Bank of Baroda - UAE Branches

FINANCIAL STATEMENTS
for the year ended 31 December 2016

Bank of Baroda - UAE Branches

Financial statements
for the year ended 31 December 2016

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Independent auditor's report to the management of Bank of Baroda – UAE Branches

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bank of Baroda - UAE Branches (comprising Dubai - Main, Deira, Ras Al Khaimah, Sharjah, Abu Dhabi and Al Ain Branches of Bank of Baroda collectively referred to as the "UAE Branches" or the "Bank") as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's financial statements comprise:
- the statement of financial position as at December 31, 2016;
- the statement of profit or loss for the year then ended;
- the statement of other comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Independent auditor's report to the management of Bank of Baroda – UAE Branches (continued)

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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Independent auditor's report to the management of Bank of Baroda – UAE Branches (continued)

Responsibilities of management and those charged with governance for the financial statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory matters

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

PricewaterhouseCoopers
29 March 2017

Douglas O'Mahony

Douglas O'Mahony
Registered Auditor Number: 834
Place: Dubai, United Arab Emirates

Statement of financial position

	Notes	As at 31 December 2016 AED'000	2015 AED'000
ASSETS			
Cash and balances with the UAE Central Bank	5	2,222,474	2,654,968
Due from banks	6	5,969,048	4,465,250
Due from Head Office and other branches	27	2,655,973	2,288,493
Loans and advances to customers	7	11,929,940	16,422,428
Investment securities	8	154,696	9,366
Derivatives	25	12,833	-
Customers' indebtedness under acceptances	26	1,796,383	662,773
Furniture and equipment	9	4,858	5,404
Deferred tax asset	22	505,006	436,252
Other assets	10	81,806	88,696
Total assets		25,333,017	27,033,630
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	11	1,574,329	5,055,958
Due to Head Office and other branches	27	1,499,844	1,860,783
Deposits from customers	12	17,162,612	15,944,666
Liabilities under acceptances	26	1,796,383	662,773
Derivatives	25	-	4,749
Other liabilities	13	460,551	468,912
Total liabilities		22,493,719	23,997,841
EQUITY			
Head Office assigned capital	14	760,000	760,000
Statutory reserve	15	58,191	58,191
Fair value reserve	8	(1,590)	(27,364)
Retained earnings		2,022,697	2,244,962
Net equity		2,839,298	3,035,789
Total liabilities and equity		25,333,017	27,033,630

These financial statements were approved and authorised for issue on 29 March 2017 and signed by:

Vineet K Dudeja
Chief Executive – GCC Operations

Statement of profit or loss

	Notes	Year ended 31 December 2016 AED'000	2015 AED'000
Interest income	16	679,866	775,175
Interest expense	17	(254,938)	(301,396)
Net interest income		424,928	473,779
Fee and commission income	18	74,814	103,074
Fee and commission expense	18	(126)	(284)
Net fee and commission income		74,688	102,790
Other operating income	19	64,255	95,870
Total income		563,871	672,439
Personnel expenses	20	(46,097)	(47,985)
Depreciation	9	(2,314)	(3,507)
General and administrative expenses	21	(45,209)	(52,399)
Total expenses		(93,620)	(103,891)
Profit before impairment losses and taxation		470,251	568,548
Impairment losses (net)	7.2	(591,721)	(541,879)
Impairment of avaiable for sale investments	8	(28,635)	-
(Loss)/Profit for the year before taxation		(150,105)	26,669
Taxation	22	(72,160)	(44,077)
Loss for the year		(222,265)	(17,408)

The notes on pages 9 to 66 are an integral part of these financial statements.

Statement of other comprehensive income

	Notes	Year ended 31 December 2016 AED'000	2015 AED'000
Loss for the year		(222,265)	(17,408)
Other comprehensive income			
Items that will not be reclassified to the statement of profit or loss:		-	-
Items that are or maybe reclassified subsequently to the statement of profit or loss:		-	-
Loss from changes in fair value of available for sale investments		(1,590)	(3,380)
Available for sale investments reserve – reclassified to the statement of profit or loss		27,364	-
Total other comprehensive income/(loss)		25,774	(3,380)
Total comprehensive loss for the year		(196,491)	(20,788)

Statement of changes in equity

	Head Office assigned capital AED'000	Statutory reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000
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
Total comprehensive 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)
At 31 December 2015	**760,000**	**58,191**	**(27,364)**	**2,244,962**	**3,035,789**
Other equity movements					
Loss for the year	-	-	-	(222,265)	(222,265)
Other comprehensive income					
Changes in fair value of available for sale investments	-	-	(1,590)	-	(1,590)
Available for sale investments reserve – reclassified to the statement of profit or loss	-	-	27,364	-	27,364
Total comprehensive loss for the year	-	-	25,774	(222,265)	(196,491)
At 31 December 2016	760,000	58,191	(1,590)	2,022,697	2,839,298

The notes on the pages 9 to 66 form an integral part of these financial statements

Statement of cash flows

	Notes	Year ended 31 December 2016 AED'000	2015 AED'000
Cash flows from operating activities			
Loss for the year before taxation		(150,105)	26,669
Adjustments for:			
Impairment losses on loans and advances		591,721	539,079
Impairment of available for sale investments		29,084	13,874
Depreciation		2,314	3,507
Write off		840	(1,216)
Fair value loss on derivatives		(17,582)	(67,928)
End of service benefit provision		2,874	-
Operating cash flows before changes in working capital and tax paid		459,146	513,985
Changes in working capital:			
End of service benefit paid		(1,312)	-
Change in due from Central Bank of the UAE maturing after three months		(1,231,072)	(200,000)
Change in due from banks maturing after three months		(3,176)	2,966,479
Change in due from Head Office		(51,658)	29,384
Change in loans and advances to customers		3,900,767	4,080,473
Change in other assets		6,890	71,197
Change in deposits from customers		1,217,946	(9,461,367)
Change in due to banks		(1,861,526)	72,750
Change in due to the Head Office and other branches		(347,099)	(367,300)
Change in other liabilities		55,693	33,894
Taxes paid		(206,530)	(208,488)
Net cash generated from/(used in) operating activities		1,938,069	(2,468,993)
Cash flows from investing activities			
Purchase of investments		(148,640)	-
Proceeds on maturity of investment securities		-	-
Purchase of furniture and equipments		(2,608)	(3,990)
Proceeds from sale of furniture and equipments		-	4,530
Net cash generated from investing activities		(151,248)	540
Cash flows from financing activities			
Additional assigned capital received from the Head Office		-	370,000
Net increase/(decrease) in cash and cash equivalents		1,786,821	(2,098,453)
Cash and cash equivalents at 1 January		5,410,179	7,508,632
Cash and cash equivalents at 31 December	24	7,197,000	5,410,179

The notes on the pages 9 to 66 form an integral part of these financial statements

Notes to the financial statements for the year ended 31 December 2016

1 Incorporation and principal activities

Bank of Baroda - UAE Branches (the "Bank) operates in the United Arab Emirates (the "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 International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board (IASB).

(b) Basis of measurement

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

- Derivative financial instruments; and
- Available-for-sale ("AFS") financial instruments.

(c) Functional and presentation currency

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

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

2 Basis of preparation (continued)

(d) *Use of estimates and judgments*

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

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 Summary of significant accounting policies

(a) *New standards, amendments and interpretations adopted by the Bank*

The following new standards and amendments to standards and interpretations are applicable to the Bank for the first time for the financial year beginning on or after 1 January 2016.

Amendments to IAS 1 Presentation of financial statements (disclosure initiative). The amendments clarify that it may be necessary to disaggregate some of the line items specified in IAS 1 paragraphs 54 (statement of financial position) and 82 (profit or loss). That disaggregation is required where it is relevant to an understanding of the entity's financial position or performance. The amendment is effective for accounting periods beginning on or after 1 January 2016.

Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortisation. This amendment clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The presumption may only be rebutted in certain limited circumstances. The amendment is effective for accounting periods beginning on or after 1 January 2016.

Annual improvements 2014. These annual improvements amend standards from the 2012 - 2014 reporting cycle. It includes changes to:

- IFRS 7, 'Financial instruments: Disclosures' – The amendment related to servicing contracts requires that if an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets.

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

3 Summary of significant accounting policies (continued)

- IAS 19, 'Employee benefits' – The amendment clarifies, when determining the discount rate for post-employment benefit obligations, that it is the currency that the liabilities are denominated in that is important, not the country where they arise.

The improvements are effective for accounting periods beginning on or after 1 January 2016.

There is no material impact of the above amendments and revised standards on the financial statements of the Bank.

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

(b) Standards, amendments and interpretations issued but not yet effective for the Bank's accounting period beginning on 1 January 2016 and not early adopted

Amendments to IAS 7, Statement of cash flows on disclosure initiative. These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities including those from cash flows and other non-cash changes. The new requirement typically entails a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The amendment is effective for accounting periods beginning on or after 1 January 2017.

IFRS 9, 'Financial instruments'. The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ('OCI') and fair value through profit or loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018.

3 Summary of significant accounting policies (continued)

(b) Standards, amendments and interpretations issued but not yet effective for the Bank's accounting period beginning on 1 January 2016 and not early adopted (continued)

IFRS 15, 'Revenue from contracts with customers'. This standard replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The standard is effective for accounting periods beginning on or after 1 January 2018.

Amendment to IFRS 15, 'Revenue from contracts with customers. These amendments comprise clarifications on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard.

IFRS 16 'Leases'. This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes. The standard is effective for accounting periods beginning on or after 1 January 2019.

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

3 Summary of significant accounting policies (continued)

As of date of issuance of these financial statements, management are still in the process of evaluating the impact of these new and revised standards on the financial statements. The Bank's focus continues to be on developing the impairment models and processes in order to be fully compliant with IFRS 9. The Bank believes that once it finalises the impairment model and processes, it will be in a better position to assess the potential impact of IFRS 9 on its financial statements.

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

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

3.1 Foreign currencies

Foreign currency transactions are translated into the functional currency (UAE Dirham) using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

3.2 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, balances with the UAE Central Bank, loans and advances to banks, deposit from banks and the amounts due from and to 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 commitments.

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

3.3 Due from banks

Amounts due from banks are initially recognised at fair value and subsequently measured at amortised cost less any amounts written off and provision for impairment, if any. Impairment of amounts due from banks is assessed as outlined in the accounting policy of impairment of financial assets (Note 3.4).

3 Summary of significant accounting policies (continued)

3.4 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) Financial assets at fair value through profit or loss (refer Note 3.6 (*i*))
(2) Available-for-sale financial assets (refer Note 3.6 (*ii*))
(3) Loans and receivables (refer Note 3.5)
(4) Held-to-maturity investments (refer Note 3.6 (*iii*))

(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 3.4 (*iv*).

All held-to-maturity financial instruments and loans and receivables 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.

3 Summary of significant accounting policies (continued)

3.4 Financial instruments(continued)

(iii) Subsequent measurement (continued)

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.

(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.

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.

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.

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

3 Summary of significant accounting policies (continued)

3.4 Financial instruments(continued)

(iv) Fair value measurement (continued)

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.

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

3 Summary of significant accounting policies (continued)

3.4 Financial instruments(continued)

(v) Identification and measurement of impairment (continued)

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 loan impairment charge in the statement of profit or loss.

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.

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.

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

3 Summary of significant accounting policies (continued)

3.4 Financial instruments(continued)

(v) Identification and measurement of impairment (continued)

(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.

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

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

3 Summary of significant accounting policies (continued)

3.4 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.

3.5 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.

3.6 Investment securities

Investment securities are initially recognised 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) Financial assets carried at 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 investments

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.

3 Summary of significant accounting policies (continued)

3.6 Investment securities (continued)

(ii) Available-for-sale investments (continued)

Interest income on available-for-sale debt security investments 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

(iii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Bank has the positive intention and ability to hold it to maturity. After initial measurement at fair value, held-to-maturity investments are measured at amortised cost using the effective intersest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effecitve interest rate. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognised in the statement of profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

3.7 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 furniture 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 furniture and equipment are recognised in the statement of profit or loss as incurred.

3 Summary of significant accounting policies (continued)

3.8 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.

3.9 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.

3.10 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.

3.11 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.

3 Summary of significant accounting policies (continued)

3.12 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.

3.13 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.

3.14 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.

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:

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

3 Summary of significant accounting policies (continued)

3.14 Income tax expense (continued)

(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 and 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.

3.15 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.

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

3 Summary of significant accounting policies (continued)

3.16 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.

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.

4 Significant management judgements and estimates

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

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

Information about significant areas of estimation and uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

(i) Impairment losses on loans and advances

The management 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 management 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.

For collective impairment provisions, evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, 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.

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

4 Significant management judgements and estimates (continued)

(ii) Impairment losses on investment securities

The Bank evaluates its investments securities individually for impairment and and impairment provision on investment securities is based upon the management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, the 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.

(iii) 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.

(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.

(v) Recoverbility of deferred tax asset (DTA)

The management reviews the recoverbility of deferred tax asset on a periodic basis. DTA is relased to the statement of profit or loss as a result of decrease in loan loss provision or loan being written off from the statement of finacial postion. In determining the recoverbility of DTA, the management makes estimates and uses judgments as to whether there is any observable data indicating that DTA is not recoverable.

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

5 Cash and balances with the UAE Central Bank

	2016 AED'000	2015 AED'000
Cash on hand	168,610	235,407
Balances with UAE Central Bank:		
Certificate of deposits	1,100,000	1,050,000
Clearing accounts	22,792	337,240
Regulatory cash reserve deposits	931,072	1,032,321
	2,222,474	2,654,968

Regulatory cash reserve 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

	2016 AED'000	2015 AED'000
Money market placements	5,956,868	4,458,138
Nostro balances	12,180	7,112
	5,969,048	4,465,250

7 Loans and advances to customers

	2016 AED'000	2015 AED'000
Overdrafts	3,755,297	2,328,621
Term loans	7,241,330	12,391,219
Loans against trust receipts	1,639,916	1,346,583
Bills discounted	699,656	1,164,280
Others	851,709	864,757
	14,187,908	18,095,460
Provision on loans and advances (includes collective provision) (refer 7.1)	(2,253,751)	(1,666,247)
Provision on restructured accounts	(4,217)	(6,785)
Net loans and advances to customers	11,929,940	16,422,428

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

7 Loans and advances to customers (continued)

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

	2016 AED'000	2015 AED'000
Balance at 1 January	(1,666,247)	(1,127,833)
Provision made during the year (refer 7.2)	(776,541)	(657,015)
Provision released to the extent of recoveries made (refer 7.2)	184,820	115,136
Amounts written off during the year	-	3,465
Balance at 31 December	(2,257,968)	(1,666,247)

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

	2016 AED'000	2015 AED'000
Specific provision on loans and advances to customers	(833,847)	(617,350)
Collective provision on loans and advances to customers	57,306	(39,665)
Provision on loans and advances to customers	(776,541)	(657,015)
Provision on impaired investments	(28,635)	-
Total provision	(805,176)	(657,015)
Provision released to the extent of recoveries made	184,820	115,136
	(620,356)	(541,879)

8 Investment securities

	2016 AED'000	2015 AED'000
Available for sale		
Opening balances as at 1 January	9,366	26,620
Additions made during the year	148,191	-
Fair value reserve movement (refer 8.1)	(1,590)	(3,380)
Impairment charged to statement of profit or loss	(1,271)	(13,874)
Balance at 31 December	154,696	9,366

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

8 Investment securities (continued)

8.1 The movement of fair value reserve is as follows:

	2016 AED'000	2015 AED'000
Balance at 1 January	(27,364)	(23,984)
Reclassified to statement of profit or loss due to impairment	27,364	-
Changes in fair value of available-for-sale investments, net	(1,590)	(3,380)
Balance at 31 December	(1,590)	(27,364)

9 Furniture and equipment

	Furniture fixtures and premises AED'000	Motor vehicles and other equipment AED'000	Total AED'000
Cost			
At 1 January 2015	24,879	15,474	40,353
Additions	3,809	181	3,990
Disposals and assets written off	(3,081)	(1,449)	(4,530)
At 31 December 2015	25,607	14,206	39,813
Additions	2,481	127	2,608
Disposals and assets written off	(2,243)	(7,193)	(9,436)
At 31 December 2016	25,845	7,140	32,985
Accumulated depreciation			
At 1 January 2015	17,403	14,715	32,118
Charge for the year	3,224	283	3,507
Disposals and assets written off	162	(1,378)	(1,216)
At 31 December 2015	20,789	13,620	34,409
Charge for the year	2,236	78	2,314
Disposals and assets written off	(1,403)	(7,193)	(8,596)
At 31 December 2016	21,622	6,505	28,127
Net book value			
At 31 December 2016	4,223	635	4,858
At 31 December 2015	4,818	586	5,404

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

10 Other assets

	2016 AED'000	2015 AED'000
Accrued interest receivable	66,048	71,095
Prepayments	9,133	11,310
Other receivables	6,625	6,291
	81,806	88,696

11 Due to banks

	2016 AED'000	2015 AED'000
Demand and call deposits	8,127	235,244
Term deposits	1,566,202	4,820,714
	1,574,329	5,055,958

12 Deposits from customers

	2016 AED'000	2015 AED'000
Demand deposits	5,726,683	5,297,346
Time deposits	10,728,790	10,101,335
Saving deposits	687,255	515,207
Other deposits	19,884	30,778
	17,162,612	15,944,666

13 Other liabilities

	2016 AED'000	2015 AED'000
Accrued interest payable	90,817	113,392
Staff terminal benefits	15,831	14,284
Provision for taxation (refer Note 22)	123,732	189,353
Banker's cheque	116,162	108,257
Others	114,009	43,626
	460,551	468,912

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. On 21 December 2015, the Bank increased its Head Office assigned capital from AED 390,000 thousand to AED 760,000 thousand by additional funding provided by the Head Office.

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 222.3 million for the year ended 31 December 2016.

16 Interest income

	2016 AED'000	2015 AED'000
On loans and advances to financial institutions / banks	89,703	102,355
On loans and advances to customers	588,437	672,620
On investment securities	1,726	200
	679,866	775,175

17 Interest expense

	2016 AED'000	2015 AED'000
On deposits from banks and financial institutions	107,398	122,662
On deposits from customers	147,540	178,734
	254,938	301,396

18 Fee and commission income and expense

	2016 AED'000	2015 AED'000
Personal Banking	8,441	7,924
Corporate Banking	52,352	73,713
Others	14,021	21,437
	74,814	103,074
Fee expense:		
Fee and commission expense	126	284

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

19 Other operating income

	2016 AED'000	2015 AED'000
Foreign exchange income	26,657	48,217
Others	37,598	47,653
	64,255	95,870

20 Personnel expenses

	2016 AED'000	2015 AED'000
Staff salaries and allowances	42,069	43,035
Pension and retirement benefits	2,874	3,143
Others	1,154	1,807
	46,097	47,985

21 General and administrative expenses

	2016 AED'000	2015 AED'000
Central management expense	8,908	10,662
Rent	14,062	14,016
Other miscellaneous expenses	22,239	27,721
	45,209	52,399

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.

	2016 AED'000	2015 AED'000
Movement in tax provision		
Balance at 1 January	189,353	206,204
Current year tax expense	140,914	189,353
Taxes paid	(206,535)	(206,204)
Balance at 31 December	123,732	189,353

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

22 Taxation (continued)

	2016 AED'000	2015 AED'000
Current tax expense		
Provision for current year tax	116,270	121,981
Provision made for prior year tax	24,644	69,656
Total current tax expense	140,914	191,637
Deferred tax - origination of temporary differences	(68,754)	(147,560)
Total income tax expense	72,160	44,077

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.

	2016 AED'000	2015 AED'000
Profit before tax	(150,015)	26,669
Income tax at applicable tax rate – 20%	(30,003)	5,334
Effect of non – deductible expenses	9,939	38,743
Tax for prior years	24,644	-
Unrecognised tax loss	67,575	-
Tax expense	72,155	44,077

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 UAE branches of Bank of Baroda has been computed on taxable profit generated by the branches of the Bank 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:

	2016 AED'000	2015 AED'000
Balance at 1 January	436,252	288,692
Additions during the year	105,519	147,560
Utilisation during the year	(36,765)	-
Balance at 31 December	505,006	436,252

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

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:

	2016 AED'000	2015 AED'000
Letters of credit	1,161,611	1,011,439
Guarantees	1,358,331	1,921,336
Undrawn loan commitments	4,951,427	3,036,898
Foreign exchange and forward commitments	15,726,642	17,472,504
	23,198,011	23,442,177

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

Derivative financial instruments are disclosed under Note 25.7.

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

24 Cash and cash equivalents

	2016 AED'000	2015 AED'000
Cash and balances with the UAE Central Bank (maturing within three months)	791,402	2,454,968
Due from banks (maturing within three months)	4,825,937	3,325,315
Due from the Head Office and branches (maturing within three months)	2,604,315	2,288,493
Due to banks (maturing within three months)	(995,846)	(2,615,949)
Due to the Head Office and branches (maturing within three months)	(28,808)	(42,648)
Cash and cash equivalents in the statement of cash flow	7,197,000	5,410,179

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

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:

(a) 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.

(b) Responsibility

It is the Bank's responsibility to ensure that risk taking is both disciplined and focused. The Bank takes account of our social responsibilities in taking risk to produce a return.

25 Financial risk management (continued)

25.2 Risk management framework (continued)

Risk principles (continued)

(c) 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.

(d) Anticipation

The Bank looks to anticipate future risks and to ensure awareness of all risk.

(e) Risk management

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

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 rationalising 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.

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

25 Financial risk management (continued)

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.

(a) 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.

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

25 Financial risk management (continued)

25.3 Credit risk (continued)

(a) Credit risk management (continued)

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	2016 AED'000	2015 AED'000
Cash and balances with the UAE Central Bank (excluding cash on hand)	5	2,053,864	2,419,561
Due from banks	6	5,969,048	4,465,250
Due from Head Office and other branches	27	2,655,973	2,288,493
Loans and advances to customers	7	14,187,908	18,095,460
Investment securities	8	154,696	9,366
Customers' indebtedness under acceptances	26	1,796,383	662,773
Derivative	25	12,833	-
Other assets (excluding prepayments)	10	72,673	77,386
		26,903,378	28,018,289
Letters of credit	23	1,161,611	1,011,439
Guarantees	23	1,358,331	1,921,336
Undrawn loan commitments	23	4,951,427	3,036,898
		7,471,369	5,969,673
Total credit risk exposure		34,374,747	33,987,962

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.

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

25 Financial risk management (continued)

25.3 Credit risk (continued)

(c) 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.

(d) Concentration risk

Credit concentration risk is managed via portfolio standards and within concentration caps set for counterparties or related parties 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 2016 was AED 909,510,085 (2015: AED 945,739,096) before taking account of collateral or other credit enhancements and AED Nil as at 31 December 2016 (2015: Nil) net of such protection.

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:

Concentration by location	Loans and advances		Due from banks, Head Office and other branches		Investment securities	
	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
Carrying amount	14,187,908	18,095,460	8,625,021	6,753,743	154,696	9,366
United Arab Emirates	10,383,600	13,975,385	785,541	416,972	144,044	-
Other Middle East Countries	85,970	119,603	1,701,725	1,701,725	-	-
India	1,939,500	2,254,468	908,910	908,909	10,652	9,366
Europe	344,296	394,271	2,283,846	1,296,982	-	-
USA	22,030	22,956	701,117	1,318,789	-	-
Others	1,412,512	1,328,777	2,243,882	2,177,907	-	-
	14,187,908	18,095,460	8,625,021	6,753,743	154,696	9,366

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

25 Financial risk management (continued)

25.3 Credit risk (continued)

(d) Concentration risk (continued)

Concentration by sector	Loans and advances		Due from banks, Head Office and other branches		Investment securities	
	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
Agriculture	-	-	-	-	-	-
Mining and quarrying	1,296,825	1,294,663	-	-	-	-
Manufacturing	2,743,769	2,817,279	-	-	-	-
Electricity, gas and water	553	1,016	-	-	-	-
Real estate	423,376	429,732	-	-	-	-
Trade	3,953,010	4,199,228	-	-	-	-
Transport and communication	454,642	432,036	-	-	10,652	9,366
Banks and financial institutions	311,158	440,747	8,625,021	6,753,743	-	-
Government	782,350	805,733	-	-	144,044	-
Others	4,222,225	7,675,026	-	-	-	-
	14,187,908	18,095,460	8,625,021	6,753,743	154,696	9,366

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	2016 AED'000	2015 AED'000
A- to A+	144,044	-
Unrated	10,652	9,366
	154,696	9,366

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

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 group 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.

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

25 Financial risk management (continued)

25.3 Credit risk (continued)

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 and impairment losses, if any.

Individually impaired	**Loans and advances**		**Due from banks, Head Office and other branches**		**Investment securities**	
	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000	2016 AED'000	2015 AED'000
Carrying amount, net	11,929,940	16,422,428	8,625,021	6,753,743	154,696	9,366
Impaired portfolio						
Substandard	890,079	930,901	-	-	-	-
Doubtful	1,209,764	198,841	-	-	-	-
Legal and loss	1,044,078	1,009,112	-	-	-	-
Total impaired portfolio	3,143,921	2,138,854	-	-	-	-
Specific allowance on impairment	(2,194,172)	(1,409,973)	-	-	-	-
Carrying amount	949,749	728,881	-	-	-	-
Non Impaired portfolio						
Past due but not impaired (overdue till 90 days)	1,867,164	2,078,922	-	-	-	-
Neither past due nor impaired	9,318,114	13,877,684	8,625,021	6,753,743	154,696	9,366
Total non-impaired portfolio	11,185,278	15,956,606	8,625,021	6,753,743	154,696	9,366
Collective impairment provision	(200,870)	(256,274)		-	-	-
Provision on restructured accounts	(4,217)	(6,785)		-	-	-
Carrying amount	10,980,191	15,693,547	8,625,021	6,753,743	154,696	9,366
Net carrying amount	11,929,940	16,422,428	8,625,021	6,753,743	154,696	9,366

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

25 Financial risk management (continued)

25.3 Credit risk (continued)

Aging analysis of past due but not impaired loans

The following table sets 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 the counterparty is impaired.

Particulars	2016 Loans to customers			2015 Loans to customers		
	Consumer AED'000	Wholesale AED'000	Total AED'000	Consumer AED'000	Wholesale AED'000	Total AED'000
Up to 30 days past due	-	1,502,147	1,502,147	-	1,624,861	1,624,861
Between 31-60 days past due	13	176,139	176,152	80	161,655	161,735
Between 61-90 days past due	-	188,865	188,865	6,254	286,072	292,326
	13	1,867,151	1,867,164	6,334	2,072,588	2,078,922

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.

	2016 AED'000	2015 AED'000
Loans and advances	956,129	885,601

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.

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

25 Financial risk management (continued)

25.4 Market risk (continued)

(b) 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.

Sensitivity analysis - interest rate risk

	2016 AED'000	2015 AED'000
Shift in yield curve		
+100 bps	14,618	10,734
-100 bps	(14,618)	(10,734)

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. The sensitivity does not incorporate actions that could be taken by the management to mitigate the effect of interest rate movements.

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 she contractual re-pricing dates is as follows:

25 Financial risk management (continued)

25.4 Market risk(continued)

(i) *Interest rate sensitivity of asset and liabilities* (continued)

Particulars 2015	**Less than one month** AED'000	**1 to 3 months** AED'000	**3 to 6 months** AED'000	**6 months to year** AED'000	**Over 1 year** AED'000	**Non interest bearing** AED'000	**Total** AED'000	**Effective interest rate**
Cash and balances with the Central HIM: 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°/0-16%
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	-	-

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

25 Financial risk management (continued)

25.5 Liquidity risk (continued)

Maturity profile of asset and liabilities

Particulars	Less than one month AED'000	1 to 3 months AED'000	3 to 6 months AED'000	6 months to year AED'000	Over 1 year AED'000	Total AED'000
Cash and balances with the Central HIM: of the UAE	1,672,474	350,000	100,000	100,000	-	2,222,474
Due from banks	2,786,857	2,009,495	914,577	258,119	-	5,969,048
Due from the head office and other branches	2,307,038	330,570		18,365	-	2,655,973
Loans and advances to customers	3,902,914	803,493	1,156,934	157,923	5,908,676	11,929,940
Investment securities	-	-	-	-	154,696	154,696
Derivatives	8,810	1,550	(403)	1,890	986	12,833
Other assets	11,029	66,048	-	-	4,729	4,729
Total assets	10,689,122	3,561,156	2,171,108	536,297	6,069,087	22,949,693

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

25 Financial risk management (continued)

25.5 Liquidity risk (continued)

Maturity profile of asset and liabilities (continued)

Particulars	Less than one month AED'000	1 to 3 months AED'000	3 to 6 months AED'000	6 months to year AED'000	Over 1 year AED'000	Total AED'000
Due to banks	927,455	73,030	43,090	169,402	378,649	1,591,626
Due to the head office and other branches	25,502	3,319	186,919	-	1,325,270	1,541,010
Deposits from customers	8,161,569	2,572,377	2,322,837	4,109,891	74,173	17,240,847
Other liabilities	265,351	130,787	-	-	63,936	460,074
Derivative	-	-	-	-	-	-
Total liabilities and equity	9,379,877	2,779,513	2,532,849	4,279,293	1,842,028	66,536,157
Net on balance sheet liquidity gap 2016	1,309,245	781,643	(381,738)	(3,742,996)	4,227,059	(2,252,834)
At 31 December 2015:						
Total assets	9,436,888	4,114,665	2,294,994	690,010	9,834,300	26,370,857
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)	(4,570,947)	-

25 Financial risk management (continued)

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.

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 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 is to 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.

25 Financial risk management (continued)

25.6 Operational risk (continued)

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 and foreign exchange forward 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.

	Positive fair value AED'000	Negative fair value AED'000	National amount AED'000	Notional amount by term of maturity Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000	Over 5 years AED'000
2016							
Interest rate contracts	-	-	-	-	-	-	-
Foreign exchange contracts	12,833		8,455,409	2,044,648	6,259,091	151,670	-
	12,833		8,455,409	2,044,648	6,259,091	151,670	-
2015							
Interest rate contracts	-	-	-	-	-	-	-
Foreign exchange contracts	-	4749	9,172,461	5,946,475	3,225,986	-	-
	-	4749	9,172,461	5,946,475	3,225,986	-	-

25 Financial risk management (continued)

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 the Central Bank of the 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 recognised 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 the 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 I capital adequacy must not be less than 8%.

25 Financial risk management (continued)

25.8 Capital risk management (continued)

(a) Tier 1 capital, includes share capital, statutory reserves and retained earnings.

(b) 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.

(c) Total tier 2 capital shall not exceed 67% of tier 1 capital.

(d) 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 2016:

	2016 AED'000	2015 AED'000
TIER 1 CAPITAL		
Head Office assigned capital	760,000	760,000
Statutory reserves	58,191	58,191
Retained earnings	2,022,697	2,244,962
Total tier 1 capital	2,840,888	3,063,153
TIER 2 CAPITAL		
Fair value reserve	(1,590)	(27,364)
General provisions/general loan loss reserves	169,685	212,993
Total tier 2 capital	168,095	185,629
Total regulatory capital (sum of tier 1 and 2 capital)	3,008,983	3,248,782
RISK WEIGHTED ASSETS		
Credit risk	12,262,315	11,514,338
Market risk	3,177	1,297
Operational risk	1,309,333	1,285,303
Total risk weighted assets (RWA)	13,574,825	12,800,938
Total regulatory capital expressed as % of RWA	22.17%	25.38%
Total tier 1 capital expressed as % of RWA	20.93%	23.93%

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

26 Customers indebtedness and liabilities under acceptances

	2016 AED'000	2015 AED'000
Customers indebtedness and liabilities under acceptances	1,796,383	662,773

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 which are 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:

	2016 AED'000	2015 AED'000
Interest income	87,043	69,668
Interest expenses	131,189	116,645
Head Office charges	968	1,807
Funds remitted from Head Office	-	370,000

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

27 Related party transactions (continued)

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:

	2016 AED'000	2015 AED'000
Due from the Head Office and other branches		
Bank of Baroda - United Kingdom	986,708	193,451
Bank of Baroda - New York	697,870	1,314,297
Bank of Baroda - India (Mumbai)	424,074	24
Bank of Baroda - Brussels	297,303	92,033
Bank of Baroda - Bahrain	183,650	275,475
Bank of Baroda - Singapore	36,730	-
Bank of Baroda - Hong Kong	-	367,300
Bank of Baroda - Kenya	29,586	16,529
Bank of Baroda - Uganda	-	29,384
Bank of Baroda – UAE Branches	52	
	2,655,973	2,288,493

	2016 AED'000	2015 AED'000
Due from the Head Office and other branches		
Bank of Baroda - United Kingdom	1,469,200	1,819,431
Bank of Baroda - New York	21,162	-
Bank of Baroda - Oman	7,065	24,381
Bank of Baroda - India (Mumbai)	2,282	10,596
Bank of Baroda - DIFC Branch	135	14
Bank of Baroda - UAE Branches	-	6,361
Bank of Baroda - Brussels	-	-
	1,499,844	1,860,783

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.

	2016 AED'000	2015 AED'000
Key management remuneration	300	314

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

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 and Derivatives** AED'000	**Others at amortised cost** AED'000
As at 31 December 2016			
Financial assets			
Cash and balances with the UAE Central Bank	2,222,474	-	2,222,474
Due from banks	5,969,048	-	5,969,048
Due from the Head Office and other branches	2,655,973	-	2,655,973
Loans and advances to customers	11,929,940	-	11929,940
Investment securities	154,696	154,696	-
Derivative	12,833	12,833	-
Customers' indebtedness under acceptances	1,796,383	-	1,796,383
Other assets (excluding prepayments)	72,673	-	72,673
	24,814,020	167,529	24,646,491
Financial liabilities			
Due to banks	1,574,329	-	1,574,329
Due to the Head Office and other branches	1,499,844	-	1,499,844
Deposits from customers	17,162,612	-	17,162,612
Liabilities under acceptances	1,796,383	-	1,796,383
Other liabilities (accrued interest payable)	90,817	-	90,817
	22,123,985	-	22,123,985

28 Accounting classification and fair values (continued)

Particulars	Carrying amount AED'000	Available-for-sale and Derivatives AED'000	Others at amortised cost AED'000
As at 31 December 2015			
Financial assets			
Cash and balances with the UAE Central Bank	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	4,749	23,637,572

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

28 Accounting classification and fair values (continued)

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
As at 31 December 2016				
Financial assests				
Quoted investments	154,696	-	-	154,696
Forward foreign exchange contracts		12,833		12,833
	154,696	12,833	-	167,529
As at 31 December 2015				
Financial assets				
Quoted investments	9,366	-	-	9,366
	9,366	-	-	9,366
Financial liabilities				
Forward foreign exchange contracts	-	4,749	-	4,749
	-	4,749	-	4,749

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 (2015: Nil)

28 Accounting classification and fair values (continued)

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.