended 31 December 2014 has been recognised and adjusted through retained earnings as at 31 December 2013.

23 Commitments and contingent liabilities

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loan facilities. Outstanding loan commitments have commitment periods that do not extend beyond the normal underwriting and settlement period.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to two years. Expiries are not concentrated in any period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

At 31 December, the Bank's commitments and contingent liabilities were as follows:

	2015 AED'000	2014 AED'000
Letters of credit	**1,011,439**	1,427,258
Guarantees	**1,921,336**	1,938,582
Undrawn loan commitments	**3,036,898**	2,581,560
Foreign exchange and forward commitments	**17,472,504**	13,314,662
	23,442,177	19,262,062

The commitments and contingent liabilities above may expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

Derivative financial instruments are disclosed under note 25.7.

24 Cash and cash equivalents

	2015 AED'000	2014 AED'000
Cash and balances with the Central Bank of the UAE (maturing within three months)	**2,454,968**	2,094,682
Due from banks (maturing within three months)	**3,325,315**	4,161,424
Due from the Head Office and branches (maturing within three months)	**2,288,493**	4,695,664
Due to banks (maturing within three months)	**(2,615,949)**	(3,354,234)
Due to the Head Office and branches (maturing within three months)	**(42,648)**	(88,904)
Cash and cash equivalents in the statement of cash flow	**5,410,179**	7,508,632

25 Financial risk management

25.1 Introduction and overview

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

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

25.2 Risk management framework

The Bank through its Risk Management Framework (RMF):

- Establishes common principles and standards for the management and control of all risks, and to inform behaviour across the organisation;
- Provides a shared framework and language to improve awareness of risk management processes; and
- Provides clear accountability and responsibility for risk management.

The core components of the RMF include risk classifications, risk principles and standards, definitions of roles, responsibilities and governance structure. It also includes a clear definition of key terms to ensure that we use them consistently.

Risk principles

Risk principles are adopted by the Country Risk Management Committees. The principles describe the risk culture that the Bank wishes to sustain and develop. They provide the foundation point of the revised Risk framework. All risk decisions and risk management activity should be in line with, and in the spirit of, the overall risk principles of the Bank. The principles are as follows:

- *Balancing risk and reward*
  - Risk is taken in support of the requirements of the bank's stakeholders.
  - Risk should be taken in support of strategy and within risk appetite responsibility.
- *Responsibility*
  - It is the bank's responsibility to ensure that risk taking is both disciplined and focused.
  - We take account of our social responsibilities in taking risk to produce a return.
- *Accountability*
  - Risk is taken only within agreed authorities and where there is appropriate infrastructure and resources.
  - All risk taking must be transparent, controlled and reported.
- *Anticipation*
  - The Bank looks to anticipate future risks and to ensure awareness of all risk.
- *Risk management*

  The Bank has a specialist risk function, with strength in depth, experience across all risk types and economic scenarios.

25 Financial risk management (continued)

25.2 Risk management framework (continued)

The Bank's management has overall responsibility for the establishment and oversight of the Bank's risk management framework. The risk management department is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It works closely with the commercial organisation to support their activities, while safe-guarding the risk profile of the Bank. It institutes prudent risk monitoring and control mechanisms (processes and systems) to ensure compliance of individual risk assets and portfolios to agreed terms and policy parameters. It reviews and presents all credit submissions, risk policy and portfolio management reports to the Head Office.

The Bank continues to re-examine the entire process, inherent risk factors and controls and consider opportunities by rationalizing regulatory risk management initiatives. Experiencing from the crisis, and to deliver value beyond mere adherence, one part of the framework is Internal Capital Adequacy Assessment Process (ICAAP), to assess capital to cover risks not covered under Pillar 1. This ICAAP exercise has demonstrated that the Bank has sufficient capital buffers to cushion any extreme circumstances or scenarios and the Bank has adequate risk bearing capacity at 99.9% confidence level.

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.

25.3 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty will fail to meet a commitment / contractual obligation, resulting in financial loss to the Bank. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Bank. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

Credit risk management

Procedures for managing credit risk are determined at the business levels with specific policies and procedures being adapted to different risk environments and business goals. The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Credit analysis includes review of facility details, credit grade determination and financial spreading/ratio analysis. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are reviewed annually. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The businesses work with the Chief Manager-Risk Management to take responsibility for managing pricing risk, portfolio diversification and overall asset quality within the requirements of the Bank's standards, policies and business strategy.

25 Financial risk management (continued)

25.3 Credit risk (continued)

Credit Ratings

Within the Corporate & Small Medium Enterprises (SME) Banking business, a Basel-II compliant Internal Rating Model is used for quantifying the risk associated with the counterparty. The model has been named as BOB Risk Assessment Model (BOB-RAM) ("the model"). Accounts having exposure of AED 3.673 million (US Dollar 1 million) and above are rated under the model. The model is a two dimensional rating model under which both the obligor and facility are rated. Obligor rating grades are defined from BOB 1 to BOB 10. BOB 1 is the highest safety grade while BOB 10 is the default grade. BOB 1 to BOB 6 are defined as the investment grade rating while BOB 7 to BOB 10 are defined as the non-investment grade. Similarly facility rating grades are from FR 1 to FR 8. Obligor rating matrix and facility rating matrix are combined to produce combined rating (CR) from CR 1 to CR 10. Obligor Rating is the measure of Probability of Default ("PD") while Facility Rating is the measure of Loss Given Default ("LGD"). The combined rating will help bank measure expected loss. Pricing in corporate and SME exposures in AED currency are linked to the combined rating (CR). Exposures below AED 3.673 million (US Dollar 1 million) are rated under internal manual score based model. Based on the total score rating grade are defined as A+ to C with total 5 rating grades. A+ is the highest safety grade while C is the default grade.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including contingent liabilities and commitments. The maximum exposure is shown, before the effect of mitigation through the use of credit enhancements, master netting and collateral agreements.

	Note	**2015 AED'000**	2014 AED'000
Cash and balances with the Central Bank of the UAE (excluding cash on hand)	*5*	**2,419,561**	2,004,802
Due from banks	*6*	**4,465,250**	8,267,838
Due from head office and other branches	*27*	**2,288,493**	4,725,048
Loans and advances to customers	*7*	**18,610,479**	22,491,563
Investment securities	*8*	**9,366**	26,620
Customers' indebtedness under acceptances	*26*	**662,773**	2,003,824
Other assets (excluding prepayments and deferred tax asset)	*10*	**77,386**	148,165
Total		**28,533,308**	39,667,860
Letters of credit	*23*	**1,011,439**	1,427,258
Guarantees	*23*	**1,921,336**	1,938,582
Undrawn loan commitments	*23*	**3,036,898**	2,581,560
Total		**5,969,673**	5,947,400
Total credit risk exposure		**34,502,981**	45,615,260

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure, but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes. The effect of collateral and other risk mitigation technique is discussed below.

Risk mitigation

Collateral types which are eligible for risk mitigation include cash, residential, commercial and industrial properties, marketable securities, commodities, and plant and machinery in addition to bank guarantees and letters of credit. The valuation frequency of collateral is driven by the level of volatility in each class of collateral. Collateral held against impaired loans is maintained at fair value, which is the current market value of collateral under the assumption of 'normal' market conditions.

25 Financial risk management (continued)

25.3 Credit risk (continued)

Concentration risk

Credit concentration risk is managed via portfolio standards and within concentration caps set for counterparties or Banks of connected counterparties, and for industry sectors and credit grade bands.

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2015 was AED 945,739,096 (2014: AED 888,501,521) before taking account of collateral or other credit enhancements and nil as at 31 December 2015 (2014: nil) net of such protection. The credit exposure is 100% secured by way of deposits placed with the Head office.

The Bank's maximum exposure to credit risk, after provisions but before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	Loans and advances		Due from banks, Head office and other branches		Investment securities	
Concentration by location	2015 AED'000	2014 AED'000	2015 AED'000	2014 AED'000	2015 AED'000	2014 AED'000
Carrying amount, net	**18,610,479**	22,491,563	**6,753,743**	12,992,886	**9,366**	26,620
United Arab Emirates	**14,490,404**	11,493,688	**416,972**	828,650	-	-
Other Middle East Countries	**119,603**	118,857	**551,358**	471,912	-	-
India	**2,254,468**	9,449,299	**991,735**	2,508,660	**9,366**	12,746
Europe	**394,271**	440,549	**1,296,982**	2,051,303	-	-
USA	**22,956**	22,956	**1,318,789**	4,222,572	-	13,874
Others	**1,328,777**	966,214	**2,177,907**	2,909,789	-	-
Gross total	**18,610,479**	22,491,563	**6,753,743**	12,992,886	**9,366**	26,620

	Loans and advances		Due from banks, head office and other branches		Investment securities	
Concentration by sector	2015 AED'000	2014 AED'000	2015 AED'000	2014 AED'000	2015 AED'000	2014 AED'000
Agriculture	-	-	-	-	-	-
Mining and Quarrying	**1,294,663**	751,316	-	-	-	-
Manufacturing	**2,817,279**	3,486,096	-	-	-	-
Electricity, Gas and water	**1,016**	258,220	-	-	-	-
Real Estate	**429,732**	385,393	-	-	-	-
Trade	**4,199,228**	7,635,878	-	-	-	-
Transport and communication	**432,036**	1,057,334	-	-	**9,366**	12,746
Banks and financial institutions	**440,747**	1,362,145	**6,753,743**	12,992,886	-	13,874
Government	**805,733**	8,432	-	-	-	-
Others	**8,190,045**	7,546,749	-	-	-	-
Gross Total	**18,610,479**	22,491,563	**6,753,743**	12,992,886	**9,366**	26,620

25 Financial risk management (continued)

25.3 Credit risk (continued)

Investment Securities

The Bank has investments in debt securities which are classified into the available for sale category in accordance with the Head Office guidelines. Credit risk in these investments is managed within the overall credit risk appetite for corporates and financial institutions. The credit risk exposure in these investments is derived from the positive mark-to-market value of the underlying instruments, and an additional component to cater for potential market movements. The following table provide analysis of the debt securities. The standard credit ratings used by the Bank are those assessed by Standard & Poors or their equivalent.

Analysis of investment securities

Rating	2015 AED'000	2014 AED'000
A- to A+	-	13,874
Unrated	9,366	12,746
	9,366	26,620

Impaired loans and advances

Impaired loans and advances are financial assets for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s). These loans are classified as substandard, doubtful, and loss, as appropriate, which is in accordance with the guidelines issued by the UAE Central Bank.

Past due but not impaired loans

These are loans and advances where contractual interest or principal payments are past due but the Bank believes that impairment is inappropriate on the basis of a genuine repayment source and/or delays in receiving assigned receivables, the level of security/collateral available and/or the possible scope of collection of amounts owed to the Bank.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to a deterioration in the borrower's financial position and where the Bank has made some concessions such as initial maturity is being extended but there is no loss in terms of interest or principal. Once the loan is restructured it remains in this category for a minimum period of one year during which time repayment should be regular in order to transfer to standard portfolio.

Allowances for impairment

The Bank establishes allowance for impairment losses that represents its estimate for incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loan loss allowance established for Banks of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

Write-off policy

The Bank writes off loans/securities (and any related allowances for impairment losses) when it determines that there is no scope of recovery and the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure and there is no scope to pursue any other avenues.

25 Financial risk management (continued)

25.3 Credit risk (continued)

Collateral and other credit enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Bank holds collateral against loans and advances to customers in the form of cash margins, pledges/liens over deposits, mortgage interests over property, other registered securities over assets and guarantees. The Bank accepts guarantees from parent companies for loans to their subsidiaries or other Bank companies. Management monitor the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitor the market value of collateral obtained during its periodic review of credit facilities and of the adequacy of the allowance for impairment losses. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

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

Credit quality per class of financial assets

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

Individually impaired	**Loans and advances**		**Due from banks, Head office and other branches**		**Investment securities**	
	2015	2014	**2015**	2014	**2015**	2014
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Carrying amount, net	**16,422,428**	21,041,980	**6,753,743**	12,992,886	**9,366**	26,620
Impaired portfolio						
Substandard	**930,901**	206,290	-	-	-	-
Doubtful	**198,841**	416,435	-	-	-	-
Legal and loss	**1,524,131**	935,493	-	-	-	-
Total impaired portfolio	**2,653,873**	1,558,218	-	-	-	-
Interest in suspense	**(515,019)**	(315,630)	-	-	-	-
Specific allowance on impairment	**(1,409,973)**	(911,224)	-	-	-	-
Carrying amount	**728,881**	331,364	-	-	-	-
Non Impaired portfolio						
Past due but not impaired (overdue till 90 days)	**2,078,922**	2,328,122	-	-	-	-
Neither past due nor impaired	**13,877,684**	18,605,223	**6,753,743**	12,992,886	**9,366**	26,620
Total non-impaired portfolio	**15,956,606**	20,933,345	**6,753,743**	12,992,886	**9,366**	26,620
Collective impairment provision	**(256,274)**	(216,609)	-	-	-	-
Provision on restructured accounts	**(6,785)**	(6,120)	-	-	-	-
Carrying amount	**15,693,547**	20,710,616	**6,753,743**	12,992,886	**9,366**	26,620
Net carrying amount	**16,422,428**	21,041,980	**6,753,743**	12,992,886	**9,366**	26,620

25 Financial risk management (continued)

25.3 Credit risk (continued)

Aging analysis of past due but not impaired loans

The following tables set out the aging 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 counterparty is impaired.

Particulars	2015 Loans to customers			2014 Loans to customers		
	Consumer	Wholesale	Total	Consumer	Wholesale	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Up to 30 days past due	-	1,624,861	1,624,861	22	1,370,671	1,370,693
Between 31-60 days past due	80	161,655	161,735	1,544	602,181	603,725
Between 61-90 days past due	6,254	286,072	292,326	21,152	332,552	353,704
	6,334	2,072,588	2,078,922	22,718	2,305,404	2,328,122

Renegotiated loans

Loans renegotiated which would otherwise be past due or impaired, continue to be accounted for as renegotiated until a minimum number of payments have been received under the new terms, after which they are considered to be performing loans.

	2015	2014
	AED'000	AED'000
Loans and advances	885,601	1,081,271

25.4 Market risk

Market Risk is the risk that changes in market prices such as interest rates, equity prices and foreign exchange rates and credit spreads (not relating to change in the obligor's/issuer's credit standing) - will affect the Bank's profit or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank's solvency while optimising the return on risk. The Bank is exposed to market risk on its banking book as well as trading book. Market risk in the banking book is managed in accordance with the Bank's Asset and Liability Committee (ALCO), while market risk in the trading book is managed in accordance with the investment policy and treasury policy. The Bank has very limited trading portfolio, hence it is not exposed to any significant market risk in respect of trading portfolio.

25 Financial risk management (continued)

25.4 Market risk (continued)

Management of market risk

Market risk is governed by the Board approved ALCO committee, investment policy and treasury policy which define levels of risk appetite in terms of Earning at Risk, forex positions and aggregate gap limit. The Asset Liability Management Committee provides market risk oversight and guidance on policy setting. The investment and treasury policies cover both trading and non-trading books of the Bank. As part of its global treasury project, the bank has also implemented Value at Risk (VaR) technique globally which is generated on daily basis for treasury portfolio. As on date, the Bank has not defined limits in terms of VaR.

Policies as above define Board approved limits within delegated authorities and monitors exposures against these limits. Additional limits are placed on specific instruments and currency concentrations where appropriate. Sensitivity measures are used in addition to VaR as risk management tools. For example, interest rate sensitivity is measured in terms of exposure to a one basis point increase in yields, whereas foreign exchange sensitivities are measured in terms of the underlying values or amounts involved.

In addition to policies as well as VaR and other market risk limits, independent stress testing of portfolios, factor sensitivity measures are also employed as additional risk management tools to manage market risk exposures. Risk models are periodically back tested against actual results to ensure pre-determined levels of accuracy are maintained.

Interest Rate Risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of changes in market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. Interest rate risk is managed principally through monitoring interest rate gaps and establishing limits on the interest rate gaps for stipulated periods. The ALCO is the monitoring body for compliance with these limits. Interest rate risk is also assessed by measuring the impact of reasonable possible interest rate movements. Assuming a fluctuation in interest rate of 200 basis points, the Bank estimates the impact on its Net Interest Income (NII) as under:

Sensitivity analysis - interest rate risk

	2015 **AED'000**	2014 AED'000
Shift in yield curve		
+100 bps	**13,282**	16,690
-100 bps	**(13,282)**	(16,690)

A substantial portion of the Bank's assets and liabilities are re-priced within 1-year. Accordingly there is limited exposure to interest rate risk. The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 14,839 million of interest bearing assets and AED 17,228 million of interest bearing liabilities that are maturing less than one year as at 31 December 2015 (31 December 2014: AED 18,741 million interest bearing assets and AED 19,847 million interest bearing liabilities.) The sensitivity does not incorporate actions that could be taken by the management to mitigate the effect of interest rate movements.

25 Financial risk management (continued)

25.4 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
	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	100,000	750,000	-	200,000	-	1,604,968	2,654,968	-
Due from banks	2,261,406	1,056,797	974,650	165,285	-	7,112	4,465,250	0.06%-4.75%
Due from the Head office and other branches	1,881,194	407,299	-	-	-	-	2,288,493	0.6%-2.5%
Loans and advances to customers	3,576,294	1,821,753	1,319,204	324,725	9,380,452	-	16,422,428	1.34%-16%
Investment securities	-	-	-	-	9,366	-	9,366	3.0%-10.5%
Customers' indebtedness under acceptances	-	-	-	-	-	662,773	662,773	-
Furniture and equipments	-	-	-	-	-	5,404	5,404	-
Other assets	-	-	-	-	-	524,948	524,948	-
Total assets	**7,818,894**	**4,035,849**	**2,293,854**	**690,010**	**9,389,818**	**2,805,205**	**27,033,630**	
Due to banks	1,667,565	713,140	305,475	2,134,534	-	235,244	5,055,958	0.19%-0.6%
Due to the head office and other branches	9,182	3,306	1,818,135	-	-	30,160	1,860,783	0.1%-2.1%
Deposits from customers	2,282,961	2,522,320	2,710,251	3,061,017	39,993	5,328,124	15,944,666	0.015%-6.5%
Derivatives	-	-	-	-	-	4,749	4,749	-
Liabilites under acceptances	-	-	-	-	-	662,773	662,773	-
Other liabilities	-	-	-	-	-	468,912	468,912	-
Total liabilities and equity	**3,959,708**	**3,238,766**	**4,833,861**	**5,195,551**	**39,993**	**6,729,962**	**23,997,841**	
On balance sheet interest rate sensitivity gap - 2015	**3,859,186**	**797,083**	**(2,540,007)**	**(4,505,541)**	**9,349,825**	**(3,924,757)**	**3,035,789**	
Cumulative interest rate sensitivity gap - 2015	**3,859,186**	**4,656,269**	**2,116,262**	**(2,389,279)**	**6,960,546**	**3,035,789**		

25 Financial risk management (continued)

25.4 Market risk (continued)

Interest rate sensitivity of asset and liabilities (continued)

The assets and liabilities repricing profile has been determined on the basis of the final maturity period or interest repricing periods at the reporting date, whichever is earlier.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

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
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	%
2014								
Cash and balances with the Central Bank of the UAE	-	-	-	-	-	2,094,682	2,094,682	-
Due from banks	1,699,151	2,391,123	1,873,230	2,233,184	-	71,150	8,267,838	0.06%-4.75%
Due from the Head office and other branches	3,127,132	1,568,371	29,384	-	-	161	4,725,048	0.6%-2.5%
Loans and advances to customers	1,819,889	3,310,421	366,840	322,565	15,222,265	-	21,041,980	1.34%-16%
Investment securities	-	-	-	-	26,620	-	26,620	3.0%-10.5%
Customers' indebtedness under acceptances	-	-	-	-	-	2,003,824	2,003,824	-
Furniture and equipments	-	-	-	-	-	8,235	8,235	-
Other assets	-	-	-	-	-	448,585	448,585	-
Total assets	**6,646,172**	**7,269,915**	**2,269,454**	**2,555,749**	**15,248,885**	**4,626,637**	**38,616,812**	
Due to banks	1,584,434	1,202,908	459,125	1,540,835	367,298	566,893	5,721,493	0.19%-0.6%
Due to the head office and other branches	1,837	3,306	-	367,300	1,818,135	83,761	2,274,339	0.1%-2.1%
Deposits from customers	2,653,532	3,680,542	4,085,385	4,267,380	123,517	10,595,677	25,406,033	0.015%-6.5%
Derivaitves	-	-	-	-	-	72,677	72,677	-
Liabilites under acceptances	-	-	-	-	-	2,003,824	2,003,824	-
Other liabilities	-	-	-	-	-	451,869	451,869	-
Total liabilities and equity	**4,239,803**	**4,886,756**	**4,544,510**	**6,175,515**	**2,308,950**	**13,774,701**	**35,930,235**	
On balance sheet interest rate sensitivity gap - 2014	**2,406,369**	**2,383,159**	**(2,275,056)**	**(3,619,766)**	**12,939,935**	**(9,148,064)**	**2,686,577**	
Cumulative interest rate sensitivity gap - 2014	**2,406,369**	**4,789,528**	**2,514,472**	**(1,105,294)**	**11,834,641**	**2,686,577**		

25 Financial risk management (continued)

25.4 Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

As the UAE Dirham and other GCC currencies, except Kuwait are currently pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

The tables below indicates the currencies to which the Bank had significant exposure at 31 December 2015 on its non-trading monetary assets and liabilities and its forecast cash flows.

	2015 AED'000	2014 AED'000
Currency		
Euro	**800**	(9,660)
Kuwaiti Dinars	**-**	139
Saudi Riyals	**112**	1,017
United Kingdom Pounds	**(502)**	668
Swiss Francs	**(435)**	906
Japanese Yen	**292**	8,009

Equity price risk

Equity price risk is the possibility that equity prices will fluctuate, affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices. The bank has no exposure to equity price risk as at 31 December 2015.

25.5 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk can be segregated into two broad categories:

1) Funding liquidity risk is the risk that the Bank will encounter difficulty in funding the increase in assets and meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets, without incurring unacceptable losses.

2) Market liquidity risk is the risk that the Bank cannot easily offset or eliminate a position at the market price because of market disruption or inadequate market depth.

Management of liquidity risk

The Bank manages liquidity risk on a short term, medium term and long term basis. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. ALCO is the responsible governing body that approves the Bank's liquidity management policies. Liquidity is managed by the ALCO within the pre-defined liquidity limits as set out in the Board approved Asset Liability Management Policy. 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.

25 Financial risk management (continued)

25.5 Liquidity risk (continued)

The key elements of the Bank's liquidity strategy are as follows :

a) Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities;
b) Carrying a portfolio of highly liquid assets, diversified by currency and maturity;
c) Monitoring liquidity ratios, maturity mismatches, behavioral characteristics of the Bank's financial assets and liabilities, and the extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding; and
d) Carrying out stress testing of the Bank's liquidity position.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets (i.e. total assets by maturity against total liabilities by maturity) and its loans to deposit ratio.

	2015	2014
	AED'000	AED'000
Loans and advances to customers, net	**16,422,428**	21,041,980
Deposits from customers	**15,944,666**	25,406,033
Loans to deposit ratio	**103%**	**83%**

Details of the Bank's net liquid assets are summarised in the table below by the maturity profile of the Bank's assets and liabilities based on the contractual repayments. The maturity profile is monitored by the management to ensure adequate liquidity is maintained.

25 Financial risk management (continued)

25.5 Liquidity risk (continued)

Maturity profile of asset and liabilities

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	1,704,968	750,000	-	200,000	-	2,654,968
Due from banks	2,268,518	1,056,797	974,650	165,285	-	4,465,250
Due from the head office and other branches	1,881,194	407,299	-	-	-	2,288,493
Loans and advances to customers	3,576,294	1,821,753	1,319,204	324,725	9,380,452	16,422,428
Investment securities	-	-	-	-	9,366	9,366
Furniture and equipments	-	-	-	-	5,404	5,404
Other assets	5,914	78,816	1,140	-	439,078	524,948
Total assets	**9,436,888**	**4,114,665**	**2,294,994**	**690,010**	**9,834,300**	**26,370,857**
Due to banks	1,902,809	713,140	305,475	2,134,534	-	5,055,958
Due to the head office and other branches	39,342	3,306	-	-	1,818,135	1,860,783
Deposits from customers	7,095,878	2,522,320	3,225,458	3,061,017	39,993	15,944,666
Other liabilities	127,907	165,607	114,741	60,657	-	468,912
Derivatives	-	-	-	4,749	-	4,749
Equity	-	-	-	-	3,035,789	3,035,789
Total liabilities and equity	**9,165,936**	**3,404,373**	**3,645,674**	**5,260,957**	**4,893,917**	**26,370,857**
Net on balance sheet liquidity gap 2015	**270,952**	**710,292**	**(1,350,680)**	**(4,570,947)**	**4,940,383**	**-**
At 31 December 2014:						
Total assets	8,865,713	7,269,915	2,375,799	2,555,749	15,257,120	36,324,296
Total liabilities and equity	16,026,370	5,031,903	4,263,238	6,295,949	4,706,836	36,324,296
Net on balance sheet liquidity gap 2014	(7,160,657)	2,238,012	(1,887,439)	(3,740,200)	10,550,284	-

25.6 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or the impact of external events. Operational risks emanate from every segment of Bank's operation and are faced by all the business units. The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, the Bank's policy requires compliance with all applicable legal and regulatory requirements.

25 Financial risk management (continued)

25.6 Operational risk (continued)

The Bank has taken measures to put in place tools, firstly to identify all such operational risks. The Bank has also taken measures to implement processes and policies to mitigate the risk to an acceptable level and to avoid or minimise financial losses and damage to Bank's reputation. In order to ensure a structured and focused operational risk management process, the Bank has also formed an Operational Risk Management Committee ("ORMC") whose mandate is to oversee operational risk management process, consider each operational risk in order of "priority by significance", to develop policies, processes and procedures for managing operational risk in all of the Bank's material products, activities, processes and systems as well as recommend best way to integrate the operational risk management in the overall organisation wide risk management process. ORMC should develop overall Bank standards for the management of operational risk in the following areas:

a) requirements for appropriate segregation of duties, including the independent authorisation of transactions;
b) requirements for the reconciliation and monitoring of transactions;
c) compliance with regulatory and other legal requirements;
d) documentation of controls and procedures;
e) requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
f) requirements for the reporting of operational losses and proposed remedial action;
g) development of contingency plans;
h) training and professional development;
i) ethical and business standards; and
j) risk mitigation, including insurance where this is cost effective.

Compliance with Head Office standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are shared with Audit Committee at Head Office level and Senior Management of the Bank.

In addition to the reviews by internal audit, the compliance with policies and procedures is strengthened by reviews of compliance and operational risk manager.

25.7 Derivative financial instruments

The Bank enters into a variety of derivative financial instruments for hedging purposes. Derivative financial instruments used by the Bank include swaps, foreign exchange forward contracts and commodity contracts. The Bank is not engaged in any trading in derivatives. Derivatives are used purely for the hedging purposes for the clients as well as the Bank's own balance sheet positions.

Swaps are agreements between the Bank and other parties to exchange future cash flows based upon agreed notional amounts. Swaps most commonly used by the Bank are interest rate swaps. Under interest rate swaps, the Bank agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount.

Foreign exchange forward contracts are commitments to either purchase or sell foreign currencies at a specified future date for a specified price.

The Bank is subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavourable movements in interest rates relative to the contractual rates. However, market risk in most of the cases is covered through back-to-back deals to square the Bank's position.

25 Financial risk management (continued)

25.7 Derivative financial instruments (continued)

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity.

				Notional amount by term to maturity			
	Positive fair value	Negative fair value	Notional Amount	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
2015							
Interest rate contracts	-	-	-	-	-	-	-
Foreign exchange contracts	-	4,749	9,172,461	5,946,475	3,225,986	-	-
Total 2015	-	4,749	9,172,461	5,946,475	3,225,986	-	-
2014							
Interest rate contracts	-	-	-	-	-	-	-
Foreign exchange contracts	-	72,677	13,314,663	8,319,680	4,994,983	-	-
Total 2014	-	72,677	13,314,663	8,319,680	4,994,983	-	-

25.8 Capital risk management

The Bank's regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements.

The Bank's objective when managing capital are as follows:

1) Safeguarding the Bank's ability to continue as a going concern and increase return for stakeholders; and
2) Comply with regulatory capital set by Central Bank of UAE.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on stakeholders' return is also recognized and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank also assesses its capital requirements internally taking into consideration growth requirements and business plans, and quantifies its regulatory and risk / economic capital requirements within its integrated ICAAP Framework. Risks such as interest rate risk in the banking book, concentration risk, strategic risk, legal and compliance risk, stress risk, insurance risk and reputational risk are all part of the ICAAP.

The Bank's regulatory capital adequacy ratio is set by the Central bank of UAE ("the Central Bank"). The Bank has determined its regulatory capital as recommended by the New Basel II Capital Accord, in line with the guidelines of the UAE Central Bank with effect from 2007. The Bank has complied with all externally imposed capital requirements throughout the year. There have been no material changes in the Bank's management of capital during the year. The Central Bank has advised that the minimum capital adequacy ratio should be 12% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 8% .

25 Financial risk management (continued)

25.8 Capital risk management (continued)

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

- Tier 1 capital, includes share capital, statutory reserves and retained earnings.
- Tier 2 capital includes General Provisions (allowed up to 1.25% of the Risk Weighted Assets) and the element of fair value reserve relating to unrealised gains / losses on financial assets classified as available for sale and cash flow hedges.
- Total tier 2 capital shall not exceed 67% of tier 1 capital.
- General provision shall not exceed 1.25% of total risk weighted assets.

The Bank has complied with all regulatory requirements issued by the Central Bank of the UAE during the year. Following is the Bank's capital adequacy position under Basel I & Basel II at 31 December 2015:

	2015 AED'000	2014 AED'000
TIER 1 CAPITAL		
Head office assigned capital	**760,000**	390,000
Statutory reserves	**58,191**	58,191
Retained earnings	**2,244,962**	2,262,370
Total tier 1 capital	**3,063,153**	2,710,561
TIER 2 CAPITAL		
Fair value reserve	**(27,364)**	(23,984)
General provisions/general loan loss reserves	**212,993**	213,136
Total tier 2 capital	**185,629**	189,152
Total regulatory capital (Sum of tier 1 and 2 capital)	**3,248,782**	2,899,713
RISK WEIGHTED ASSETS		
Credit risk	**11,514,338**	18,177,715
Market risk	**1,297**	183
Operational risk	**1,285,303**	1,216,216
Total risk weighted assets (RWA)	**12,800,938**	19,394,114
Total regulatory capital expressed as % of RWA	**25.38%**	14.95%
Total tier 1 capital expressed as % of RWA	**23.93%**	13.98%

26 Customers' indebtedness and liabilities under acceptances

	2015 AED'000	2014 AED'000
Customers' indebtedness for and Bank's liabilities under acceptances	**662,773**	2,003,824

Customers' indebtedness under acceptances represent the accepted documented liability amount which is recoverable from the respective customers of the Bank at the reporting date.

Liabilities under acceptances represent bills of exchange, letter of credits etc. where the Bank has accepted the liabilities under documentary credits at the reporting date. These assets and liabilities have been presented on a gross basis on the face of the statement of financial position as the Bank does not have a legal right of set-off.

27 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the case of the Bank, related parties, as defined in International Accounting Standard 24: Related Parties (IAS 24), include key management personnel and other branches and fellow subsidiaries part of Bank of Baroda Group, with whom banking transactions are carried out on mutually agreed terms. The management believes that the terms and transaction are comparable with those that could be obtained from third parties.

The significant transactions included in the financial statements with related parties are as follows:

	2015 **AED'000**	2014 AED'000
Interest income	**69,668**	79,747
Interest expense	**116,645**	132,500
Head Office charges	**1,807**	2,907
Funds remitted from Head office	**370,000**	-

The year-end balances in respect of related parties are disclosed as due from / to the Head Office and branches. The balances of amounts due from / to the Head Office and branches are as follows:

Due from the Head office and other branches	**2015** **AED'000**	2014 AED'000
Bank of Baroda - New York	**1,314,297**	4,161,509
Bank of Baroda - Brussels	**92,033**	269,538
Bank of Baroda - Hong Kong	**367,300**	110,190
Bank of Baroda - Bahrain	**275,475**	135,901
Bank of Baroda - United Kingdom	**193,451**	154
Bank of Baroda - India (Mumbai)	**24**	7
Bank of Baroda - Kenya	**16,529**	18,365
Bank of Baroda - Uganda	**29,384**	29,384
	2,288,493	4,725,048

Due to the Head office and other branches	**2015** **AED'000**	2014 AED'000
Bank of Baroda - United Kingdom	**1,819,431**	2,185,435
Bank of Baroda - UAE Branches	**6,361**	32,765
Bank of Baroda - Brussels	**-**	20,694
Bank of Baroda - New York	**-**	13,077
Bank of Baroda - Oman	**24,381**	11,745
Bank of Baroda - India (Mumbai)	**10,596**	10,345
Bank of Baroda - DIFC Branch	**14**	278
	1,860,783	2,274,339

27.1 The Bank's management has identified only the Chief Executive Officer as key management personnel. The disclosure, as required under IAS 24 (Revised) with respect to key management remuneration, would result in the disclosure of the compensation paid to the Chief Executive Officer. Due to the sensitive nature of this information no disclosure has been provided in these financial statements.

28 Accounting classification and fair values

The table below shows a reconciliation between line items in the statement of financial position and categories of financial instruments:

Particulars	Carrying amount AED'000	Available for sale AED'000	Others at amortised cost AED'000
2015			
Financial assets			
Cash and balances with the Central Bank of the UAE	**2,654,968**	-	**2,654,968**
Due from banks	**4,465,250**	-	**4,465,250**
Due from the Head office and other branches	**2,288,493**	-	**2,288,493**
Loans and advances to customers	**16,422,428**	-	**16,422,428**
Investment securities	**9,366**	**9,366**	-
Customers' indebtedness under acceptances	**662,773**	-	**662,773**
Other assets (excluding prepayments and deferred tax asset)	**77,386**	-	**77,386**
	26,580,664	**9,366**	**26,571,298**
Financial liabilities			
Due to banks	**5,055,958**	-	**5,055,958**
Due to the Head office and other branches	**1,860,783**	-	**1,860,783**
Deposits from customers	**15,944,666**	-	**15,944,666**
Derivatives	**4,749**	-	**4,749**
Liabilities under acceptances	**662,773**	-	**662,773**
Other liabilities (accrued interest payable)	**113,392**	-	**113,392**
	23,642,321	-	**23,642,321**
2014			
Financial assets			
Cash and balances with the Central Bank of the UAE	2,094,682	-	2,094,682
Due from banks	8,267,838	-	8,267,838
Due from the Head office and other branches	4,725,048	-	4,725,048
Loans and advances to customers	21,041,980	-	21,041,980
Investment securities	26,620	26,620	-
Customers' indebtedness under acceptances	2,003,824	-	2,003,824
Other assets (excluding prepayments and deferred tax asset)	148,165	-	148,165
	38,308,157	26,620	38,281,537
Financial liabilities			
Due to banks	5,721,493	-	5,721,493
Due to the Head office and other branches	2,274,339	-	2,274,339
Deposits from customers	25,406,033	-	25,406,033
Derivatives	72,677	-	72,677
Liabilities under acceptances	2,003,824	-	2,003,824
Other liabilities (accrued interest payable)	124,245	-	124,245
	35,602,611	-	35,602,611

Management believes that the fair values of financial assets and liabilities measured at amortised cost are not significantly different from their carrying values in these financial statements.

28 Accounting classification and fair values (continued)

Fair value measurement – fair value hierarchy:

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

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, bank, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.

Level 2: Valuation techniques based on observable input, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark profit rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Bank of Baroda - UAE Branches

Notes (continued)

28 Accounting classification and fair values (continued)

a) Fair value hierarchy of assets/liabilities measured at fair value

The following table analyses financial instruments measure at fair value at the reporting date, by the level and the fair value hierarchy into which the fair value measure is categorised. The amounts are based on the values recognised in the statement of financial position.

Particulars	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
2015				
Financial assets				
Derivative financial instruments				
Quoted investments	9,366	-	-	9,366
Total assets	9,366	-	-	9,366
Financial liabilities				
Derivative financial instruments				
Forward foreign exchange contracts	-	4,749	-	4,749
	-	4,749	-	4,749
2014				
Financial assets				
Derivative financial instruments				
Quoted investments	26,620	-	-	26,620
Total assets	26,620	-	-	26,620
Financial liabilities				
Derivative financial instruments				
Forward foreign exchange contracts	-	72,677	-	72,677
	-	72,677	-	72,677

Financial investments – available for sale
Available for sale financial assets are valued using the marked quoted price in an active market.

Movements in level 3 financial instruments measured at fair value
There was no movement between the levels of financial instruments during the year (2014: AED nil).

Bank of Baroda - UAE Branches

Notes (continued)

28 Accounting classification and fair values (continued)

b) Fair value hierarchy of financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses by the level in the fair value hierarchy into which each fair value measurement is categorised. The fair values of financial instruments not recorded at fair value are not materially different to their carrying values.

Particulars	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
2015				
Financial assets				
Cash and balances with the Central Bank of the UAE	-	2,654,968	-	2,654,968
Due from banks	-	4,465,250	-	4,465,250
Due from the Head Office and other branches	-	-	2,288,493	2,288,493
Loans and advances to customers	-	-	16,422,428	16,422,428
Other assets (excluding prepayments and deferred tax asset)	-	-	77,386	77,386
Customers' indebtedness under acceptances	-	-	662,773	662,773
Total assets	-	7,120,218	19,451,080	26,571,298
Financial liabilities				
Due to banks	-	5,055,958	-	5,055,958
Due to the Head Office and other branches	-	-	1,860,783	1,860,783
Deposits from customers	-	15,944,666	-	15,944,666
Liabilities under acceptances	-	-	662,773	662,773
Other liabilities (accrued interest payable)	-	-	113,392	113,392
Total liabilities	-	21,000,624	2,636,948	23,637,572
2014				
Financial assets				
Cash and balances with the Central Bank of the UAE	-	2,094,682	-	2,094,682
Due from banks	-	8,267,838	-	8,267,838
Due from the Head Office and other branches	-	-	4,725,048	4,725,048
Loans and advances to customers	-	-	21,041,980	21,041,980
Other assets (excluding prepayments and deferred tax asset)	-	-	148,165	148,165
Customers' indebtedness under acceptances	-	-	2,003,824	2,003,824
Total assets	-	10,362,520	27,919,017	38,281,537
Financial liabilities				
Due to banks	-	5,721,493	-	5,721,493
Due to the Head Office and other branches	-	-	2,274,339	2,274,339
Deposits from customers	-	25,406,033	-	25,406,033
Liabilities under acceptances	-	-	2,003,824	2,003,824
Other liabilities (accrued interest payable)	-	-	124,245	124,245
Total liabilities	-	31,127,526	4,402,408	35,529,934

28 Accounting classification and fair values (continued)

b) Fair value hierarchy of financial instruments not measured at fair value (continued)

Gains or losses on level 3 financial instruments included in the statement of profit or loss for the year:
No gains or losses on level 3 financial instruments were included in the statement of profit or loss for the year (2014: AED nil).

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions
The impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument is negligible.

In order to determine reasonably possible alternative assumptions the Bank adjusted key unobservable models inputs for debt securities (other than asset backed securities), the Bank adjusted the probability of default and loss given default assumptions by increasing and decreasing the assumptions by 10%, which is a range that is consistent with the Bank's internal credit risk ratings for the counterparties.

Fair value of financial assets and liabilities not carried at fair value
The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

Asset for which fair value approximates carrying value
For financial assets and financial liabilities that have short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without specific maturity.

Fixed rate financial instruments
The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit and maturity. For other variable rate instruments, an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

29 Comparative figures

Certain comparative figures have been re-classified where necessary to conform to the current year's presentation. Management believes that their impact is limited to the disclosures and presentation requirements only.