Commercial Bank of Dubai PSC

Consolidated Financial Statements

31 December 2014

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Building a better working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COMMERCIAL BANK OF DUBAI PSC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Commercial Bank of Dubai PSC (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and applicable provisions of the articles of association of the Bank, Federal Law No. 8 of 1984 (as amended) and Union Law No. 10 of 1980, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COMMERCIAL BANK OF DUBAI PSC (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of Federal Law No. 8 of 1984 (as amended), Federal Law No. 10 of 1980, and the articles of association of the Bank; proper books of account have been kept by the Group and the contents of the Directors' report relating to these consolidated financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the Federal Law No. 8 of 1984 (as amended), Union Law No. 10 of 1980 or of the articles of association of the Bank have occurred during the year which would have had a material effect on the business of the Group or on its financial position.

Ernst & Young

Signed by:
Joseph Murphy
Partner
Registration No. 492

28 January 2015

Dubai, United Arab Emirates

Commercial Bank of Dubai PSC

Consolidated statement of financial position

As at 31 December 2014

	Note	2014 AED'000	2013 AED'000
ASSETS			
Cash and balances with Central Bank	5	**5,450,145**	6,132,063
Due from banks	6	**1,565,312**	1,662,172
Loans and advances and Islamic financing	7	**32,167,216**	30,287,385
Investment securities	8	**5,587,998**	4,228,653
Investment in associate	9	**84,590**	72,862
Investment properties	10	**249,991**	259,853
Property and equipment	11	**323,852**	321,273
Other assets	12	**1,488,150**	1,511,930
TOTAL ASSETS		**46,917,254**	44,476,191
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	13	**1,097,926**	499,259
Customers' deposits and Islamic customers' deposits	14	**32,161,339**	30,942,680
Notes and medium term borrowings	15	**4,021,998**	4,014,806
Other liabilities	16	**1,825,578**	1,803,057
TOTAL LIABILITIES		**39,106,841**	37,259,802
EQUITY			
Share capital	17	**2,242,187**	2,038,352
Legal reserve	17	**1,380,495**	1,379,813
Capital reserve	17	**38,638**	38,638
General reserve	17	**1,121,095**	1,100,000
Cumulative changes in fair values of AFS investments and cash flow hedge instruments	17	**69,808**	54,712
Reserve for proposed bonus issue	17	**560,547**	203,835
Proposed cash dividend	17	**560,547**	611,506
Proposed directors' remuneration	17	**10,540**	11,000
Retained earnings		**1,826,556**	1,778,533
TOTAL EQUITY		**7,810,413**	7,216,389
TOTAL LIABILITIES AND EQUITY		**46,917,254**	44,476,191

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 28th of January 2015.

The attached notes on pages 8 to 83 form part of these consolidated financial statements.

Mr. Saeed Ahmed Ghobash
Chairman

Mr. Peter Baltussen
Chief Executive Officer

The report of the Auditors is set out on pages 1 and 2.

Commercial Bank of Dubai PSC

Consolidated income statement
For the year ended 31 December 2014

	Note	**2014 AED'000**	2013 AED'000
Interest income and income from Islamic financing	*18*	**1,827,058**	1,766,533
Interest expense and distributions to Islamic depositors	*19*	**(244,093)**	(317,864)
Net interest income and net income from Islamic financing		**1,582,965**	1,448,669
Net fees and commission income	*20*	**405,389**	354,918
Net gains from foreign exchange and derivatives		**119,450**	113,469
Net gains from investments at fair value through profit or loss - held for trading	*21*	**2,506**	1,604
Net gains from sale of available-for-sale investments		**72,271**	51,239
Share of profit of associate	*9*	**17,567**	17,337
Dividend income	*22*	**6,579**	6,254
Other income		**33,703**	39,404
Total operating income		**2,240,430**	2,032,894
Impairment allowances on loans and advances and Islamic financing	*7*	**(347,288)**	(419,208)
Recoveries		**63,548**	24,155
Total net income		**1,956,690**	1,637,841
General and administrative expenses	*23*	**(708,738)**	(581,382)
Depreciation and amortization	*10,11*	**(45,696)**	(46,224)
Total operating expenses		**(754,434)**	(627,606)
Net profit for the year		**1,202,256**	1,010,235
Basic and diluted earnings per share	*25*	**AED 0.54**	AED 0.45

The attached notes on pages 8 to 83 form part of these consolidated financial statements.

Appropriations have been reflected in the consolidated statement of changes in equity.

The report of the Auditors is set out on pages 1 and 2.

Commercial Bank of Dubai PSC

Consolidated statement of comprehensive income

For the year ended 31 December 2014

	2014 AED'000	2013 AED'000
Net profit for the year	**1,202,256**	1,010,235
Other comprehensive income :		
Changes in fair value of effective portion of cash flow hedge	**(349)**	-
Changes in available-for-sale investments:		
Realized gains on sale of available-for-sale investments	**(72,271)**	(51,239)
Amortization of reclassified investments	**-**	3,608
Share of other comprehensive income of associate	**305**	-
Revaluation of available-for-sale investments	**87,411**	79,810
Net change in available-for-sale investments	**15,445**	32,179
Other comprehensive income for the year	**15,096**	32,179
Total comprehensive income for the year	**1,217,352**	1,042,414

Balances of all items included in other comprehensive income (as above) for the year ended 31 December 2014 and 2013 could be recycled to consolidated income statement in subsequent periods.

The attached notes on pages 8 to 83 form part of these consolidated financial statements.

The report of the Auditors is set out on pages 1 and 2.

Commercial Bank of Dubai PSC

Consolidated statement of changes in equity

For the year ended 31 December 2014

	Share capital	Legal reserve	Capital reserve	General reserve	Cumulative changes in fair values of AFS investments and cash flow hedge instruments	Retained earnings	Proposed distributions	Attributable to equity of the parent	Non-Controlling interest	Total
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
At 1 January 2013	2,038,352	1,379,683	38,638	1,100,000	22,533	1,595,295	622,506	6,797,007	13,577	6,810,584
Transactions with owners, recorded directly in equity										
Cash dividend paid for 2012 (30%)	-	-	-	-	-	-	(611,506)	(611,506)	-	(611,506)
Proposed cash dividend for 2013 (30%)	-	-	-	-	-	(611,506)	611,506	-	-	-
Proposed bonus issue for 2013 (10%)	-	-	-	-	-	(203,835)	203,835	-	-	-
Share of Directors' remuneration of associate	-	-	-	-	-	(526)	-	(526)	-	(526)
Redemption of units of funds	-	-	-	-	-	-	-	-	(13,577)	(13,577)
Comprehensive income										
Net profit for the year	-	-	-	-	-	1,010,235	-	1,010,235	-	1,010,235
Other comprehensive income for the year	-	-	-	-	32,179	-	-	32,179	-	32,179
Total comprehensive income	-	-	-	-	32,179	1,010,235	-	1,042,414	-	1,042,414
Directors' remuneration paid for 2012	-	-	-	-	-	-	(11,000)	(11,000)	-	(11,000)
Proposed directors remuneration for 2013	-	-	-	-	-	(11,000)	11,000	-	-	-
Transfer to legal reserve	-	130				(130)	-	-	-	-
At 31 December 2013	2,038,352	1,379,813	38,638	1,100,000	54,712	1,778,533	826,341	7,216,389	-	7,216,389
Transactions with owners, recorded directly in equity										
Cash dividend paid for 2013 (30%)	**-**	**-**	**-**	**-**	**-**	**-**	**(611,506)**	**(611,506)**	**-**	**(611,506)**
Proposed cash dividend for 2014 (25%)	**-**	**-**	**-**	**-**	**-**	**(560,547)**	**560,547**	**-**	**-**	**-**
Bonus shares issued for 2013 (10%)	**203,835**	**-**	**-**	**-**	**-**	**-**	**(203,835)**	**-**		
Proposed bonus issue for 2014 (25%)	**-**	**-**	**-**	**-**	**-**	**(560,547)**	**560,547**	**-**	**-**	**-**
Share of Directors' remuneration of associate	**-**	**-**	**-**	**-**	**-**	**(822)**	**-**	**(822)**	**-**	**(822)**
Comprehensive income										
Net profit for the year	**-**	**-**	**-**	**-**	**-**	**1,202,256**	**-**	**1,202,256**	**-**	**1,202,256**
Other comprehensive income for the year	**-**	**-**	**-**	**-**	**15,096**	**-**	**-**	**15,096**	**-**	**15,096**
Total comprehensive income	**-**	**-**	**-**	**-**	**15,096**	**1,202,256**	**-**	**1,217,352**	**-**	**1,217,352**
Directors' remuneration paid for 2013	**-**	**-**	**-**	**-**	**-**	**-**	**(11,000)**	**(11,000)**	**-**	**(11,000)**
Proposed directors remuneration for 2014	**-**	**-**	**-**	**-**	**-**	**(10,540)**	**10,540**	**-**	**-**	**-**
Transfer to legal reserve	**-**	**682**	**-**	**-**	**-**	**(682)**	**-**	**-**	**-**	**-**
Transfer to General reserve	**-**	**-**	**-**	**21,095**	**-**	**(21,095)**	**-**	**-**	**-**	**-**
At 31 December 2014	**2,242,187**	**1,380495**	**38,638**	**1,121,095**	**69,808**	**1,826,556**	**1,131,634**	**7,810,413**	**-**	**7,810,413**

The attached notes on pages 8 to 83 form part of these consolidated financial statements.
The report of the Auditors is set out on pages 1 and 2.

Commercial Bank of Dubai PSC

Consolidated statement of cash flows

For the year ended 31 December 2014

		2014	2013
		AED'000	AED'000
OPERATING ACTIVITIES			
Net profit for the year		**1,202,256**	1,010,235
Adjustments for:			
Depreciation and amortization		**45,696**	46,224
Gain on disposal of property and equipment		**(40)**	(647)
Dividend income		**(6,579)**	(6,254)
Share of profit of associate		**(17,567)**	(17,337)
Amortization of securities		**59,986**	31,303
Loss on sale of subsidiary		**-**	269
Net unrealized losses on investments at fair value through profit or loss - held for trading net of forex translation		**6,576**	944
Realized gains on sale of investments		**(73,994)**	(52,323)
Net unrealized losses /(gains) on derivatives		**2,667**	(2,739)
Amortization of medium term borrowings		**7,192**	7,613
		1,226,193	1,017,288
Increase in statutory reserve with the Central Bank		**(279,361)**	(253,378)
Increase in negotiable Central Bank certificate of deposits with original maturity of more than three months		**(100,000)**	-
Increase in loans and advances and Islamic financing, net		**(1,879,831)**	(3,085,775)
Decrease /(increase) in other assets		**62,572**	(42,633)
Increase in due to banks with original maturity of more than three months		**50,000**	-
Increase in customers' deposits and Islamic customers' deposits		**1,218,659**	2,890,691
(Decrease) / increase in other liabilities		**(19,287)**	194,731
Directors' remuneration paid		**(11,000)**	(11,000)
Net cash flow from operating activities		**267,945**	709,924
INVESTING ACTIVITIES			
Purchase of investments		**(3,857,159)**	(3,231,321)
Purchase of property and equipment		**(41,129)**	(30,098)
Increase in investment properties (net)		**(102)**	-
Dividend received		**11,901**	11,577
Proceeds from sale of investments		**2,520,386**	1,404,759
Proceeds from sale of subsidiary		**-**	14,675
Proceeds from sale of equipment		**2,858**	1,678
Net cash flow used in investing activities		**(1,363,245)**	(1,828,730)
FINANCING ACTIVITIES			
Notes and medium term borrowings		**-**	1,815,986
Dividend paid		**(611,506)**	(611,506)
Net cash flow (used in) / from financing activities		**(611,506)**	1,204,480
Net (decrease) /increase in cash and cash equivalents		**(1,706,806)**	85,674
Cash and cash equivalents at 1 January		**5,169,019**	5,083,345
Cash and cash equivalents at 31 December	*Note 26*	**3,462,213**	5,169,019
Supplemental disclosure:			
Interest income and income from Islamic financing received		**1,856,172**	1,758,134
Interest expense and distributions to Islamic depositors paid		**272,847**	298,889

The attached notes on pages 8 to 83 form part of these consolidated financial statements.
The report of the Auditors is set out on pages 1 and 2.

1. LEGAL STATUS AND ACTIVITIES

Commercial Bank of Dubai PSC (“the Bank”) was incorporated in Dubai, United Arab Emirates (U.A.E.) in 1969 and is registered as a Public Shareholding Company (PSC) in accordance with Federal Law No. 8 of 1984 (as amended). The Bank is listed on the Dubai Financial Market. The Bank’s principal activity is commercial banking.

The consolidated financial statements of the Group for the year ended 31 December 2014 comprise the results of the Bank and its subsidiaries (together referred to as “the Group”).

Details about subsidiaries and associates

CBD Financial Services LLC, is registered as a limited liability company in accordance with Federal Law No. 8 of 1984 (as amended) in Dubai, United Arab Emirates. The Bank holds a 100% interest. Its principal activity is broking for local shares and bonds.

Attijari Properties LLC, is registered as a limited liability company in accordance with Federal Law No. 8 of 1984 (as amended) in Dubai, United Arab Emirates. The Bank holds a 100% interest. Its principal activity is buying & selling of real estate and self-owned property management services.

National General Insurance Co. (PSC) is an associate of the Bank and is listed in Dubai Financial Market. It underwrites all classes of life and general insurance business as well as certain reinsurance business. The Bank holds 17.8% interest in “National General Insurance Co. (PSC)”. The management believes that it has significant influence on the associate by virtue of it having representation on the board of directors of the Associate.

The registered address of the Bank is Al Ittihad Street, P.O. Box 2668, Dubai, United Arab Emirates.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with relevant laws of the U.A.E.

Along with these consolidated financial statements, the Group has presented Basel II Pillar 3 disclosures in accordance with the guidelines issued by the Central Bank of the UAE. The application of Basel II Pillar 3 guidelines has impacted the type and amount of disclosures made in these consolidated financial statements, but has no impact on the reported profits or financial position of the Group. In accordance with the requirements of Basel II, the Group has provided full comparative information.

As required by the UAE Securities and Commodities Authority (SCA) notification number 85/2009 dated January 6, 2009, the Group’s exposure in cash and advances with Central Bank of the UAE, Due from Banks and Investment Securities outside the UAE have been presented under the respective notes.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value;
- Financial instruments classified as fair value through profit or loss, held for trading and available for sale are measured at fair value;
- Recognised assets and liabilities that are hedged item in a fair value hedge transaction are measured at fair value in respect of the risk that is hedged; and
- Granted land is valued at market value on the date of grant.

2. BASIS OF PREPARATION (continued)

c) Functional and presentation currency

The consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Bank's functional currency, rounded to the nearest thousand unless otherwise stated.

d) Use of estimates and judgments

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

e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, which it controls, as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements of the Group from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) is attributed to the equity holders of the parent of the Group and non-controlling interest. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the cumulative translation differences recorded in equity
- Derecognises the carrying amount of any non-controlling interest
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in consolidated income statement.

2. BASIS OF PREPARATION (continued)

e) Basis of consolidation (continued)

- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

(i) Subsidiary

The subsidiary is an entity that is controlled by the Bank. Control exists when the Bank has power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiary are included in the consolidated financial statements from the date control commences until the date that control ceases.

(ii) Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in its associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated income statement.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognizes the loss as 'Share of profit or loss of an associate'.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated income statement.

(iii) Transactions eliminated on consolidation

Intra-group balances and income and expenses (except for foreign currency transactions gains or losses) arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the years presented in these consolidated financial statements.

a) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset for the Group and a financial liability or equity instrument for another party or vice versa. The Group classifies its financial assets at initial recognition in the following categories:

(i) Classification

- Financial assets at fair value through profit or loss (FVPL): This category has the following two sub-categories:

  Financial assets held for trading
  Financial assets held for trading are those that are acquired principally for the purpose of sale in the near term. They are recorded at fair value. Fair value changes are recognized in consolidated income statement.

  Designated to be fair valued through profit or loss at inception
  The Group designates financial assets at fair value through profit or loss in the following circumstances:
  - The assets are managed, evaluated and reported internally on a fair value basis.
  - The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.
  - The asset contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

- Loans and advances: Loans and advances are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. These arise when the Group provides money directly to the borrower with no intention of trading the receivable.

- Held-to-maturity (HTM): Investments classified as held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention of and the ability to hold to maturity. HTM assets are carried at amortized cost less impairment loss if any.

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

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

- Available-for-sale (AFS): Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or not classified as (i) financial assets at fair value through profit or loss, (ii) loans and advances or (iii) held-to-maturity investments. AFS assets are carried at fair value, with fair value changes recognized in other comprehensive income (OCI). These assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

(ii) Initial recognition

Purchases and sales of investment securities are recognized on the trade date which is the date on which the Group commits to purchase or sell the securities. Loans and advances are recognized when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs, which approximates to its cost, for all financial assets not carried at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognized at fair value, which approximates to its cost.

(iii) Derecognition

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all the risks and rewards of ownership. A financial liability is derecognized when its contractual obligation is discharged, cancelled or expired.

(iv) Subsequent measurement

Financial assets available-for-sale and investments at fair value through profit or loss are subsequently carried at fair value. Loans and advances and held-to-maturity investments are carried at amortized cost using the effective interest method, less impairment allowances.

(v) Embedded derivatives

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated income statement.

(vi) Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the investments at fair value through profit or loss category are included in the consolidated income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale investments are recognized directly in other comprehensive income (OCI), until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized in OCI is recognized in the consolidated income statement.

In cases where available-for-sale investments with a fixed maturity are reclassified as held-to-maturity investments, the fair value gains or losses until the date of the reclassification are held in OCI and amortized over the remaining life of the held-to-maturity investments using the effective interest rate method.

(vii) Fair value measurement principles

The Group measures financial instruments, such as derivatives and investments in equity and certain fixed income instruments, at fair value at each reporting date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

(vii) Fair value measurement principles (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

(viii) Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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, group, 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 inputs, 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 unobservable 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.

The hierarchy used by the Group is set out in note 4.2, 9 and 10.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted AFS financial assets, and for non-recurring measurement, such as assets held for sale in discontinued operation.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

(ix) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to the net carrying amount of the financial asset or financial liability.

(x) Identification and measurement of impairment

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

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 Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level.

Individually assessed loans

At each reporting date, the Group assesses on a case-by-case basis whether there is any objective evidence that a loan is impaired. Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. This procedure is applied to all accounts that are considered individually significant.

In determining impairment losses on these loans, the following factors are considered:

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

Impairment losses are recognized in consolidated income statement and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

(x) Identification and measurement of impairment (continued)

Collectively assessed loans

Impairment is determined on a collective basis in two different scenarios:

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

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been identified (performing loans) are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss.

This arises from individual loan impairment at the reporting date which will only be specifically identified in the future.

The collective impairment loss is determined after taking into account:

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

The period between a loss occurring and its identification is estimated by the management for each portfolio grouping.

Homogeneous groups of loans

For homogeneous groups of loans that are not considered individually significant, the Group uses 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. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment on investments classified as available-for-sale

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income (OCI) to income statement as a recycle adjustment. The cumulative loss that is recycled from other comprehensive income to consolidated income statement is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in consolidated income statement. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

(x) Identification and measurement of impairment (continued)

Homogeneous groups of loans(continued)

Impairment on investments classified as available-for-sale(continued)

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in consolidated income statement, the impairment loss is reversed through consolidated income statement to the extent of amount earlier recognised as impairment loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is not reversed through the consolidated income statement and is recognised directly in other comprehensive income.

Impairment on investments classified as associates

Management reviews its share of investments in associates to assess impairment on a regular basis. In determining the assessment, management compares the recoverable amount with the carrying value of the investment. Estimating recoverable amount using value in use requires the Group to make an estimate of the expected future cash flows from the associates and choosing a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Derivative financial instruments

(i) Classification

The Group enters into derivative financial instruments including forwards, futures, swaps and options in the foreign exchange and capital markets. Derivative financial instruments, that do not qualify for hedge accounting are classified as "FVPL – financial assets held for trading" financial instruments.

(ii) Initial and subsequent measurement

In the normal course of business, the fair value of a derivative on initial recognition is the transaction price. Subsequent to initial recognition, derivative financial instruments are stated at fair values. Fair values are generally obtained by reference to quoted market prices in active markets, or by using valuation techniques when an active market does not exist.

The positive mark to market values (unrealized gains) of derivative financial instruments is included in other assets. While, the negative mark to market values (unrealized losses) of derivative financial instruments is included in other liabilities.

(iii) Gains and losses on subsequent measurement

The gains or losses from derivative financial instruments classified as held for trading are taken to the consolidated income statement.

c) Hedging instruments

When derivatives are designated as hedges, the Group classifies them as either:

- fair value hedges which hedge the change in the fair value of recognized assets or liabilities; or
- cash flow hedges which hedge the exposure to variability in highly probable future cash flows attributable to a recognized asset or liability or a forecast transaction.

Hedge accounting is applied to derivatives designated as hedging instruments in fair value or cash flow hedge provided certain criteria are met.

Hedge accounting

(i) Hedge documentation

At the inception of the hedge, formal documentation of the hedge relationship must be established. The hedge documentation prepared at the inception of the hedge must include a description of the following:

- The Group's risk management objective and strategy for undertaking the hedge;
- The nature of risk being hedged;
- Clear identification of the hedged item and the hedging instrument; and
- How the Group will assess the effectiveness of the hedging relationship on an ongoing basis.

(ii) Hedge effectiveness testing

The hedge is regarded as highly effective if both of the following conditions are met:

- At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in offsetting the changes in fair value or cash flows of the hedging instruments with corresponding changes in the hedged risk and should be reliably measurable; and
- The actual results of the hedge effectiveness testing are within a range of 80 to 125 percent.

In case of a cash flow hedge, prospective hedge effectiveness is assessed by matching the critical terms of hedging instruments and hedged items.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Hedging instruments (continued)

(iii) Fair value hedge

The changes in the fair value of derivatives that are designated and qualify as fair value hedge instruments is recognized in the consolidated income statement.

(iv) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI. Any gain or loss in fair value relating to an ineffective portion is recognized immediately in the consolidated income statement.

(v) Discontinuance of hedge accounting

The hedge accounting is discontinued when a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting. At that point of time, any cumulative gain or loss on the hedging instrument that has been recognized in OCI remains in other comprehensive income until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

(vi) Hedges that do not qualify for hedge accounting

For hedges that do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated income statement for the period.

d) Due from banks

Amounts due from banks are initially recognized at fair value and subsequently measured at amortized cost less provision for impairment, if any.

e) Loans and advances and Islamic financing

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, except when the Group chooses to carry the loans and advances at fair value through profit or loss.

In addition to conventional banking products, the Group offers its customers certain Islamic financing products, which are approved by Sharia'a Supervisory Board. Islamic Financing consists of the following:

Murabaha

An agreement whereby the Group sells to a customer, commodity or asset (subject asset), which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the subject asset and an agreed profit margin. Income is recognized on an accrual basis adjusted by actual income when received.

Ijarah

Ijarah refers to lease of the asset, which the Group (Lessor) constructs or purchases as per customer (Lessee) request based on the promise to lease the asset for a fixed term against certain rent installment. Ijara can end by transferring the ownership of the asset to the lessee in case of Ijara Muntahia Bittamleek.

Musharaka

An agreement whereby the Group and a customer contribute to a certain enterprise according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Loans and advances and Islamic financing (continued)

Islamic financing products are initially recognized at fair value and subsequently measured at amortized cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income.

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability.

f) Investment properties

The Group holds certain properties for its own use as well as to lease out. The leased out or intended to lease out components have been classified as investment properties. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred, if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less any accumulated depreciation and accumulated impairment losses.

Depreciation is charged using straight line method over the useful life of the asset. Estimated useful life of buildings is 20 to 30 years.

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

Transfers are made to investment properties when, and only when there is change in use evidenced by ending of owner-occupation, commencement of an operating lease of another party or ending of construction or development.

Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner-occupation.

g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses except for granted land, which is stated at the market value at the date of grant.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of replacing an item of property and equipment is recognised in the carrying value of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The day-to-day servicing expenses of property and equipment are recognised in the consolidated income statement as incurred.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment. These are included in the consolidated income statement.

Property and equipment is impaired if the carrying amount of the asset or its cash generating unit exceed its recoverable amount. The impairment loss is recognized in the consolidated income statement.

The cost of all property and equipment other than freehold land and capital work in progress is depreciated using the straight-line method over the following estimated useful lives:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Property and equipment (continued)

Buildings	20 to 30 years
Leasehold improvements	5 years
Furniture, equipment and vehicles	3 to 5 years

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

Capital work in progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated in accordance with the Group's policies.

h) Due to banks, Notes and medium term borrowing

Amounts due to banks, notes and medium term borrowing are initially measured at fair value plus transaction costs, and are subsequently measured at amortised cost using the effective interest method.

i) Repurchase agreement

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset at a fixed price on a future date the agreement is accounted for as a term borrowing depending on period of the agreement, and the underlying asset continues to be recognized in the Group's financial statement.

j) Customers' deposits and Islamic Customers' deposits

Customers' deposits are initially recognised at fair value, being the fair value of the consideration received. After initial recognition, all deposits are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs that are directly attributable to the acquisition or receipt of customer deposit.

The Islamic customer deposits are received by entering into following kinds of agreements:

<u>Mudaraba</u>

An agreement between the Group and a third party whereby one party would provide a certain amount of funds which the other party (Mudarib) would then invest in a specific enterprise or activity against a specific share in the profit. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba.

<u>Wakala</u>

An agreement between Group and third party whereby one party (Muwakil) provides certain amount of funds which the other party (Wakil) would invest according to the terms and conditions of Wakala in return for a certain fee. The Wakil is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

Islamic customers' deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortized cost using the effective profit method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Provisions

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

l) Employees' terminal benefits and long-term incentive arrangements

Provision is made for amounts payable under the UAE Federal Labour Law applicable to non UAE nationals' accumulated periods of service at the reporting date. The Group pays its contributions in respect of UAE nationals and GCC citizens under the UAE Pension and Social Security Law. Effective from 1 January 2007, the Group introduced a long term incentive plan ("the plan"). Under this plan certain key employees are eligible for an incentive at the offering date contingent upon the Group's performance up to an award date. The award is the percentage of the actual salary of the eligible key employees. The salary includes the basic salary, allowance, national allowance and cost of living allowance as at the effective date. The obligation towards the plan is accrued in the period when the key employees are eligible for such awards in accordance with the plan.

m) Share capital

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

n) Dividend on ordinary shares

Dividends payable on ordinary shares are recognized as a liability in the period in which they are approved by the Bank's shareholders.

o) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when, and only when, the Group has a legally enforceable right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or of gains and losses arising from a group of similar transactions such as in the Group's trading activity.

p) Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash on hand and balances with the Central Bank (excluding statutory reserve), and amounts due from and due to banks with original maturity less than three months. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

q) Revenue recognition

(i) Interest income and expense

Interest income and expense for all interest bearing financial instruments except for those classified as held for trading or designated at fair value through profit or loss, are recognized in 'interest income' and 'interest expense' in the consolidated income statement on an accrual basis using the effective interest rates of the financial assets or financial liabilities to which they relate. Interest income and expense for financial instruments classified as held for trading or designated at fair value through profit or loss is recognized as trading income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Revenue recognition (continued)

(i) Interest income and expense (continued)

The effective interest rate is the rate that discounts estimated future cash receipts and payments earned or paid on a financial asset or a liability through its expected life or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

When calculating effective interest rates, the Group estimates cash flows considering all contractual terms of the financial instruments, but not future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

(ii) Income from Islamic financing and distributions to depositors

Income from Islamic financing is recognized in the consolidated income statement using the effective profit method.

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

Distribution to Depositors (Islamic products) is calculated according to the Group's standard procedures and is approved by the Group's Sharia'a Supervisory Board.

(iii) Fees and commission

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

Other fees and commission income earned from the provision of services are recognized as revenue, as and when the services are rendered or on a time proportion basis as applicable.

(iv) Income from investments

Net income from investments at fair value through profit or loss which arises from gains and losses resulting from disposal, and from the fair valuation of such investments, are recognized when they occur. Gains resulting from disposal of AFS investments are recognized in profit or loss when they occur. Gains resulting from valuation are recognized in OCI until disposal at which time it will be recycled to profit or loss.

(v) Property related income

Property related income includes rental income, which is recognised on a straight line basis over the term of the lease.

(vi) Dividend income

Dividend income is recognized when the Group's right to receive the payment is established.

(vii) Share of profit from associate

Share of profit from associate reflects the Group's share of the results of operations of the associate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Revenue recognition (continued)

viii) Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date, which are stated at historical cost, are translated at the foreign exchange rate ruling at that date.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to AED at the foreign exchange rates ruling at the dates that the fair values were determined.

Forward foreign exchange contracts are translated into AED at market rates of exchange ruling at the reporting date. Foreign exchange differences arising on translation are recognized in the consolidated income statement.

r) Leasing

The Group has entered into leasing arrangements which based on the evaluation of the terms and condition of the leasing arrangement has been classified as operating lease. Leases are classified as operating leases if risk and reward incidental to ownership of the leased asset lie with lessor.

Group as lessor

Asset subjected to operating lease are presented in the consolidated statement of financial position according to the nature of the asset. Income from operating leases are recognized in the consolidated income statement on straight line basis over the lease term.

Group as lessee

Lease payments under operating leases are recognized as expense on a straight line basis over the lease term.

s) Fiduciary activities

The Group provides wealth management solutions to manage client assets. These assets are held in the Group's custody and are invested on behalf of the client in third party funds, and other securities like bonds and sukuk.

These assets and income arising from these assets are not included in the Group's consolidated financial statements as the risk and rewards incidental to ownership of these assets lie with the client.

t) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortization recognised in the consolidated income statement, and the best estimate of amount required to settle any financial obligation arising as a result of the guarantee.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Acceptances

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date, and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Group and is therefore recognised as a financial liability (Note 16) in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset (Note 12).

v) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

w) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Business Committee of the Group to make decisions about resources allocated to the segment and assess its performance, and for which distinct financial information is available. Segment results that are reported to the Business Committee of the Group include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

x) Related Parties

An entity is considered related party of the Group if:.

a) A person or a close member of that person's family is related to the Group if that person:
   i. has control or joint control of the Group;
   ii. has significant influence over the Group; or
   iii. is a member of the key management personnel of the Group.

b) An entity is related to a Group if any of the following conditions applies:
   i. The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   iii. Both entities are joint ventures of the same third party.
   iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   v. The entity is controlled or jointly controlled by a person identified in (a).
   vi. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

y) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may therefore differ, resulting in future changes in these estimates.

In particular, considerable management judgment is required in respect of the following issues:

Impairment losses on loans and advances and Islamic financing

The Group reviews its loan portfolios to assess impairment at each reporting date. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows (excluding future expected credit losses that have not yet been incurred). 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.

Held-to-maturity investments

The Group follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value and not amortized cost. Further, the Group will not be allowed to classify any security as held to maturity for next two years.

Impairment of available-for-sale investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology or operational and financing cash flows.

Impairment of investment property

Investment properties are assessed for impairment based on assessment of cash flows on individual cash-generating units when there is indication that those assets have suffered an impairment loss. Cash flows are determined with reference to recent market conditions, prices existing at the end of the reporting period, contractual agreements and estimations over the useful lives of the assets and discounted using a range of discounting rates that reflects current market assessments of the time value of money and the risks specific to the asset. The net present values are compared to the carrying amounts to assess any probable impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

y) Use of estimates and judgments (continued)

Impairment on non-financial assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the consolidated income statement. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, which suffered impairment, are reviewed for possible reversal of the impairment at each reporting date.

z) Standards and interpretation

Issued and effective for accounting periods beginning on 1 January 2014

Following are the amendments to IFRSs which have been applied by the Group in these financial statements. The adoption of these amendments has no significant impact on the financial performance or position of the Group. Amendments that are relevant to the Group's financial statements are set out below:

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the financial statements of the Group, since none of the entities in the Group has any offsetting arrangements.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the financial statements of the Group as the Group has not novated its derivatives during the current or prior period.

Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures

This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

Issued but not yet effective for accounting periods beginning on 1 January 2014

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below to the extent that they are relevant to the Group's financial statements. The Group intends to adopt these standards, if applicable, when they become effective.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Standards and interpretation (continued)

Issued but not yet effective for accounting periods beginning on 1 January 2014(continued)

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. The Group is currently assessing the impact of IFRS 9 on its consolidated financial statements.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'. The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 on its consolidated financial statements.

4. FINANCIAL ASSETS AND LIABILITIES

4.1 Financial assets and liabilities classification

The table below sets out the Group's assets and liabilities classification in accordance with the categories of financial instruments in IAS 39:

		Amortized Cost				
	Fair value through Profit or loss AED'000	**Held-to-maturity AED'000**	**Loans and receivables AED'000**	**Available-for-sale at fair value AED'000**	**Other amortized cost AED'000**	**Total carrying amount AED'000**
2014						
Cash and balances with central bank	**-**	**-**	**-**	**-**	**5,450,145**	**5,450,145**
Due from banks	**-**	**-**	**-**	**-**	**1,565,312**	**1,565,312**
Loans and advances and Islamic financing	**-**	**-**	**32,167,216**	**-**	**-**	**32,167,216**
Investment securities	**29,371**	**-**	**-**	**5,558,627**	**-**	**5,587,998**
Other assets	**23,159**	**-**	**-**	**-**	**1,337,435**	**1,360,594**
Total financial asset	**52,530**	**-**	**32,167,216**	**5,558,627**	**8,352,892**	**46,131,265**
Due to banks	**-**	**-**	**-**	**-**	**1,097,926**	**1,097,926**
Customers' deposits and Islamic customers' deposits	**-**	**-**	**-**	**-**	**32,161,339**	**32,161,339**
Notes and medium term borrowing	**-**	**-**	**-**	**-**	**4,021,998**	**4,021,998**
Other liabilities	**21,683**	**-**	**-**	**-**	**1,650,649**	**1,672,332**
Total financial liabilities	**21,683**	**-**	**-**	**-**	**38,931,912**	**38,953,595**
2013						
Cash and balances with central bank	-	-	-	-	6,132,063	6,132,063
Due from banks	-	-	-	-	1,662,172	1,662,172
Loans and advances and Islamic financing	-	-	30,287,385	-	-	30,287,385
Investment securities	33,297	35,261	-	4,160,095	-	4,228,653
Other assets	14,695	-	-	-	1,370,376	1,385,071
Total financial assets	47,992	35,261	30,287,385	4,160,095	9,164,611	43,695,344
Due to banks	-	-	-	-	499,259	499,259
Customers' deposits and Islamic customers' deposits	-	-	-	-	30,942,680	30,942,680
Notes and medium term borrowing	-	-	-	-	4,014,806	4,014,806
Other liabilities	10,203	-	-	-	1,652,320	1,662,523
Total financial liabilities	10,203	-	-	-	37,109,065	37,119,268

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

4. FINANCIAL ASSETS AND LIABILITIES (continued)

4.2 Fair value measurement – Fair value hierarchy:

The below table, shows the hierarchy used by the Group to determine the fair value of the financial assets and financial liabilities:

2014	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**
Investments			
Equity	**159,011**	**-**	**-**
Fund of funds	**-**	**272,685**	**-**
Fixed and floating rate securities	**5,156,302**	**-**	**-**
Forward foreign exchange contracts and other derivatives (net)	**-**	**1,476**	**-**
	5,315,313	**274,161**	**-**

2013	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**
Investments			
Equity	103,004	-	-
Fund of funds	-	188,824	-
Fixed and floating rate securities	3,901,564	-	-
Forward foreign exchange contracts and other derivatives (net)	-	4,492	-
	4,004,568	193,316	-

During the year there were no transfers between Level 1 and Level 2 of the fair value hierarchy above and no financial instruments were classified within level 3 of the fair value hierarchy at any time during the current or prior year. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments during the year.

5. CASH AND BALANCES WITH CENTRAL BANK

	2014	2013
	AED'000	AED'000
Cash on hand	**445,682**	443,485
Balances with UAE Central Bank		
- Clearing account balances	**99,145**	362,621
- Statutory reserves	**2,405,318**	2,125,957
- Negotiable certificates of deposit	**2,500,000**	3,200,000
	5,450,145	6,132,063

6. DUE FROM BANKS

	2014	2013
	AED'000	AED'000
Current and demand deposits	**187,897**	89,948
Placements	**1,377,415**	1,572,224
	1,565,312	1,662,172

The geographical concentration is disclosed in note 33b.

7. LOANS AND ADVANCES AND ISLAMIC FINANCING

The composition of the loans and advances and Islamic financing portfolio is as follows:

Loans and advances	**2014 AED'000**	2013 AED'000
Overdrafts	**5,241,049**	5,486,219
Loans	**25,834,277**	24,160,337
Advances against letters of credit and trust receipts	**885,449**	680,820
Bills discounted	**881,213**	677,948
Gross loans and advances	**32,841,988**	31,005,324
Islamic financing		
Murabaha	**828,832**	872,066
Ijara	**1,434,813**	982,413
Others	**98,524**	257,805
Gross Islamic financing	**2,362,169**	2,112,284
Gross loans and advances and Islamic financing	**35,204,157**	33,117,608
Provisions for impairment losses	**(3,036,941)**	(2,830,223)
Net loans and advances and Islamic financing	**32,167,216**	30,287,385

The movements in provisions for impairment losses are as follows:

	Interest suspended AED'000	**Specific provisions AED'000**	**Collective provisions AED'000**	**Total AED'000**
Opening balance 1 January 2014	**478,482**	**1,877,746**	**473,995**	**2,830,223**
Interest not recognized / new provisions raised	**204,377**	**296,064**	**51,224**	**551,665**
Less:				
Written-Off	**(78,653)**	**(98,596)**	**-**	**(177,249)**
Recoveries / reversal to income	**(106,564)**	**(61,134)**	**-**	**(167,698)**
Closing Balance 31 December 2014	**497,642**	**2,014,080**	**525,219**	**3,036,941**

	Interest suspended AED'000	**Specific provisions AED'000**	**Collective provisions AED'000**	**Total AED'000**
Opening balance 1 January 2013	395,001	1,538,093	440,743	2,373,837
Interest not recognized / new provisions raised	203,301	385,956	33,252	622,509
Less:				
Written-Off	(19,851)	(19,117)	-	(38,968)
Recoveries / reversal to income	(99,969)	(27,186)	-	(127,155)
Closing Balance 31 December 2013	478,482	1,877,746	473,995	2,830,223

The economic sector composition of the loans and advances and Islamic financing is set out in note 33-b.

8. INVESTMENT SECURITIES

2014	Domestic AED'000	GCC AED'000	International AED'000	Total AED'000
Held for trading				
Equities	**771**	**-**	**993**	**1,764**
Fixed rate securities				
- Government	**23,675**	**3,932**	**-**	**27,607**
- Others	**-**	**-**	**-**	**-**
Available-for-sale				
Equities	**157,247**	**-**	**-**	**157,247**
Fund of funds	**15,328**	**36,815**	**220,542**	**272,685**
Fixed rate securities				
- Government	**1,750,825**	**312,076**	**-**	**2,062,901**
- Others	**1,317,490**	**729,809**	**537,186**	**2,584,485**
Floating rate non-government securities	**320,925**	**96,705**	**63,679**	**481,309**
Total investment securities	**3,586,261**	**1,179,337**	**822,400**	**5,587,998**

2013	Domestic AED'000	GCC AED'000	International AED'000	Total AED'000
Held for trading				
Equities	834	-	817	1,651
Fixed rate securities				
- Government	13,262	7,311	-	20,573
- Others	-	11,073	-	11,073
Available-for-sale				
Equities	101,353	-	-	101,353
Fund of funds	15,475	18,077	155,272	188,824
Fixed rate securities				
- Government	1,544,530	182,111	-	1,726,641
- Others	1,272,524	420,363	310,168	2,003,055
Floating rate non-government securities	71,363	68,859	-	140,222
Held-to-maturity				
Floating rate non-government securities	35,261	-	-	35,261
Total investment securities	3,054,602	707,794	466,257	4,228,653

8. INVESTMENT SECURITIES (continued)

8.1. AFS and HTM debt securities

The below table shows the rating of AFS and HTM debt securities:

	2014 AED'000	2013 AED'000
Rated Aaa to Aa3	**165,370**	319,957
Rated A1 to A3	**1,951,626**	1,584,956
Rated BBB+ to BBB-	**1,969,700**	1,044,160
Rated BBB- and below	**220,631**	241,017
Unrated	**821,368**	715,089
	5,128,695	3,905,179

8. 2. Fund of funds investments

This represents investments in global and regional asset management funds as a part of the Group's strategy of diversifying its holdings. These investments are carried at net assets value provided by the respective fund managers.

9. INVESTMENT IN ASSOCIATE

Equity accounting was applied using management information available at the time of the Board approval date and subsequent changes are not considered material. The following is the aggregated financial information of the associate:

	2014 AED'000	2013 AED'000
Assets	**961,275**	911,551
Liabilities	**484,642**	501,002
Revenue	**124,877**	97,687

	2014 AED'000	2013 AED'000
At 1 January	**72,862**	61,374
Share of profit of associate	**17,567**	17,337
Dividend received	**(5,322)**	(5,323)
Share of OCI of associate	**305**	-
Others	**(822)**	(526)
At 31 December	**84,590**	72,862

Fair value of the Group's share of associate as at 31 December 2014 was AED101.1 million (31 December 2013: AED 149.6 million). The fair value of associate is based on quoted price on Dubai Financial Market. Fair Value of the associate represents level 1 of the fair value hierarchy.

10. INVESTMENT PROPERTIES

The movement in investment properties during the year is as follows:

	2014 **AED'000**	2013 AED'000
Cost		
At 1 January	**342,720**	245,501
Additions	**102**	-
Transfer from capital work in progress	**-**	104,400
Transfer to property and equipment	**-**	(7,181)
At 31 December	**342,822**	342,720
Depreciation		
At 1 January	**82,867**	79,386
Charge for the year	**9,964**	9,074
Transfer to property and equipment	**-**	(5,593)
At 31 December	**92,831**	82,867
Net book value		
At 31 December	**249,991**	259,853

Investment properties comprises buildings. Rental income from investment properties leased under operating lease recorded in other income is AED 30.3 million *(2013: AED 28.3 million).*

The fair value of investment properties as at 31 December 2014 is AED 584 million *(2013: AED 361 million).* The fair value of investment properties represents management's internally estimated market value of the properties using discounted cash flow method. The management uses cash flows, rent growth, long term vacancy rate and discount rate as the key inputs for valuation of investment properties. Significant changes in key inputs considered in isolation would result in a significant change in fair value of investment properties. Fair value of investment properties represents level 3 of the fair value hierarchy.

11. PROPERTY AND EQUIPMENT

	Freehold land and buildings	Leasehold improve-ments	Furniture, equipment & vehicles	Capital work in progress	Total
	AED'000				
Cost					
At 1 January 2014	**385,240**	**38,132**	**272,140**	**13,222**	**708,734**
Additions during the year	**88**	**499**	**17,382**	**23,160**	**41,129**
Transfer from capital work in progress to property and equipment	**-**	**-**	**21,927**	**(21,927)**	**-**
Disposals	**-**	**(227)**	**(5,943)**	**(2,186)**	**(8,356)**
At 31 December 2014	**385,328**	**38,404**	**305,506**	**12,269**	**741,507**
Depreciation					
At 1 January 2014	**127,136**	**29,015**	**231,310**	**-**	**387,461**
Charge for the year	**10,338**	**3,681**	**21,713**	**-**	**35,732**
On disposals	**-**	**(3)**	**(5,535)**	**-**	**(5,538)**
At 31 December 2014	**137,474**	**32,693**	**247,488**	**-**	**417,655**
Net book values					
At 31 December 2014	**247,854**	**5,711**	**58,018**	**12,269**	**323,852**

	Freehold land and buildings	Leasehold improve-ments	Furniture, equipment & vehicles	Capital work in progress	Total
	AED'000				
Cost					
At 1 January 2013	332,590	36,102	258,855	155,887	783,434
Additions during the year	-	-	12,260	17,838	30,098
Transfer from capital work in progress to property and equipment	45,469	2,030	7,988	(55,487)	-
Transfer to investment properties	-	-	-	(104,400)	(104,400)
Transfer from investment properties	7,181	-	-	-	7,181
Disposals	-	-	(6,963)	(616)	(7,579)
At 31 December 2013	385,240	38,132	272,140	13,222	708,734
Depreciation					
At 1 January 2013	109,471	24,069	217,726	-	351,266
Charge for the year	12,072	4,946	20,132	-	37,150
Transfer from investment properties	5,593	-	-	-	5,593
On disposals	-	-	(6,548)	-	(6,548)
At 31 December 2013	127,136	29,015	231,310	-	387,461
Net book values					
At 31 December 2013	258,104	9,117	40,830	13,222	321,273

Freehold land and buildings includes the market value of a plot of land granted to the Group by the Government of Dubai in 1998. Granted land is valued at market value on the date of grant.

The Group assessed whether there is an indication that an asset may be impaired and concluded that there was no indication of impairment.

12. OTHER ASSETS

	2014 AED'000	2013 AED'000
Interest receivable	**217,478**	246,592
Accounts receivable and prepayments	**151,491**	184,949
Customer's indebtedness for acceptances	**1,096,022**	1,065,694
Positive mark to market value of derivatives (note 29)	**23,159**	14,695
	1,488,150	1,511,930

13. DUE TO BANKS

	2014 AED'000	2013 AED'000
Current and demand deposits	**560,999**	258,378
Short term borrowings	**536,927**	240,881
	1,097,926	499,259

14. CUSTOMERS' DEPOSITS AND ISLAMIC CUSTOMERS' DEPOSITS

Customers' deposits	2014 AED'000	2013 AED'000
Current and demand accounts	**13,085,481**	12,106,932
Savings accounts	**1,411,014**	1,352,344
Time deposits	**10,880,955**	10,714,666
	25,377,450	24,173,942

Islamic customers' deposits	2014 AED'000	2013 AED'000
Current and demand accounts	**955,337**	857,584
Mudaraba savings accounts	**467,467**	504,915
Investment and Wakala deposits	**5,361,085**	5,406,239
	6,783,889	6,768,738
Total customers' deposits and Islamic customers' deposits	**32,161,339**	30,942,680

By sector:	2014 AED'000	2013 AED'000
Government	**5,445,838**	4,765,539
Corporate	**17,755,414**	17,739,712
Personal	**8,960,087**	8,437,429
	32,161,339	30,942,680

15. NOTES AND MEDIUM TERM BORROWINGS

Syndicated loan

In December 2013, the Group entered into a club deal of USD 450 million (AED 1,653 million) for a term of 3 years with an option to roll over on a quarterly or semi-annual basis. This replaced the syndicated loan arrangement of USD 450 million maturing in August 2014, which was prepaid in October 2013 and carried interest at the rate of 3 month LIBOR plus 175 basis points payable on a quarterly basis. The current arrangement carries interest at the rate of 3 month LIBOR plus 125 basis points payable on a quarterly basis.

Repurchase agreements

In July 2012, the Group entered into Repo transactions to obtain financing against the sale of certain debt securities, amounting to USD 150.1 million (AED 551 million) with arrangements to repurchase them at a fixed future date in July 2017.

These securities are carried at fair value amounting to USD 182.6 million (AED 670.7 million) as at 31 December 2014.

Euro medium term notes

In 2013 CBD activated its Euro Medium Term Note (EMTN) program, which was launched in 2008. The maximum issuance under the program is USD 2 billion (AED 7.3 billion). These notes can be distributed by way of private or public placements and in each case on a syndicated or non-syndicated basis. These notes can be priced at fixed rate, floating rate or can be index linked.

In May 2013, CBD issued USD 500 million (AED 1,836.5 million) of conventional bonds. These notes were priced at 3.375 per cent fixed rate and mature on 21 May 2018.

16. OTHER LIABILITIES

	2014	2013
	AED'000	AED'000
Interest payable	**53,445**	82,199
Employees' terminal benefits	**64,995**	60,886
Accounts payable	**501,182**	504,427
Unearned fee income	**88,251**	79,648
Negative mark to market value of derivatives (note 29)	**21,683**	10,203
Liabilities under acceptances	**1,096,022**	1,065,694
	1,825,578	1,803,057

17. EQUITY

Share capital

The fully paid up and authorized ordinary share capital as at 31 December 2014 comprised 2,242,187,147 ordinary shares of AED 1 each *(2013:* 2,038,351,976 *shares of AED 1 each*). The movement in no. of shares during the year is as follows:

	2014	2013
As at 1 January	**2,038,351,976**	2,038,351,976
Bonus shares issued during the year	**203,835,171**	-
As at 31 December	**2,242,187,147**	2,038,351,976

Legal reserve

Federal Law No. 8 of 1984 (as amended), Union Law No. 10 of 1980 and the Bank's Articles of Association require that a minimum of 10% of the annual net profit be transferred to a legal reserve, until such time as this reserve equals 50% of share capital. The legal reserve is not available for distribution except under the circumstances stipulated by the relevant law. During the current year an amount of AED 682 thousand (2013: AED 130 thousand) was transferred to the legal reserve in respect of CBD Financial Services LLC (subsidiary company).

Capital reserve

This reserve represents the market value of the granted land at the date of grant as explained in note 11, and is not available for distribution to the shareholders.

General reserve

In accordance with article 87 of the Bank's Articles of Association, a minimum of 10% of the annual net profit to be transferred to general reserve until such time as this reserve equals 50% of share capital. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the Shareholders. During the current year an amount of AED 21,095 thousand (2013: AED Nil) was transferred to the general reserve.

Cumulative changes in fair values of AFS investments and cash flow hedge instruments

This represents the net change in the fair values of available-for-sale investments and derivative instruments designated as cash flow hedge instruments held by the Group at reporting date. This reserve is not available for distribution to the shareholders.

Proposed distribution

The Board of Directors has proposed the following distribution for approval by the Annual General Meeting of the shareholders to be held on 04th March 2015.

i)*Proposed cash dividend*

A cash dividend of 25% *(2013: 30%)* of the share capital amounting to AED 560,546,787 (2013: AED 611,505,593) is proposed representing a dividend of AED 0.25 per share (2013: AED 0.30 per share).

***ii)** proposed bonus issue*

A bonus issue of 25 % in the ratio of 1 share for every 4 shares held is proposed (2013: 10%).

iii)*Proposed directors' remuneration*

In accordance with Article 118 of Federal Law No.8 of 1984, directors' remuneration amounting to AED 10,540,000 (2013: AED 11,000,000) has been treated as an appropriation from equity.

18. INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING

	2014	2013
Interest income	**AED'000**	AED'000
Loans and advances	**1,555,500**	1,556,458
Negotiable certificates of deposit with the Central Bank	**3,067**	3,771
Due from banks	**2,545**	2,534
Investment securities		
- Held-to-maturity bonds	**646**	7,625
- Available-for-sale bonds	**138,839**	76,253
	1,700,597	1,646,641
Income from Islamic financing		
Murabaha	**31,407**	56,277
Ijara	**92,738**	48,769
Musharaka	**864**	4,090
Investment securities		
- Held-to-maturity sukuk	**-**	1,712
- Available-for-sale sukuk	**1,452**	9,044
	126,461	119,892
Total interest income and income from Islamic financing	**1,827,058**	1,766,533

19. INTEREST EXPENSE AND DISTRIBUTION TO ISLAMIC DEPOSITORS

	2014	2013
Interest expense	**AED'000**	AED'000
Due to banks	**531**	740
Customers' deposits	**87,751**	163,705
Notes and medium term borrowings	**107,949**	92,292
Others	**268**	-
	196,499	256,737
Distribution to Islamic depositors		
Islamic customers' deposits	**47,594**	61,127
	47,594	61,127
Total interest expense and distribution to Islamic depositors	**244,093**	317,864

Distribution to Islamic depositors represents the share of income allocated to Islamic depositors of the Group. The allocation and distribution is approved by the Group's Sharia'a Supervisory Board.

20. NET FEES AND COMMISSION INCOME

	2014	2013
	AED'000	AED'000
Lending activities	**106,783**	88,179
Trade finance activities	**112,802**	101,968
Account operating activities	**141,337**	125,084
Cards income and brokerage fees	**78,670**	66,777
	439,592	382,008
Cards and brokerage expenses	**(34,203)**	(27,090)
	405,389	354,918

21. NET GAINS FROM INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS - HELD FOR TRADING

	2014	2013
	AED'000	AED'000
Net realized gains on sale of investments at fair value through profit or loss	**2,445**	1,886
Net unrealized gains / (losses) on investments at fair value through profit or loss	**61**	(282)
	2,506	1,604

22. DIVIDEND INCOME

	2014	2013
	AED'000	AED'000
Investments at fair value through profit or loss – held for trading	**136**	20
Available-for-sale investments	**6,443**	6,234
	6,579	6,254

23. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include staff related expenses of AED 512.8 million (*2013: AED* 432.6 *million*) and sitting fees paid to directors for attending committee meetings during the year ended 31 December 2014 of AED 2.3 million (31 December 2013: Nil).

24. OPERATING LEASES

Group as lessee

General and administrative expenses include rental expense under operating leases of AED 16.1 million (2013: AED 14.4 million). Non-cancellable operating lease rental payable as at 31 December is as follows:

	2014	2013
	AED '000	AED '000
Less than one year	**8,062**	7,246

Group as lessor

Operating leases relate to the Group's investment properties. Non-cancellable operating lease rental receivables are as follows

	2014	2013
	AED '000	AED '000
Less than one year	**14,227**	14,771

25. BASIC AND DILUTED EARNINGS PER SHARE

The earnings per share (EPS) is based on the Group's profit attributable to shareholders for the year amounting to AED 1,202.3 million (*2013: AED 1,010.2 million),* and on the weighted average number of shares in issue totaling 2,242,187,174 (*2013:* 2,242,187,174). Weighted average number of shares used for EPS calculation for 2013 and 2014 is adjusted for bonus shares issued in 2014.

There was no dilutive effect on earnings per share.

26. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flow comprise the following statement of financial position amounts:

	2014	2013
	AED'000	AED'000
Cash on hand	**445,682**	443,485
Balances with the Central Bank	**99,145**	362,621
Negotiable certificates of deposit with the Central Bank with original maturity less than three months	**2,400,000**	3,200,000
Due from banks with original maturity less than three months	**1,565,312**	1,662,172
	4,510,139	5,668,278
Due to banks with original maturity less than three months	**(1,047,926)**	(499,259)
	3,462,213	5,169,019

27. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities represent credit-related commitments to extend letters of credit, guarantees and forward foreign exchange contracts which are designed to meet the requirements of the Group's customers toward third parties. Commitments represent the Group's commitments towards approved un-drawn credit facilities. The amount of contingent liabilities reflected below represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted.

	2014 **AED'000**	2013 AED'000
Contingent liabilities:		
Letters of credit	**1,091,458**	1,157,129
Guarantees	**6,656,419**	5,107,403
	7,747,877	6,264,532
Credit commitments:		
Undrawn commitments to extend credit	**11,900,926**	9,927,716
Capital commitments:		
Capital expenditure commitments	**16,737**	10,636
Total contingent liabilities and commitments	**19,665,540**	16,202,884

28. FIDUCIARY ASSETS

Assets held under fiduciary capacity on behalf of clients amounted to AED1,472.6 million (2013: AED 634.9 million)

29. DERIVATIVES

The following table shows the fair values of derivative financial instruments at the reporting date, together with the notional amounts, analyzed by terms to maturity. The notional amount is the value of the derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and therefore, are neither indicative of the Group's exposure to credit risk nor market risk. Credit risk on derivatives is limited to its positive fair value if any.

31 December 2014	**Positive market value**	**Negative market value**	**Notional amount**	**Less than three months**	**From three months to one year**	**From one year to five years**	**Over Five years**
	AED'000						
Cash flow hedge instrument	**-**	**349**	**42,368**	**-**	**-**	**42,368**	**-**
Forward foreign exchange contracts and other derivatives assets	**23,159**	**-**	**4,197,311**	**2,055,486**	**1,245,082**	**162,143**	**734,600**
Forward foreign exchange contracts and other derivatives liabilities	**-**	**21,334**	**3,746,173**	**1,263,271**	**1,620,296**	**101,756**	**760,850**
	23,159	**21,683**	**7,985,852**	**3,318,757**	**2,865,378**	**306,267**	**1,495,450**

29. DERIVATIVES (continued)

31 December 2013	Positive market value	Negative market value	Notional amount	Less than three months	From three months to one year	From one year to five years	Over Five years
	AED'000						
Forward foreign exchange contracts and other derivatives assets	14,695	-	1,693,285	1,589,082	14,203	90,000	-
Forward foreign exchange contracts and other Derivatives liabilities	-	10,203	336,924	222,813	24,111	90,000	-
	14,695	10,203	2,030,209	1,811,895	38,314	180,000	-

30. SEGMENTAL REPORTING

The primary format, business segments, is based on the Group's management and internal reporting structure that are regularly reviewed by the Business Committee in order to allocate resources to the segment and to assess its performance.

Business segments pay to and receive interest from the Treasury on a mutually agreed basis to reflect the allocation of capital and funding costs.

Business segments

Corporate banking	Includes loan and other credit facilities, deposits, trade finance products and e-commerce solutions to large corporate clients (including Government related entities).
Commercial banking	Includes loans, working capital financing, trade finance and deposits products to commercial (mid-sized) clients.
Personal banking	Includes current accounts, easy access saving accounts, fixed rate deposit accounts, personal loans, overdraft facilities, vehicle finance, mortgage products, loans and other credit facilities to business (small) clients, high net-worth (Al Dana), mid-tier clients (personal) and modest income group (direct).
Treasury and investments	Undertakes balance sheet management deals in derivatives for trading and for risk management purposes and manages the Group's proprietary investment portfolio.

Interest is charged or credited to business segments and branches to match funding transfer pricing rates which approximate the replacement cost of funds. Other central costs are allocated to business segments on a reasonable basis.

Geographical

The Group operates in one geographic area, the United Arab Emirates.

30. SEGMENTAL REPORTING (continued)

Segmental analysis for the year ended 31 December 2014 was as follows:

31 December 2014	**Corporate banking**	**Commercial banking**	**Personal banking**	**Treasury & investments**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Assets	**21,085,331**	**8,203,749**	**4,861,396**	**12,766,778**	**46,917,254**
Liabilities	**15,513,645**	**6,028,734**	**12,417,019**	**5,147,443**	**39,106,841**
31 December 2013					
Assets	21,337,747	7,171,875	3,761,343	12,205,226	44,476,191
Liabilities	14,638,879	6,499,608	11,586,409	4,534,906	37,259,802
31 December 2014					
Net interest income and net income from Islamic financing	**626,532**	**427,412**	**306,799**	**222,222**	**1,582,965**
Non-Interest & Other Income	**213,982**	**142,732**	**176,577**	**124,174**	**657,465**
Total operating income	**840,514**	**570,144**	**483,376**	**346,396**	**2,240,430**
Direct and allocated cost	**167,230**	**209,714**	**300,979**	**30,815**	**708,738**
Provisions for impairment losses net of recoveries	**169,331**	**52,158**	**62,251**	**-**	**283,740**
Depreciation	**14,512**	**5,923**	**24,287**	**974**	**45,696**
Total expenses	**351,073**	**267,795**	**387,517**	**31,789**	**1,038,174**
Net profit for the year	**489,441**	**302,349**	**95,859**	**314,607**	**1,202,256**
31 December 2013					
Net interest income and net income from Islamic financing	545,554	410,702	226,161	266,252	1,448,669
Non-Interest & Other Income	188,840	120,343	174,732	100,310	584,225
Total operating income	734,394	531,045	400,893	366,562	2,032,894
Direct and allocated cost	148,831	201,022	209,469	22,060	581,382
Provisions for impairment losses net of recoveries	373,710	47,835	(26,492)	-	395,053
Depreciation	20,007	10,429	14,750	1,038	46,224
Total expenses	542,548	259,286	197,727	23,098	1,022,659
Net profit for the year	191,846	271,759	203,166	343,464	1,010,235

31. RELATED PARTY TRANSACTIONS

The Group enters into transactions with major shareholders, directors, key management personnel and their related entities. The terms of these transactions are approved by the Group's Board of Directors:

	Directors and key management personnel		**Other related parties**	
	2014 AED'000	2013 AED'000	**2014 AED'000**	2013 AED'000
Loans and advances	**105,869**	99,102	**1,992,593**	1,619,529
Due from banks	**-**	-	**211,910**	650,000
Investment securities	**-**	-	**803,397**	527,000
Acceptances	**-**	-	**11,268**	68,423
Letters of credit	**-**	-	**14,453**	8,620
Letters of guarantees	**-**	-	**321,511**	148,523
	======	======	=======	========
Deposits	**12,203**	12,859	**5,190,088**	4,792,303
	======	======	========	========

	2014 AED'000	2013 AED'000	**2014 AED'000**	2013 AED'000
Interest income and commission income	**7,596**	6,110	**58,480**	59,281
Interest expense	**15**	13	**31,173**	48,895
	=====	=====	=====	=====

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Other related parties represent major shareholders and parties related to Directors, key management personnel.

No provisions for impairment have been recognised in respect of loans given to related parties *(31 December 2013: NIL).*

The loans issued to directors are unsecured and repayable monthly over a maximum period of 5 years *(31 December 2013: 5 years)* and carry interest at the rates comparable to the third party loans.

Proposed directors remuneration for 2014 AED 10,540 thousand *(31 December 2013: 11,000 thousand)* is reflected in consolidated statement of changes in equity.

Sitting fees paid to directors for attending committee meetings during the year ended 31 December 2014 was AED 2,322 thousand *(31 December 2013: Nil).*

Key management compensation

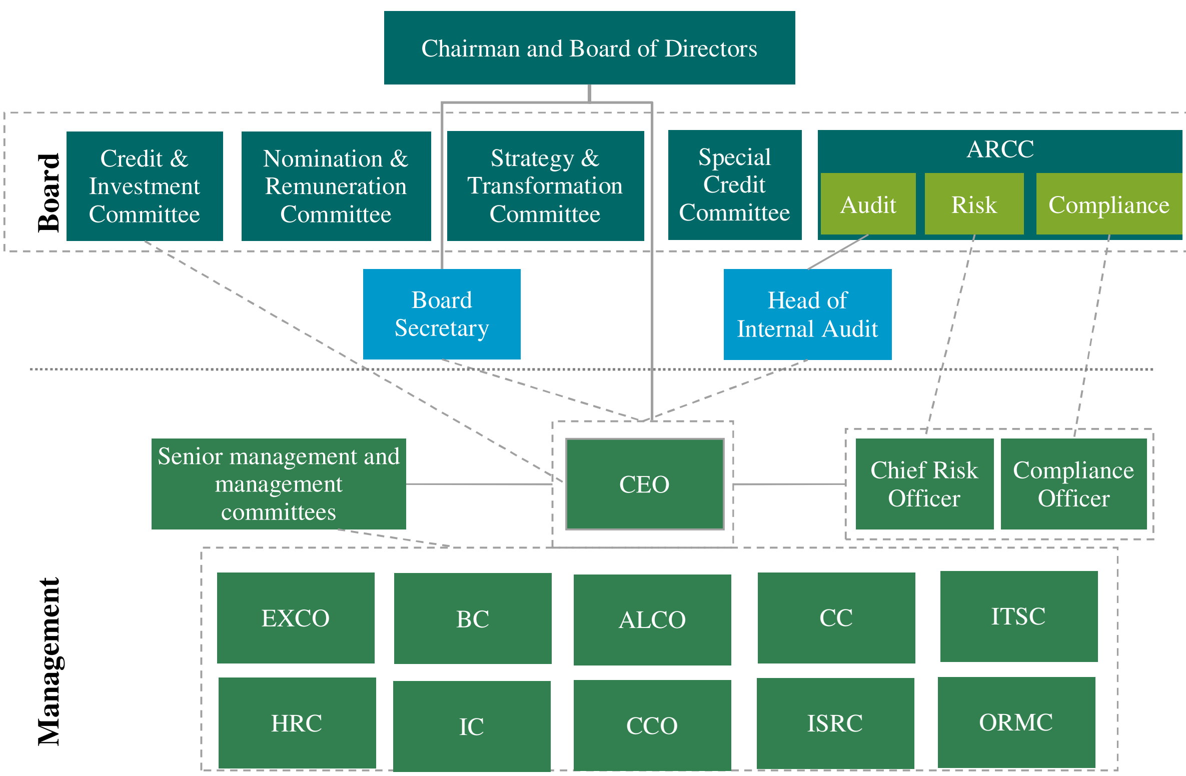
	2014 AED'000	2013 AED'000
Salaries	**11,253**	10,772
Post-employment benefits	**1,524**	1,188
Other benefits	**8,949**	6,778
	=====	=====

32. RISK MANAGEMENT OBJECTIVES AND POLICIES

32.1 Risk Governance

The Board of Directors (the "Board") has the overall responsibility for the operations and the financial stability of the Group, and ensures that the interests of shareholders, depositors, creditors, employees and other stakeholders, including the banking regulators and supervisors, are addressed. The Board is responsible for strategic direction, management oversight and adequate control with the ultimate objective of promoting the success and long–term value of the Bank. The Board is also responsible for the overall framework of the risk governance, management, determining risk strategy, setting the Group's risk limits and ensuring that risk exposure is monitored, controlled effectively and kept within set limits. Additionally, it is responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures as well as management of all risks related to the Group.

In order to effectively discharge this responsibility the Board is assisted by 5 Board Committees and 10 management committees. An illustration of how these committees report to the Group Board is shown below:



32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

32.1 Risk Governance (continued)

Board Committees

a) Credit & Investment Committee (CICO)

The purpose of the CICO is to:

- oversee the quality of the Group's credit and investments portfolio, the trends affecting that portfolio and expresses its opinion on the same to the Audit, Risk & Compliance Committee for consideration;
- Oversee the effectiveness and administration of credit-related policies;
- Approve loans and investments above management limits;
- Develop investment policies and monitor management's compliance with the investment strategies and guidelines; and
- Approve purchase and disposal of assets within the limits and approved strategic plans.

CICO consists of 6 non-executive Board Members.
CICO held 10 meetings during 2014.

b) Strategy and Transformation Committee (STC)

The Strategy and Transformation Committee (STC) is responsible for assisting the Board of Directors in fulfilling its oversight responsibilities relating to the Bank's strategic plans and initiatives in support of its strategy.
The Strategy and Transformation Committee:

- Initiates and evaluates the Bank's implementation plan regularly, on a quarterly basis at least.
- Initiates and evaluates the Bank's operational plans in support of the Bank's strategic plan, including:
    i. Expansion strategy (geographical and product offering)
    ii. Acquisition Strategy
    iii. Opportunities for potential acquisitions
- Initiates and assesses responses to external developments and factors, such as changes in the economy, industry trends, competition and technology, which impacts the Banks strategic plan.

The STC comprises of 3 non-executive Board members.
STC held 8 meetings during 2014.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

32.1 Risk Governance (continued)

c) Nomination & Remuneration Committee (REMCO)

The Nomination & Remuneration Committee has been established to provide an efficient mechanism for reviewing the Bank's compensation arrangement for its Management and Staff and making recommendations for the Board's approval on these matters.

Its primary objectives and responsibilities that are independently undertaken and assumed on behalf of the Board, that may be amended time to time are as given below but not limited to:

- Review the succession plan for the senior executives of the Group, taking into account the challenges and opportunities facing the Group, and what skills and expertise are therefore needed in the future;
- Ensuring that compensation programs are fair in order to attract, retain and motivate its professional management and staff and in adherence to the short, medium and long-term objectives of the Group bearing in mind the risk-taking and market conditions. Additionally, they must oversee the development of new compensation plans and approve the revision of existing plans, as and when required;
- Review Board Members' fees and committee fees for the Bank and any of its subsidiaries as appropriate;
- Ensuring that remuneration practices are compliant with all laws/rules that are applicable to the banks and that reporting and disclosures pertaining to the same are carried out in a timely manner as regulated by, but not limited to the laws of UAE Central Bank, Dubai Financial Market & Securities and Commodities Authority;
- Facilitating and expediting the implementation of any Board decision pertaining to remuneration;
- Recommending the remuneration and compensation of the senior management;
- Determining the bonus pool, overall increment pool for staff and prepare a compensation recommendation for presentation to the Board considering certain factors such as Bank's performance and shareholder return, compensation in comparison to peers and rewards given in the past years;
- Recommending proposals for granting and exercising Long Term Incentive Programs (LTIPs) and /or share option schemes, where applicable; and
- Reviewing and approving overall HR policies and strategy.

The REMCO comprises of 4 non-executive Board members.
REMCO held 6 meetings during 2014.

d) Audit, Risk & Compliance Committee (ARCC)

The role of the ARCC is to assist the Board of Directors in fulfilling its oversight responsibilities for the integrity of financial statements and system of internal control and risk management through:

- Overseeing the Group's financial reporting processes, maintaining accounting policies, reviewing and approving the financial statement;
- Monitoring the effectiveness and integrity of the risk management framework and review reports on risk management;
- Evaluating the adequacy and effectiveness of the Group's procedures and controls for ensuring compliance with legal and regulatory requirements and internal policies;
- Managing the relationship with the Group's external auditors;
- Supervising internal auditors, determining their scope of work, ensuring coordination between various external auditing bodies, reviewing the periodicity and scope of internal audit, and the approval of their working plans;
- Reviewing reports of the Central Bank, Financial Audit Department of Government of Dubai, internal and external auditors , and following up relevant measures taken to address weaknesses in controls,

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

32.1 Risk Governance (continued)

d) Audit, Risk & Compliance Committee (ARCC) (contined)

and non-compliance with laws & regulations, to ensure that management has instituted appropriate remedial measures;

- Submitting recommendations to the Board concerning the nomination, appointment, termination and remuneration of the external auditor and its election by the general assembly, ensuring that the external auditor fulfills the requirements of supervisory bodies, and that nothing impairs its independence to the external auditor;
- Ensuring the independence of the internal audit department to carry out its duties;
- Reviewing reports on the internal controls and ensuring the sufficiency and efficiency of the internal control system to avoid any potential conflict of interest, which may arise from the Group's transactions or contracts or entering into projects with related parties, and to ensure that internal audit plans cover this;
- Monitoring the compliance systems in place by which management discharges its legal obligations in respect of the Bank's business;
- Receiving information and monitoring that 'due diligence' matters which arise are being reported to Senior Management and the Board and that there are appropriate mechanisms in place for dealing with such matters; and
- Reviewing compliance systems and procedures within the Bank to monitor that there is appropriate disclosure to the Board of areas of operating and non-financial risk.

The ARCC consists of 3 non-executive Board members and an independent non-Board member.
ARCC held 7 meetings during 2014.

e) Special Credit Committee (SCC)

Special Credit Committee was established to review and follow up large exposures of clients in distressed circumstances. SCC considers any issues regarding large exposures and provisioning which may have a material impact upon the Bank's performance.
The responsibilities of the Committee are to:

- Follow up of large exposures to Corporate/Commercial customers, falling under the categories of Watch-List, Non-Performing Loans (NPLs), Other Loans Especially Mentioned (OLEM) and Stressed Credits.
- Committee members may visit such customers whenever necessary, to negotiate specific debt restructures and repayments to preserve the Bank's interest.
- Review and evaluate adequacy of provisions for non-performing loans (NPLs), classified and watch-list customers.
- Review of high risk issues identified by Internal and External Auditors or Central Bank as well as Audit, Risk & Compliance Committee.
- Review Bi-monthly update on Retail Credit and Corporate portfolio performance
- Review the collection/recovery performance.

The SCC consists of 3 non-executive Board members and the Chief Executive Officer (CEO) of the Bank.
SCC held 5 meetings during 2014.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

32.1 Risk Governance (continued)

Management Committees

a) Executive Committee (EXCO)

The role of the Executive Committee (EXCO) is to provide strategic oversight and leadership with regards to the Bank's business. EXCO considers any issues that may have a potential material impact on the Bank's performance, quality of banking services, risks, control framework and corporate social responsibility.

b) Business Committee (BC)

The Business Committee is responsible for recommending, making decisions for implementing business initiatives, monitoring the Bank's overall performance across all functions and to implement the Bank's business policies within the approved strategies.

c) Asset and Liability Committee (ALCO)

The objective of ALCO is to drive the most appropriate strategy for the Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints, and foreign exchange exposure and capital adequacy. The ALCO is also responsible to ensure that all strategies conform to the Group's risk appetite and levels of exposure as determined by the Board of Directors.

The terms of reference of ALCO include the following:

- Developing an effective asset and liability management process and related procedures to oversee and monitor the Group's approved policies and procedures in relation to the management and control of the following risks:

  - *Liquidity risk* – being the risk of the Group's inability to meet obligations when they become due without incurring unacceptable losses because of an inability to liquidate assets or to obtain adequate funding;
  - *Market risk* – being the following risks:
    - The risk to earnings from adverse movements in interest rates, exchange rates and market volatility; and
    - The risk from changes in the value of portfolio of financial instruments.
  - *Statement of financial position risk* - being the following risks:
    - The risk to earnings from changes in interest rates and market volatility in retail and wholesale rates;

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

32.1 Risk Governance (continued)

c) Asset and Liability Committee (ALCO) (continued)

- The risk to value and capital from changes in the value of assets and liabilities as a result of changes in interest rates and market volatility;
- The risk from material changes in global and domestic economic conditions generally; and
- Consider deposit and loan products and their impact on the statement of financial position. In particular, consider the pricing and maturity distributions of deposits, loans and investments.

➢ Overseeing the installation and maintenance of information systems that supplies, on a timely basis, the information and data necessary for the ALCO to fulfill its roles and responsibilities.

d) Credit Committee (CC)

The Board of Directors has delegated responsibility for the management of certain levels of credit risk to the Group's Credit Committee (CC), which is responsible for oversight of the Group's credit risk including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements;
- Establishing an authorization structure and limits for the approval and renewal of credit facilities. Lending authorities have been established at various levels together with a framework of dual/multiple credit approval delegated authorities. Larger facilities require approval by the CC and / or the Board of Directors, as appropriate;
- Establishing limits - actual levels of exposure are regularly reviewed at CC or Board level, as appropriate;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties;
- Designing credit review procedures so as to identify, at an early stage, exposures which require more detailed monitoring and review;
- Developing and maintaining the Group's risk grading in each category of exposures according to the degree of risk of financial loss faced and to ensure focus of management on the attendant risks. The risk grading system is used in determining whether impairment provisions may be required against specific credit exposures. The current risk grading framework consists of fourteen grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the Credit and Investment Committee (CICO) and is subject to regular reviews by the Risk Management Department; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

e) IT Steering Committee (ITSC)

The ITSC provides strategic and tactical guidance for managing the Group's overall technology platform in the long and short term, to ensure that Information Technology (IT) initiatives are consistent with the strategic business goals of the Group. The ITSC is charged with:

- Reviewing the Group's IT development, strategic opportunities and plans;

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

32.1 Risk Governance (continued)

f) IT Steering Committee (ITSC) (continued)

- Providing guidance in the prioritization and implementation of technology initiatives and projects (including those related to infrastructure);
- Reviewing IT operations' effectiveness;
- Reviewing business continuity plans, policies and reports relating to the effectiveness of business continuity, their implementation and measures taken to address any residual risks; and
- Approving IT Budgets.

g) Human Resources Committee (HRC)

The purpose of the HRC is to set strategy and policy in the following areas:

- Organization development in terms of structure, professional ethics, annual business strategy, business focused succession planning.
- Staffing in terms of Emiratisation, optimal headcount/manpower distribution, review sourcing process, policies & strategies, review the approved agencies.
- Training and Development ensuring the timely conduct of training, approve specialized development programs, review financial budget for training & development and ensure it has been used extensively for this purpose.
- Compensation & Reward Management supporting the Nomination & Remuneration Committee, ensure jobs are graded based on the Job Evaluation System, ensure incentive scheme, revision of salary structure, changes in the allowances, benefits & facilities and other rewards reaches employees.
- Employee Services ensuring that employee grievances are timely resolved, effective implementation of Staff Suggestion scheme, Employee Satisfaction Survey and outstanding performance awards.

h) Investment Committee (IC)

The IC is responsible for overseeing and managing the Bank's proprietary investments, in both fixed income and equity securities, in accordance with the investment policy and guidelines.

The IC's key responsibilities are:

- Approving and amending the policies and guidelines;
- Reviewing and approving Investment Group/Treasury's proposed investment recommendations;
- Reviewing and evaluating performance of portfolios against benchmarks; and
- Reviewing the portfolio's continued compliance with regulatory guidelines.

i) Compliance Committee (CCO)

The CCO primarily ensures the prevention of money laundering and terrorism financing in adherence and compliance with the relevant regulations set by regulatory authorities, applicable to the Bank. It oversees the monitoring and implementation of policies and procedures related to compliance and AML. CCO members duties include but are not limited to:

➢ Assessing and approving reports prepared by Head of Compliance and AML regarding suspicious transactions in staff & customer accounts/credit cards & internal and external fraud cases and

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

32.1 Risk Governance (continued)

i) Compliance Committee (CCO) (continued)

subsequently taking appropriate corrective action through investigation, police and court action wherever necessary;

- Reviewing the higher risk customers, like non-residents, free-zones entities, politically exposed persons (PEP's) and others as defined by our "Know Your Customer (KYC) and Anti-money Laundering (AML) Policies & Procedures", and provides the suitable guidance.

j) Information Security Risk Committee (ISRC)

The Committee provides a strategic and tactical guidance for managing the Bank's overall information security and IT risks in the long and short term, to ensure adherence with applicable regulations and standards, compliance with internal policies and management of IT risks to protect the Bank's business, supporting strategic business goals.

ISRC is charged with assisting the Board in:

- Reviewing the Bank's Information Security & Risk Plans
- Providing guidance in the prioritization and implementation of information security policies and controls
- Reviewing of Information Security & Risk policies and reports relating to the effectiveness of the Information Security, their implementation and measures taken to address any residual risks
- Reviewing security incidents, threats and trends in order to provide strategic guidance of risk evaluation, acceptance and treatment plans.

k) Operational Risk Management Committee (ORMC)

The purpose of ORMC is to maintain oversight of the operational risks identified across the Bank by all relevant units like Operational Risk Management Department, Internal Control Department and Internal Audit. The key responsibilities of ORMC are:

- To maintain oversight of bank wide operation risks
- To perform timely reviews of operational risks, reports and issues
- To analyze the root cause for reoccurring operational risk issues and recommendation to address the same
- To be the escalation point for key operational risks
- To perform reviews of operational risk policies and procedures

32. RISK MANAGEMENT OBJECTIVES AND POLICIES

32.2 Control Environment

a) Group Risk

Group Risk Department comprises credit, market, operational and IT risks units. Its responsibilities include the following:

- Developing a strategy, policy and framework for risk management such that these are aligned with business requirements;
- Providing support to the Group in implementation of the framework;
- Bringing together analysis of risk concentrations and sensitivities across the Group;
- Acting as a point of reference for risk and control matters, providing advice to management, sharing best practices and carrying out special reviews as directed by ALCO; and
- Providing independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

b) Internal Audit and Anti –fraud function

The role of the Internal Audit Department within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures. Additionally, Internal Audit provides consulting services which are advisory in nature, and are generally performed at the specific request of the ARCC or Senior Management.

It is led by the Head of Internal Audit who reports to the ARCC of the Board of Directors, with administrative reporting to the Chief Executive Officer.

To perform its role effectively, Internal Audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel. The Internal Audit Charter empowers it to have full, free and effective access at all reasonable times to all records, documents and employees of the Group. Further, Internal Audit has direct access to the Chairman of the Audit, Risk & Compliance Committee.

To determine whether the Internal Audit Function is functioning effectively, the ARCC shall:

- Assess the appropriateness of the Internal Audit Charter once each year;
- Assess the adequacy of resources available, both in terms of skills and funding once each year; and
- Sponsor external assessments, at least once every three (3) years, by a qualified, independent reviewer from outside the Group.

Anti-fraud function

The bank has a dedicated Fraud Prevention and Investigation Unit that assists in identification, detection, and verification of potential or actual fraud incidents including quantification and recoupment of any losses sustained as a result of such incident. The purpose is to manage susceptibility of bank's assets and processes to fraud risk with a view to reducing it and to raise the level of fraud awareness amongst employees and other stakeholders.

The Fraud Prevention and Investigations Unit is led by a Head of Fraud Prevention and Investigations, which forms part of Internal Audit having reporting line to ARCC through the Head of Internal Audit.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

32.2 Control Environment (continued)

c) Internal Control

Board of Directors and Executive Management are responsible for developing and maintaining the existence of a sound Internal Control System and procedures that meet international standards and fulfill the requirements of the Group's management and external regulatory bodies. The internal control system should be capable of ensuring the achievement of the following:

- Accuracy and integrity of financial and operational statements issued by the Group;
- Effectiveness and efficiency of the Group's operational activities;
- Effectiveness of measures and procedures set to safeguard the Group's assets and properties; and
- Compatibility with laws, legislations and regulations in force as well as policies pertinent to internal operational procedures.

Executive management constantly monitors and assesses the efficiency and effectiveness of internal control procedures and their ability to achieve stated objectives and their furtherance and enhancement.

The Internal Control Department reports to the Chief Operating Officer (COO). The functions and responsibilities of the Internal Control Department include but not limited to:

- Ensuring that the Group's operational policies, processes and controls are adhered to;
- Ensuring that proper internal controls are in place and that they are functioning as designed in a timely and effective manner;
- Periodic review of the Group's internal control system in order to identify areas where internal controls may be weak, not present and areas where there appear to be excessive controls resulting in operational inefficiency so as to suggest ways to rectify the same;
- Enabling the management to conduct an annual review of the efficiency of the internal control system and report its findings; and
- Following up of the operational activities from a preventive perspective and overseeing operational controls being exercised to ensure that these are timely and effective.

d) Compliance

The process of monitoring compliance is considered an independent task it aims at ensuring that the Group and its internal policies are in compliance with all applicable laws, regulations, instructions, directives, codes of conduct and sound banking standards and practices as issued by relevant authorities.

The Board of Directors takes necessary measures to further the values of integrity and sound professional conduct within the Group promoting a culture of compliance in latter and spirit with the applicable laws, regulations, instructions and standards that constitute a primary goal that must be achieved.

The overall mission and role of compliance department is to:

- ensuring compliance risks are adequately identified, assessed, monitored and controlled in conjunction with Business and other control functions;
- ensuring senior management is fully informed of significant compliance issues and plans for resolution;
- contributing to a "no surprise" compliance culture by educating and communicating compliance awareness throughout the Group;

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)
32.2 Control Environment (continued)

d) Compliance (continued)

- aligning annual compliance plans with business strategies and goals; and
- meet regulatory expectations.

e) Whistle Blowing

A set of arrangements has been designed to enable employees to confidentially report concerns about any potential violations, enabling the investigation and follow up of such concerns independently and discreetly through the whistle blowing policy. Such arrangements are supervised by the ARCC and in coordination with the executive management.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

32-3 Disclosure policy

The Group has laid down the disclosure policy to ensure compliance with all regulations and guidelines issued by the lead regulator Central Bank of the UAE (CBUAE), International Financial Reporting Standards (IFRS), Securities and Commodities Authority (SCA) and Dubai Financial Market (DFM).

The following are the key features of the Group's disclosure policy concerning disclosure of financial information:

a) Materiality thresholds

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement, and / or any material information that might affect the share price. The Group, in order to ensure adequate disclosure lays down qualitative materiality threshold, so that no material information is omitted or misstated; at the same time it does not jeopardize its competitive position.

b) Control framework

In order to ensure true and fair disclosure, the Group has established controls including detailed procedures for finalization and review of financial disclosures. In addition, the consolidated financial statements are subject to a quarterly review and year end audit procedures by the Group's external auditors.

c) Frequency and medium of disclosure

Interim financial results are disclosed on a quarterly basis while complete consolidated financial statements complying with the requirements of IFRS, Basel II Pillar 3, relevant laws of the U.A.E, SCA requirement and other guidelines from CBUAE, disclosures of material non-public financial information are made as follows:

- Uploading quarterly reviewed and annual audited consolidated financial statements along with Directors' report to DFM and SCA websites;
- Posting quarterly and annual consolidated financial statements on the Group's website;
- Publishing of annual audited consolidated financial statements in both Arabic and English newspapers after the approval of the Central Bank of UAE and the Shareholders at the Annual General Meeting (AGM);
- Management discussion and analysis in Arabic and English newspapers in a manner that ensures wide dissemination; and
- Publication of the annual report which includes audited consolidated financial statements.

33. FINANCIAL RISK MANAGEMENT

a) Introduction and overview

The Group has exposure to the following primary risks:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

Risk is inherent to the Group's business and activities. The Group's ability to identify, assess, monitor and manage each type of risk to which the Group is exposed is an important factor in its financial stability, performance and reputation.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group Audit, Risk & Compliance Committee (ARCC) is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Groups' ARCC is assisted in these functions by Internal Audit, which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Group ARCC.

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

b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations arising principally from the Group's loans and advances, Islamic financing, amounts due from banks and investment in debt securities. For reporting purpose credit risk on Islamic financing is reported as component of credit risk on loans and advances. For risk management purposes, credit risk arising on trading investments is managed independently.

33. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(i) Management of credit risk

Credit Committee (CC) manages the credit risk of the Group by continuous review and update of credit limits, credit policies, process and frame-work, the approval of specific exposures and work out proposals, constant revaluation of the loans portfolio and the sufficiency of provisions thereof. For details on Credit Risk management please refer to note 32.1 management committees-d.

(ii) Impaired loans and advances, Islamic financing and investment in debt securities

Individually impaired loans and advances, Islamic financing and investment in debt securities are financial assets for which the Group determines that there is objective evidence of impairment and it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the agreements.

The Group Credit Risk Rating Methodology, which has been internally developed based on actual historical data, is in line with the requirements set-out in the Basel II Accord and has a 14- grades frame-work, whereby:

- The first 9 grades are assigned to non-defaulting borrowers / performing accounts;
- Grade 10 reflects irregular accounts; and
- The last 4 grades are for defaulting borrowers / non- performing accounts.

33. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(ii) Impaired loans and advances, Islamic financing and investment in debt securities (continued)

Grades	Asset quality	Risk significance
1	Standard	Good, top performing assets and debt securities with External Credit Assessment (ECA) of "A" and better than "A" and unrated bonds internally assessed as top performing.
2-5	Standard	Good, above average performing assets
6-9	Standard	Good, below average performing assets
10	Standard	Watch-list loans / performing
11- 12	Substandard	Substandard - Interest Suspended / Specific provision starts / non-performing
13	Doubtful	Doubtful of recovery / non-performing
14	Loss	Loss (fully provided for, or written off) / non-performing

The methodology provides a multi-dimensional approach to the Group's Credit Risk Rating, where credit is assessed and rated on 2 dimensions, as follows:

- 1st Dimension: which assesses / rates the borrower's probability of Default (PD); and
- 2nd Dimension: which assesses / rates the facility and the Loss-Given Default (LGD).

Both dimensions create a Credit-Risk Rating Grid/Matrix which plays a key role in pricing, approval, and credit monitoring. In order to achieve this, the Group has priced facilities using Risk Adjusted Return on Capital (RAROC), which leads to the Basel II compliance.

(iii) Past due but not impaired loans

These are the loans where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

(iv) Loans with renegotiated terms

Loans with renegotiated terms include loans, the repayment plan of which have been rescheduled with no other concession in amount or rate of interest. Rescheduling activity is designed to manage customer relationships. Following rescheduling, an overdue account will normally be reset from delinquent to current status. Rescheduling is done based on indications or criteria which, in the opinion of management, evidence the probability that payment will continue. Management continuously monitors the progress on renegotiated loans to ensure compliance with the terms at all times.

(v) Restructured performing loans / under restructuring

Restructured performing loans or loans under restructuring represent loans, whose terms have been restructured or are under restructuring and involve a concession in rate of interest. These loans are not delinquent; however appropriate impairment loss is recognized on such loans.

At 31 December 2014 restructured performing loans and loans under restructuring amount to AED 691 million (2013: AED 693 million).

33. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(vi) Exposure to credit risk

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

		Loans and receivables		Due from banks		Debt securities	
		2014 AED'000	2013 AED '000	**2014 AED'000**	2013 AED '000	**2014 AED'000**	2013 AED '000
i.	**Neither past due nor impaired**						
	Grades 1: good, top performing assets	**8,587,292**	6,647,316	**1,565,312**	1,662,172	**2,595,551**	2,616,387
	Grade 2-9: good, performing assets	**19,825,710**	20,168,056	**-**	-	**2,560,751**	1,320,438
	Grade 10: watch- list loans /performing	**3,041,881**	2,242,118	**-**	-	**-**	-
	Carrying amount	**31,454,883**	29,057,490	**1,565,312**	1,662,172	**5,156,302**	3,936,825
ii.	**Past due but not impaired**						
	In Grade 1 to 10						
	Less than 30 days	**260,968**	81,958	**-**	-	**-**	-
	30 – 60 days	**48,190**	29,733	**-**	-	**-**	-
	60 – 90 days	**26,717**	12,229	**-**	-	**-**	-
	Over 90 days	**218,131**	664,380	**-**	-	**-**	-
	Carrying amount	**554,006**	788,300	**-**	-	**-**	-
iii.	**Individually impaired**						
	Grade 11: Substandard (a)	**119,453**	87,250	**-**	-	**-**	-
	Grade 12: Substandard (b)	**767,669**	817,654	**-**	-	**-**	-
	Grade 13: Doubtful	**1,798,673**	1,813,551	**-**	-	**-**	-
	Grade 14: Loss	**225,568**	295,962	**-**	-	**-**	-
	Carrying amount	**2,911,363**	3,014,417	**-**	-	**-**	-
iv.	**Impaired on portfolio basis - Retail**						
	Grade 11: Substandard (a)	**14,154**	3,352	**-**	-	**-**	-
	Grade 12: Substandard (b)	**59,554**	283,856	**-**	-	**-**	-
	Grade 13: Doubtful	**243,944**	6,383	**-**	-	**-**	-
	Grade 14: Loss	**13,360**	26,156	**-**	-	**-**	-
	Carrying amount	**331,012**	319,747	**-**	-	**-**	-
	Less: deferred credits	**(47,107)**	(62,346)	**-**	-	**-**	-
	Total carrying amount	**35,204,157**	33,117,608	**1,565,312**	1,662,172	**5,156,302**	3,936,825
	Specific provision for impairment	**(1,576,137)**	(1,523,066)	**-**	-	**-**	-
	Portfolio provision for impairment related to (iv) above	**(76,072)**	(84,604)	**-**	-	**-**	-
	Specific provision for individually Restructured loans and under restructuring /OLEM	**(361,871)**	(270,076)	**-**	-	**-**	-
	Interest in suspense	**(497,642)**	(478,482)	**-**	-	**-**	-
	Collective provision for impairment related to (i) and (ii) above	**(525,219)**	(473,995)	**-**	-	**-**	-
	Total provisions for impairment	**(3,036,941)**	(2,830,223)	**-**	-	**-**	-
	Carrying amount net of impairment	**32,167,216**	30,287,385	**1,565,312**	1,662,172	**5,156,302**	3,936,825

33. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(vii) Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are specific loss component that relate to individually significant exposures, and a collective loan loss allowance established for group of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment. Assets carried at fair value through profit or loss is not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

The Group monitors concentrations of its impaired loans by sector and by geographic location. An analysis of concentrations of impaired (excluding individually impaired and restructured loans / under restructuring) loans by sector is shown below:

2014	**Impaired loans**	**Collateral**	**Specific provision and interest in suspense**
	AED'000	**AED'000**	**AED'000**
Commercial and Business:-			
Agriculture & allied activities	**615**	**-**	**529**
Mining & quarrying	**-**	**-**	
Manufacturing	**58,162**	**22,853**	**49,219**
Construction	**80,050**	**-**	**20,812**
Trade	**1,659,436**	**500,988**	**1,244,800**
Transport & communication	**28,661**	**2,468**	**25,532**
Services	**779,411**	**143,017**	**467,821**
Business and investment	**271,532**	**115,711**	**163,384**
Total commercial and business	**2,877,867**	**785,037**	**1,972,097**
Banks and financial institutions	**3,842**	**-**	**1,936**
Government and public sector entities	**213**	**-**	**-**
Personal	**357,555**	**238,151**	**173,375**
Others	**2,898**	**1,692**	**2,443**
Total carrying amount	**3,242,375**	**1,024,880**	**2,149,851**

33. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

2013	**Impaired loans**	**Collateral**	**Specific provision and interest in suspense**
	AED'000	**AED'000**	**AED'000**
Commercial and Business:-			
Agriculture & allied activities	568	-	494
Mining & quarrying	-	-	-
Manufacturing	185,992	27,042	111,749
Construction	116,504	34,900	32,657
Trade	1,673,045	381,837	1,220,172
Transport & communication	35,823	1,900	26,627
Services	660,248	141,644	336,900
Business and investment	299,420	268,213	162,288
Total commercial and business	2,971,600	855,536	1,890,887
Banks and financial institutions	4,723	-	1,542
Government and public sector entities	-	-	-
Personal	355,208	226,488	191,351
Others	2,633	59	2,372
Total carrying amount	3,334,164	1,082,083	2,086,152

In addition to the specific provision, the Group held AED 525 million (31 December 2013: AED 474 million) as collective provisions.

All impaired loans are located in one geographic area i.e. the United Arab Emirates. The value of collateral is restricted to lower of loan exposure or realizable value of the collateral.

Unfunded exposures pertaining to impaired loans amounted to AED 93.2 million (31 December 2013: AED 73.9 million).

Set out below is an analysis of the gross and net (of provisions for impairment) amounts of individually impaired assets by risk grade;

	Gross	**Specific Provision and interest in suspense**	**Net**
31 December 2014	**AED'000**	**AED'000**	**AED'000**
11&12: Substandard (a & b)	**887,122**	**382,977**	**504,145**
Grade 13: Doubtful	**1,798,673**	**1,453,084**	**345,589**
Grade 14: Loss	**225,568**	**224,178**	**1,390**
Total	**2,911,363**	**2,060,239**	**851,124**
31 December 2013			
11&12: Substandard (a & b)	904,904	307,811	597,093
Grade 13:Doubtful	1,813,551	1,328,151	485,400
Grade 14: Loss	295,962	288,985	6,977
Total	3,014,417	1,924,947	1,089,470

In addition to specific provisions and interest in suspense the Group also holds collaterals against the non-performing loans. Realizable value of these collaterals is taken into account to calculate provision requirement.

33. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(viii) Write - off policy

The Group writes off a loan / investment in debt security (and any related allowances for impairment) when the Group Credit Committee determines that the loan / security is uncollectible. This determination is reached after considering information such as the significant deterioration in the borrower's/issuer's financial position such that the borrower / issuer can no longer pay the obligation, or proceeds from collateral will not be sufficient to pay back the entire exposure or all possible efforts of collecting the amounts have been exhausted.

For smaller balances of standardized loans, write off decisions are generally based on a product-specific past due status.

(ix) Collateral

The Group holds collateral against loans and advances in the form of cash, guarantees, mortgages and liens over properties or other securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are subsequently monitored and updated on a periodic basis. Generally, collateral is not held against debt securities and amounts due from banks, and no such collateral was held at 31 December 2014 or 2013.

Analysis of collateral by type is presented in the following table:

	2014	2013
	AED'000	AED'000
Pledged deposits	**1,776,112**	1,751,783
Properties	**12,082,269**	9,052,507
Hypothecation & mortgages	**1,017,023**	355,738
Pledge of shares	**689,687**	710,974
Government and bank guarantees	**255,919**	846,981
Bills discounted-cheques	**716,090**	623,167
Others	**295,423**	394,360
Total collaterals	**16,832,523**	13,735,510

The above represents collateral value restricted to the lower of loan balance or collateral value.

33. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

(x) Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The following tables set out the concentration of credit risk by sector, geography and currency.

Concentration of credit risk by sector for 2014

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity Securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Contingent liabilities and acceptances AED'000
Concentration by sector								
Commercial and Business:-								
Agriculture & allied activities	43,206	-	-	-	-	43,206	54,018	40,287
Mining & quarrying	65,706	-	-	-	-	65,706	3,080	1,274
Manufacturing	1,156,073	-	18,493	-	-	1,174,566	421,036	442,122
Construction	2,329,036	-	-	-	-	2,329,036	964,215	429,407
Trade	8,508,367	-	-	-	-	8,508,367	3,183,250	2,953,420
Transport &communication	308,786	-	-	9,007	-	317,793	128,913	196,762
Services	5,326,976	-	-	76,683	-	5,403,659	2,497,019	4,104,894
Business and investment	9,034,415	-	159,529	10,139	-	9,204,083	1,921,297	65,343
Total commercial and Business	26,772,565	-	178,022	95,829	-	27,046,416	9,172,828	8,233,509
Banks and financial institutions	645,050	1,565,312	2,887,772	335,867	84,590	5,518,591	298,026	471,693
Government and public sector entities	3,633,307	-	2,090,508	-	5,004,463	10,728,278	1,779,481	88,395
Personal-schematic	3,929,180	-	-	-	-	3,929,180	559,719	22,264
Others	224,055	-	-	-	1,435,330	1,659,385	90,872	28,038
Total carrying amount	35,204,157	1,565,312	5,156,302	431,696	6,524,383	48,881,850	11,900,926	8,843,899

33. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

Concentration of credit risk by sector for 2013

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Contingent liabilities and acceptances AED'000
Concentration by sector								
Commercial and Business:-								
Agriculture & allied activities	99,424	-	-	-	-	99,424	60,405	82,861
Mining & quarrying	76,450	-	-	-	-	76,450	471,466	3,003
Manufacturing	1,037,578	-	-	-	-	1,037,578	862,306	333,737
Construction	2,790,517	-	-	361	-	2,790,878	350,281	244,636
Trade	8,067,592	-	-	-	-	8,067,592	3,117,067	2,929,833
Transport &communication	499,498	-	-	-	-	499,498	400,647	209,418
Services	4,964,752	-	-	-	-	4,964,752	1,886,070	2,936,642
Business and investment	7,049,932	-	181,951	551	-	7,232,434	1,288,140	50,851
Total commercial and Business	24,585,743	-	181,951	912	-	24,768,606	8,436,382	6,790,981
Banks and financial institutions	421,160	1,662,172	2,007,659	290,916	72,862	4,454,769	213,517	395,152
Government and public sector entities	4,702,193	-	1,747,215	-	5,688,578	12,137,986	119,296	46,385
Personal-schematic	2,894,867	-	-	-	-	2,894,867	637,662	19,531
Others	513,645	-	-	-	1,473,914	1,987,559	520,859	78,177
Total carrying amount	33,117,608	1,662,172	3,936,825	291,828	7,235,354	46,243,787	9,927,716	7,330,226

Acceptances are part of unfunded exposures; in line with the Basel II, Pillar 3 disclosure requirements.

33. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

Concentration of credit risk by geographic location:

2014	**Loans and advances and Islamic financing**	**Due from banks**	**Debt securities**	**Equity securities and fund of funds**	**Cash, balances with Central bank and other assets**	**Total**	**Undrawn commitments**	**Contingent liabilities and acceptances**
Concentration by location	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
UAE	**34,829,858**	**766,353**	**3,412,915**	**173,346**	**6,524,383**	**45,706,855**	**11,900,926**	**8,362,580**
GCC	**78,685**	**480,312**	**1,142,522**	**36,815**	**-**	**1,738,334**	**-**	**74,030**
Other Arab Countries	**-**	**521**	**-**		**-**	**521**	**-**	**8,579**
Europe	**78,999**	**248,634**	**244,274**	**220,542**	**-**	**792,449**	**-**	**329,013**
USA	**-**	**62,488**	**58,170**	**993**	**-**	**121,651**	**-**	**49,415**
Asia	**111,292**	**6,051**	**298,421**	**-**	**-**	**415,764**	**-**	**20,282**
Others	**105,323**	**953**	**-**	**-**		**106,276**		**-**
Total carrying amount	**35,204,157**	**1,565,312**	**5,156,302**	**431,696**	**6,524,383**	**48,881,850**	**11,900,926**	**8,843,899**

2013	**Loans and advances and Islamic financing**	**Due from banks**	**Debt securities**	**Equity securities and fund of funds**	**Cash, balances with Central bank and other assets**	**Total**	**Undrawn commitments**	**Contingent liabilities and acceptances**
Concentration by location	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
UAE	32,978,387	1,361,522	2,936,940	117,662	7,235,354	44,629,865	9,927,716	6,950,410
GCC	139,221	172,744	689,717	18,077	-	1,019,759	-	49,128
Other Arab Countries	-	482	-	-	-	482	-	11,248
Europe	-	87,471	198,528	155,272	-	441,271	-	284,018
USA	-	32,022	-	817	-	32,839	-	7,958
Asia	-	5,980	111,640	-	-	117,620	-	27,197
Others	-	1,951	-	-	-	1,951	-	267
Total carrying amount	33,117,608	1,662,172	3,936,825	291,828	7,235,354	46,243,787	9,927,716	7,330,226

33. FINANCIAL RISK MANAGEMENT (continued)

b) Credit risk (continued)

Concentration of credit risk by currency:

2014	**Loans and advances and Islamic financing**	**Due from banks**	**Debt securities**	**Equity securities and fund of funds**	**Cash, balances with Central Bank and other assets**	**Total**	**Undrawn commitments**	**Contingent liabilities and acceptances**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Concentration by currency								
AED	**31,492,665**	**550,020**	**31,210**	**172,891**	**6,207,028**	**38,453,814**	**11,900,926**	**8,163,014**
Other currencies	**3,711,492**	**1,015,292**	**5,125,092**	**258,805**	**317,355**	**10,428,036**	**-**	**680,885**
Total carrying amount	**35,204,157**	**1,565,312**	**5,156,302**	**431,696**	**6,524,383**	**48,881,850**	**11,900,926**	**8,843,899**

2013	**Loans and advances and Islamic financing**	**Due from banks**	**Debt securities**	**Equity securities and fund of funds**	**Cash, balances with Central Bank and other assets**	**Total**	**Undrawn commitments**	**Contingent liabilities and acceptances**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Concentration by currency								
AED	30,474,512	750,011	1,023	117,216	7,003,470	38,346,232	9,927,716	6,800,579
Other currencies	2,643,096	912,161	3,935,802	174,612	231,884	7,897,555	-	529,647
Total carrying amount	33,117,608	1,662,172	3,936,825	291,828	7,235,354	46,243,787	9,927,716	7,330,226

Majority of assets denominated in other currencies are in USD to which AED is pegged.

33. FINANCIAL RISK MANAGEMENT (continued)

c) Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually due. Any delays in settlement are rare and are monitored and quantified as part of the Group's Internal Capital Adequacy Assessment Procedures (ICAAP) framework and Operational Risk Management.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described above. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Group Risk Management Department.

d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It includes the risk of the inability to fund assets at appropriate maturities and rates and the inability to liquidate assets at reasonable prices and in an appropriate timeframe and inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

(i) Management of liquidity risk

Liquidity risk is managed by the Treasury and ALM department in line with the regulatory, internal policies and guidelines. The Group's approach to managing liquidity risk is to ensure that it has adequate funding from diversified sources at all times to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage of the Group's reputation.

Funds are raised using a broad range of instruments including customers' deposits, medium term borrowings, money market instruments, subordinated debts and capital. The treasury and ALM department monitors the liquidity profile of financial assets and liabilities and the projected cash flows arising from existing and future business. Treasury maintains a portfolio of short-term liquid assets and inter-bank placements to ensure that sufficient liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and abnormal market conditions.

The Group's liquidity policy is approved by the Board of Directors and reviewed annually. Adherence to the policies is monitored by the Risk Management Department and the ALCO.

The Group's liquidity management process, as carried out within the Group and monitored by Group's treasury, includes:

- Day to day funding managed by monitoring future cash flows to ensure that requirements can be met - these include replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money market to facilitate funding activities;
- Maintenance of a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

33. FINANCIAL RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

(i)Management of liquidity risk (continued)

- Managing balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities; and
- Repurchase arrangements with various Banks which allow it to repo its fixed income investments to meet any liquidity needs that may arise.

(ii) Exposure to liquidity risk

The key measure used by the Group for measuring liquidity risk is the advances to stable resources ratio (regulatory ratio) which is 82.6% as at 31 December 2014 *(2013: 80.9%)*. In addition, the Group also uses the following ratios/information on a continuous basis for measuring liquidity risk:

- Liquid assets to total assets ratio;
- Net loans to deposits ratio (LDR);
- Third party liabilities maturing within one month to total third party liabilities;
- Customers' deposits maturing within one month to total customers' deposits; and
- Deposits' concentration.
- Basel III ratios (including LCR, USRR, etc.) are also monitored internally and shared with the Board on quarterly basis.

The following table summarizes the maturity profile of the Group's assets and liabilities based on the contractual repayment arrangements. These do not take account of the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of assets and liabilities have been determined on the basis of the residual period at the reporting date to the contractual maturity date.

The maturity profile of the assets and liabilities at 31 December 2014 was as follows:

	Total	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	No Fixed Maturity
Assets	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with Central Bank	**5,450,145**	**4,904,463**	**-**	**100,000**	**-**	**-**	**445,682**
Due from banks	**1,565,312**	**1,565,312**	**-**	**-**	**-**	**-**	**-**
Loans and advances and Islamic financing	**32,167,216**	**5,258,980**	**1,528,142**	**2,168,364**	**10,889,698**	**12,322,032**	**-**
Investment securities	**5,587,998**	**27,607**	**18,515**	**367,250**	**3,533,132**	**1,209,798**	**431,696**
Investment in associate	**84,590**	**-**	**-**	**-**	**-**	**-**	**84,590**
Investment properties	**249,991**	**-**	**-**	**-**	**-**	**-**	**249,991**
Property and equipment	**323,852**	**-**	**-**	**-**	**-**	**-**	**323,852**
Other assets	**1,488,150**	**529,972**	**402,360**	**465,818**	**-**	**-**	**90,000**
Total assets	**46,917,254**	**12,286,334**	**1,949,017**	**3,101,432**	**14,422,830**	**13,531,830**	**1,625,811**
Liabilities and equity							
Due to banks	**1,097,926**	**1,047,926**	**-**	**50,000**	**-**	**-**	**-**
Customers' deposits and Islamic customers' deposits	**32,161,339**	**20,416,363**	**6,204,118**	**5,395,131**	**145,727**	**-**	**-**
Notes and medium term borrowings	**4,021,998**	**-**	**-**	**-**	**4,021,998**	**-**	**-**
Other liabilities	**1,825,578**	**892,405**	**402,360**	**465,818**	**-**	**-**	**64,995**
Total liabilities	**39,106,841**	**22,356,694**	**6,606,478**	**5,910,949**	**4,167,725**	**-**	**64,995**
Gap representing equity	**7,810,413**	**(10,070,360)**	**(4,657,461)**	**(2,809,517)**	**10,255,105**	**13,531,830**	**1,560,816**

33. FINANCIAL RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

The maturity profile of the assets and liabilities at 31 December 2013 was as follows:

Assets	Total AED'000	Less than 1 month AED'000	From 1 to 3 months AED'000	From 3 months to 1 year AED'000	From 1 to 5 years AED'000	Over 5 years AED'000	No Fixed Maturity AED'000
Cash and balances with Central Bank	6,132,063	5,688,578	-	-	-	-	443,485
Due from banks	1,662,172	1,462,172	200,000	-	-	-	-
Loans and advances and Islamic financing	30,287,385	5,531,752	1,326,030	2,649,705	10,185,413	10,594,485	-
Investment securities	4,228,653	31,646	35,261	241,901	2,745,443	882,574	291,828
Investment in associate	72,862	-	-	-	-	-	72,862
Investment properties	259,853	-	-	-	-	-	259,853
Property and equipment	321,273	-	-	-	-	-	321,273
Other assets	1,511,930	666,780	395,453	359,697	-	-	90,000
Total assets	44,476,191	13,380,928	1,956,744	3,251,303	12,930,856	11,477,059	1,479,301
Liabilities and equity							
Due to banks	499,259	399,259	100,000	-	-	-	-
Customers' deposits and Islamic customers' deposits	30,942,680	18,937,157	5,232,082	6,757,351	16,090	-	-
Notes and medium term borrowings	4,014,806	-	-	-	4,014,806	-	-
Other liabilities	1,803,057	987,021	395,453	359,697	-	-	60,886
Total liabilities	37,259,802	20,323,437	5,727,535	7,117,048	4,030,896	-	60,886
Gap representing equity	7,216,389	(6,942,509)	(3,770,791)	(3,865,745)	8,899,960	11,477,059	1,418,415

The table below shows the maturity of the Group's contingent liabilities and credit commitments:

	Total	Less than 1 month	from 1 month to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years
2014	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Contingent liabilities	**7,747,877**	**1,939,093**	**1,401,554**	**1,810,045**	**681,756**	**1,915,429**
Credit commitments	**11,900,926**	**4,910,371**	**280,499**	**2,498,083**	**570,461**	**3,641,512**
Total	**19,648,803**	**6,849,464**	**1,682,053**	**4,308,128**	**1,252,217**	**5,556,941**
2013						
Contingent liabilities	6,264,532	640,390	872,008	1,592,710	2,876,831	282,593
Credit commitments	9,927,716	384,641	560,672	1,588,271	7,394,132	-
Total	16,192,248	1,025,031	1,432,680	3,180,981	10,270,963	282,593

33. FINANCIAL RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

The tables below show undiscounted cash flows on the Group's financial liabilities:

2014	**Total AED'000**	**Less than 1 Month AED'000**	**From 1 to 3 months AED'000**	**From 3 months to 1 year AED'000**	**From 1 to 5 years AED'000**
Due to banks	**1,098,251**	**1,047,926**	**-**	**50,325**	**-**
Customers' deposits and Islamic customers' deposits	**32,286,280**	**20,490,936**	**6,226,979**	**5,418,965**	**149,400**
Notes and medium term borrowings	**4,340,338**	**3,227**	**22,727**	**89,428**	**4,224,956**
Other liabilities	**1,618,887**	**86,148**	**1,066,921**	**465,818**	**-**
Total liabilities	**39,343,756**	**21,628,237**	**7,316,627**	**6,024,536**	**4,374,356**

2013	**Total AED'000**	**Less than 1 Month AED'000**	**From 1 to 3 months AED'000**	**From 3 months to 1 year AED'000**	**From 1 to 5 years AED'000**
Due to banks	499,353	399,304	100,049	-	-
Customers' deposits and Islamic customers' deposits	31,052,942	18,957,104	5,256,743	6,822,489	16,606
Notes and medium term borrowings	4,454,648	3,157	22,113	75,810	4,353,568
Other liabilities	1,519,438	825,174	395,453	298,811	-
Total liabilities	37,526,381	20,184,739	5,774,358	7,197,110	4,370,174

33. FINANCIAL RISK MANAGEMENT (continued)

e) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads, will affect the Group's income and / or value of a financial instrument. The Group manages its market risk in order to achieve optimum returns while maintaining market risk exposures within set risk appetite.

(i) Management of market risk

The Board of Directors sets the risk appetite pertaining to market Risk which translates into risk limits which are closely monitored by Group Risk Management, reported daily to senior management and discussed monthly by the ALCO.

The Group separates its exposure to market risk between trading and non-trading portfolios with overall responsibility vested in the ALCO. The Group Risk Management department is responsible for the development of detailed risk management policies and for the day-to-day implementation, subject to review and approval by the ALCO.

(ii)Exposure to interest rate risk – non trading portfolio

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages the risk principally through monitoring interest rate gaps, matching the re-pricing profile of assets and liabilities and by having pre-approved limits for repricing bands. The Group Risk Management Department monitors compliance with these limits on a daily basis and is responsible for reporting breaches if any, to senior management. ALCO review reports on a monthly basis.

In addition the Group also assesses the impact of defined movement in interest yield curves on its net interest income and regulatory capital. The following is the impact of interest rate movement on net interest income and regulatory capital:

	2014		2013	
	Net interest income		Net interest income	
	50 b.p.	**100 b.p.**	50 b.p.	100 b.p.
	AED'000	**AED'000**	AED'000	AED'000
Upward Parallel Shift	**9,241**	**30,934**	18,322	45,018
Downward Parallel Shift.	**(9,464)**	**(18,928)**	(11,843)	(23,686)

Interest rate movement is not expected to have material impact on the regulatory capital.

33. FINANCIAL RISK MANAGEMENT (continued)

e) Market risks (continued)

A summary of the Group's interest rate sensitivity position based on contractual re-pricing arrangements or maturity dates, whichever dates are earlier is as follows:

31 December 2014	**Non-interest bearing**	**Less than 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**Over 1 Year**	**Total**
Assets	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with Central Bank	**2,950,145**	**2,400,000**	**100,000**	**-**	**-**	**5,450,145**
Due from banks	**187,897**	**1,377,415**	**-**	**-**	**-**	**1,565,312**
Loans and advances and Islamic financing	**3,242,375**	**21,396,656**	**1,442,074**	**1,348,836**	**7,774,216**	**35,204,157**
Provisions	**(3,036,941)**	**-**	**-**	**-**	**-**	**(3,036,941)**
Investment securities	**431,696**	**427,696**	**179,762**	**301,378**	**4,247,466**	**5,587,998**
Investment in associate	**84,590**	**-**	**-**	**-**	**-**	**84,590**
Investment properties	**249,991**	**-**	**-**	**-**	**-**	**249,991**
Property and equipment	**323,852**	**-**	**-**	**-**	**--**	**323,852**
Other assets	**1,488,150**	**-**	**-**	**-**	**-**	**1,488,150**
Total assets	**5,921,755**	**25,601,767**	**1,721,836**	**1,650,214**	**12,021,682**	**46,917,254**
Liabilities						
Due to banks	**560,999**	**486,927**	**-**	**50,000**	**-**	**1,097,926**
Customers' deposits and Islamic customers' deposits	**14,040,818**	**9,914,131**	**2,777,326**	**2,549,554**	**2,879,510**	**32,161,339**
Notes and medium term borrowings	**-**	**1,647,704**	**-**	**-**	**2,374,294**	**4,021,998**
Other liabilities	**1,825,578**	**-**	**-**	**-**	**-**	**1,825,578**
Total liabilities	**16,427,395**	**12,048,762**	**2,777,326**	**2,599,554**	**5,253,804**	**39,106,841**
Interest rate sensitivity gap	**(10,505,640)**	**13,553,005**	**(1,055,490)**	**(949,340)**	**6,767,878**	**7,810,413**
Cumulative interest rate sensitivity gap	**(10,505,640)**	**3,047,365**	**1,991,875**	**1,042,535**	**7,810,413**	
Represented by equity						**7,810,413**

31 December 2013	**Non-interest bearing**	**Less than 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**Over 1 Year**	**Total**
Assets	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with Central Bank	2,932,063	3,200,000	-	-	-	6,132,063
Due from banks	89,948	1,572,224	-	-	-	1,662,172
Loans and advances and Islamic financing	3,334,164	25,879,750	837,802	1,030,044	2,035,848	33,117,608
Provisions	(2,830,223)	-	-	-	-	(2,830,223)
Investment securities	291,828	207,129	-	241,901	3,487,795	4,228,653
Investment in associate	72,862	-	-	-	-	72,862
Investment properties	259,853	-	-	-	-	259,853
Property and equipment	321,273	-	-	-	-	321,273
Other assets	1,511,930	-	-	-	-	1,511,930
Total assets	5,983,698	30,859,103	837,802	1,271,945	5,523,643	44,476,191
Liabilities						
Due to banks	258,378	240,881	-	-	-	499,259
Customers' deposits and Islamic customers' deposits	12,964,516	11,204,724	4,146,279	2,611,071	16,090	30,942,680
Notes and medium term borrowings	-	1,640,454	-	-	2,374,352	4,014,806
Other liabilities	1,803,057	-	-	-	-	1,803,057
Total liabilities	15,025,951	13,086,059	4,146,279	2,611,071	2,390,442	37,259,802
Interest rate sensitivity gap	(9,042,253)	17,773,044	(3,308,477)	(1,339,126)	3,133,201	7,216,389
Cumulative interest rate sensitivity gap	(9,042,253)	8,730,791	5,422,314	4,083,188	7,216,389	
Represented by equity						7,216,389

33. FINANCIAL RISK MANAGEMENT (continued)

e) Market risks (continued)

Overall interest rate risk positions are managed by the Treasury and ALM Department, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's activities. Interest rate risks are assumed by ALM from the businesses through fund transfer pricing (FTP process).

f) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Board of Directors has set limits on positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits. At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

	Net spot Position	**Forward Position**	**Net exposure**	
Currency		**AED'000**	**2014**	2013
US Dollar & GCC currencies pegged with USD	**3,434,650**	**(1,953,544)**	**1,481,106**	770,443
Great Britain Pound	**(358)**	**(5,437)**	**(5,795)**	99
Japanese Yen	**23,180**	**(23,148)**	**32**	(10,455)
Euro	**(373,962)**	**374,240**	**278**	136
Others	**2,540**	**(838)**	**1,702**	1,068

A summary of capital requirement for market risk under standardized approach of Basel II is set out below:

	2014 AED'000	2013 AED'000
Equity position risk	**423**	198
Foreign currency risk	**6,063**	1,269
Interest rate risk	**2,891**	1,333
	9,377	2,800

33. FINANCIAL RISK MANAGEMENT (continued)

g) Equity risk

The Group has defined in its trading book policy the instruments which the Group is allowed to trade. A limited trading activity takes place in the equity market, monitored by Risk Management and in line with investment committee (IC) recommendations. Daily stop loss limits as well as portfolio notional limits are monitored daily and reported to senior management. In addition, the Group has classified an equity portfolio as available for sale investments.

Analysis of equity portfolio:

	2014	2013
Publicly traded (quoted):	**AED'000**	AED'000
Equity	**159,011**	103,004
Privately held (unquoted):		
Funds of funds investments	**272,685**	188,824
Total	**431,696**	291,828

Analysis of gains or (losses) on equity investments:

	2014	2013
	AED'000	AED'000
Realized gains on sale	**27,286**	28,955
Unrealized gains in P/L	**505**	160
Unrealized (loss) / gains in OCI	**(8,010)**	65,836

The revaluation reserve on equity and funds of funds portfolio as at 31 December 2014 amounting to AED 37,003 thousand *(2013: AED* 45,013 *thousand)* was considered as Tier II capital.

Analysis of capital requirement for equity investments under standardized approach of Basel II:

		2014			2013	
	AFS	**Held for trading**	**Total**	AFS	Held for trading	Total
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
Equity	**18,870**	**212**	**19,082**	12,162	198	12,360
Funds of funds investment	**32,722**	**-**	**32,722**	22,659	-	22,659
Total	**51,592**	**212**	**51,804**	34,821	198	35,019

h) Operational risk

Operational risk is defined by Basel as "The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, this includes legal risk but excludes strategic and reputation risks".

The Group's objective is to manage operational risk, so as to balance the avoidance of financial losses and damage to the Group's reputation, with overall cost effectiveness and to avoid control procedures that restrict initiative, innovativeness and creativity.

The primary responsibility for the overseeing the establishment of sound operational risk management framework and monitoring the operational risk profile of the Group vests with the senior management of the Group, The Bank has set up a cross functional committee named Operational Risk Management Committee (ORMC) of senior management personnel to formalize this responsibility and closely monitor key Operational Risks on a pan bank basis to support timely execution of action plans.

33. FINANCIAL RISK MANAGEMENT (continued)

h) Operational risk (continued)

Accountability and responsibility is further assigned to the Heads of individual units, departments or branches. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions to eliminate scenarios involving any conflict of interest;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures pertaining to all activities of the bank;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action to avoid its future recurrence;
- Development of contingency plans to ensure continuity of business under all circumstances;
- Training and professional development of employees at all levels so as to increase their awareness of the subject;
- Ethical and business standards (through the Group’s approved and functional Code of Ethics);
- Risk mitigation, including insurance wherever this is effective; and
- Whistle Blowing and Incident Reporting Policies are channels available to all staff for reporting of any loss events or other wrongdoings.

The Group has an approved framework for end-to-end management of its operational risks, which involves the active participation of the employees at all levels. The Operational Risk Management plan places an equal emphasis on the identification, assessment, control and reporting of operational risks and on quantification of potential risks and resultant losses therein, if any. Reports are produced covering Operational Risk dashboards, heat-maps, loss matrices, Operational Risk register and loss databases.

The Group has in place an operational risk management system to collate operational risk information in an automated environment; this has enabled the bank to build operational risk databases to support migration to more complex approaches for computation of operational risk capital in the future.

Group Risk Management continued its efforts towards increasing bank-wide awareness about the ORM concept, by organizing workshops, seminars and training courses on the subject, for our employees, throughout the year. On an ongoing basis, Risk and Control Self Assessments (RCSA) are being carried out by all branches and units to identify the operational risks and assess the effectiveness of existing controls, so as to plan any remedial actions (if required) and minimize recurrence of loss events.

Moreover, the Group conducts an assessment of disaster recovery and business continuity position, as well as detailed system risk assessments of all new/upgraded IT systems and assessment of Operational Risk elements in any new products to be launched or procedures to be implemented. Compliance with policies and procedures is supported by periodic reviews undertaken by Internal Audit. A review of the insurance coverage available to the bank is undertaken to maintain oversight of adequacy of insurance as necessitated by the Basel guidelines. The unit provides regular updates to the senior management and the board Audit, Risk & Compliance Committee (ARCC) to support their mandate to maintain adequate oversight of the banks operational risk framework and status of operational risks across all areas of the bank.

34. CAPITAL MANAGEMENT

34-1. Regulatory capital

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

The Group's objectives when managing capital are as follows:

- Safeguard the Group's ability to continue as a going concern and optimize returns for shareholders; and
- Comply with regulatory capital requirements set by the Central Bank of the UAE.

The Group's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Group recognizes 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 Group 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 Group also calculates the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis. RAROC calculations are also built into the Credit Appraisal System.

The Group's regulatory capital adequacy ratio is set by the Central Bank of UAE ('the Central Bank'). The Group has complied with all externally imposed capital requirements throughout the year. There have been no material changes in the Group's management of capital during the year. The capital adequacy ratio should be a minimum of 12% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 8% as mandated by the Central Bank.

The Group's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes ordinary share capital and retained earnings; and
- Tier 2 capital, which includes fair value reserves relating to unrealized gains / losses on investments classified as available-for-sale, collective provision and subordinated term loans. The following limits have been applied for Tier 2 capital:
  - Total tier 2 capital shall not exceed 67% of tier 1 capital;
  - Subordinated liabilities shall not exceed 50% of total tier 1 capital; and
  - Collective provision shall not exceed 1.25% of total risk weighted assets.

34. CAPITAL MANAGEMENT (continued)

34-2. Capital resources and adequacy

The table below summarizes the composition of regulatory capital and capital adequacy ratio calculation as per Basel II, of the Group:

	31 December 2014 AED'000	31 December 2013 AED'000
Core tier 1 capital		
Share capital	**2,242,187**	2,038,352
Legal reserve	**1,380,495**	1,379,813
General reserve	**1,121,095**	1,100,000
Retained earnings	**2,387,103**	1,982,368
Tier 1 capital	**7,130,880**	6,500,533
Upper tier 2 capital		
Fair value reserve	**31,414**	24,620
Collective provisions (up to allowable limit)	**525,219**	459,916
Tier 2 capital	**556,633**	484,536
Total capital base	**7,687,513**	6,985,069
Risk weighted assets (RWA) Pillar 1		
Credit risk	**38,614,847**	34,374,854
Market risk	**78,145**	23,336
Operational risk	**3,832,044**	2,395,103
Risk weighted assets	**42,525,036**	36,793,293
Tier 1 ratio	**16.77%**	17.67%
Capital adequacy ratio (Pillar) 1	**18.08%**	18.98%

34. CAPITAL MANAGEMENT (continued)

34-2. Capital resources and adequacy (continued)

Risk weighted capital requirement

The Group has adopted the standardized approach for credit risk and market risk and basic indicator approach for operational risk for regulatory reporting purposes. The Group's risk weighted capital requirement for credit, market and operation risk are given below:

(i)Risk weights for credit risk

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard Portfolio approach mentioned under the Central Bank of UAE Basel II Capital Adequacy Framework covering the standardized approach for credit risk. The descriptions of the counterparty classes along with the risk weights used to derive the risk weighted assets are as follows:

Funded exposure

Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on central banks and sovereigns are risk weighted in accordance with their ratings from acceptable external credit assessment institutions (ECAIs), except that, for all GCC sovereigns a 0% weight has been applied.

Claims on non- commercial public sector entities (PSEs)

Domestic currency claims on GCC non-commercial PSEs were treated as claims on GCC sovereign if their Central Bank or monetary authority treats them as such. Foreign currency claims on GCC PSE were treated one grade less favourable than its sovereign i.e. 20% risk weight were applied. Claims on other foreign non-commercial PSEs were treated one grade less favorable than its sovereign.

Claims on multilateral development banks (MDBs)

All MDBs are risk weighted in accordance with each bank's credit rating except for those members listed in the World Bank Group which are risk weighted at 0%.

Claims on banks

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims denominated in local currency were assigned more favorable risk weighting.

No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

Claims on corporate and government related entities portfolio

Claims on corporate and government related entities (entities with greater than 50% government ownership) are risk weighted in accordance with ratings from acceptable ECAIs. Risk weight of 100% is applied on claims on unrated corporate and government related entities.

Claims on regulatory retail exposures

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due loans), if they meet the criteria mentioned in the Central Bank of UAE BASEL-II guidelines.

34. CAPITAL MANAGEMENT (continued)
34-2. Capital resources and adequacy (continued)

(i)Risk weights for credit risk (continued)

Claims secured by residential property

A preferential risk weight of 35% was applied on claims that did not exceed AED 10 million to a single borrower and the claim was secured by residential property with LTV of up to 85%. Other claims secured on residential property were risk weighted 100%.

Claims secured by commercial property

100% risk weight was applied on claims secured by commercial property.

Past due exposures

The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk weighted as follows :

- 150% risk weight when specific provisions are less than 20% of the outstanding amount of loan;
- 100% risk weight when specific provisions are greater than 20% of the outstanding amount of loan.

Equity portfolios

0% risk weight was applied on equity in trading book. Equity in banking book was risk weighted at 100%. The aggregate investments in insurance companies (including investment in associate held as per equity accounting) amounting to AED 97,128 thousand *(2013: AED 93,894 thousand)* have been risk weighted in accordance with Basel II.

Other exposures

These are risk weighted at 100%.

Unfunded exposure

For credit-related contingent items, the nominal value is converted to an exposure through the application of Credit Conversions Factors (CCF). The CCF is at 20%, 50% or 100% depending on the type of contingent item, and is used to convert off balance sheet notional amounts into an equivalent on balance sheet exposure.

Undrawn commitments to extend credit represent commitments that have not been drawn down or utilized at the reporting date. The nominal amount provides the calculation base to which the CCF is applied for calculating the exposure. CCF range between 20% and 50% for commitment with original maturity of up to one year and over one year respectively and 0% CCF is applicable for commitments which can be unconditionally cancelled at any time.

34. CAPITAL MANAGEMENT (continued)

34-2. Capital resources and adequacy (continued)

(i)Risk weights for credit risk (continued)

Asset classes	**On & off balance sheet**	**Credit risk mitigation (CRM)**		**On & off balance sheet**	**Risk weighted assets**
31 December 2014	**Gross outstanding**	**Exposure before CRM**	**CRM**	**Net exposure after credit conversion factors (CCF)**	
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Claims on sovereigns	**5,595,298**	**5,595,298**	**-**	**5,473,307**	**1,102**
Claims on non-commercial Public Sector Enterprises (PSEs)	**1,221,850**	**1,221,850**	**-**	**670,900**	**-**
Claims on banks	**5,751,968**	**5,751,968**	**-**	**5,354,394**	**2,135,445**
Claims on corporates and government related enterprises (GRE)	**42,934,837**	**42,674,794**	**2,262,986**	**28,135,570**	**27,893,289**
Claims included in the regulatory retail portfolio	**4,610,709**	**4,610,709**	**118,224**	**2,987,607**	**2,446,695**
Claims secured by residential property	**1,482,482**	**1,482,482**	**-**	**1,482,482**	**671,283**
Claims secured by commercial real estate	**2,680,184**	**2,680,184**	**-**	**2,679,763**	**2,679,763**
Past due loans	**3,553,999**	**1,302,320**	**61,273**	**1,197,711**	**1,306,777**
Other assets	**1,979,223**	**1,955,546**	**-**	**1,955,546**	**1,480,493**
TOTAL CLAIMS	**69,810,550**	**67,275,151**	**2,442,483**	**49,937,280**	**38,614,847**
TOTAL CREDIT RISK					**38,614,847**

Asset classes	On & off balance sheet	Credit risk mitigation (CRM)		On & off balance sheet	Risk weighted assets
31 December 2013	Gross outstanding	Exposure before CRM	CRM	Net exposure after credit conversion factors (CCF)	
	AED'000	AED'000	AED'000	AED'000	AED'000
Claims on sovereigns	6,428,642	6,428,642	-	6,306,439	38,537
Claims on non-commercial Public Sector Enterprises (PSEs)	921,670	921,670	-	364,784	-
Claims on banks	4,526,307	4,526,307	-	3,984,973	1,497,849
Claims on corporates and government related enterprises (GRE)	43,836,653	43,591,816	2,799,985	25,721,572	25,023,578
Claims included in the regulatory retail portfolio	2,277,580	2,277,580	61,967	1,566,900	1,251,076
Claims secured by residential property	1,342,059	1,342,059	-	1,298,940	656,115
Claims secured by commercial real estate	2,963,180	2,963,180	1,372	2,719,508	2,719,508
Past due loans	3,835,247	1,723,856	37,402	1,612,588	1,797,790
Other assets	1,870,250	1,867,183	-	1,867,183	1,390,401
TOTAL CLAIMS	68,001,588	65,642,293	2,900,726	45,442,887	34,374,854
TOTAL CREDIT RISK					34,374,854

34. CAPITAL MANAGEMENT (continued)

34-2. Capital resources and adequacy (continued)

(i)Risk weights for credit risk (continued)

The Group uses the following external credit assessment institutions (ECAIs): Standard & Poor's', Moody's and Fitch. The external rating of ECAI is mapped to the prescribed credit quality assessment scale that in turn produces standard risk weightings. The Group also uses various Credit Risk Mitigation techniques (CRM). The total exposure to Banks before CRM includes AED 4,931.4 million *(2013: AED 4,246.3 million)* rated exposure.

Risk weighted assets as per standardized approach is set out below:

	2014		2013	
	Exposure AED'000	**Risk weighted assets AED'000**	Exposure AED'000	Risk weighted assets AED'000
Exposure prior to CRM	**52,379,763**	**41,057,330**	48,343,613	37,275,580
Less: Eligible financial collateral	**2,442,483**	**2,442,483**	2,900,726	2,900,726
Net exposure after CRM	**49,937,280**	**38,614,847**	45,442,887	34,374,854

(ii)Risk weights for market risk

Capital requirement for market risk is calculated using standardized approach. The capital requirement for market risk is analysed into capital requirement for interest rate risk, equity risk, foreign exchange risk and option risk.

(iii)Risk weight for operation risk

Capital requirement for operation risk is calculated using basic indicator approach. This Capital charge was computed using basic indicator approach by multiplying the three years average gross income by a predefined beta factor.

35. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in these consolidated financial statements, the effect of which are considered immaterial.