

بنك دبي التجاري  
Commercial Bank of Dubai



Annual Report **2013**





His Highness  
**Sheikh Khalifa bin Zayed Al Nahyan**  
President of the UAE  
Ruler of Abu Dhabi



His Highness  
**Sheikh Mohammed bin Rashid Al Maktoum**  
Vice President and Prime Minister of the UAE  
Ruler of Dubai



His Highness  
**Sheikh Hamdan bin Mohammed bin Rashid Al Maktoum**  
Crown Prince of Dubai



His Highness  
**Sheikh Hamdan bin Rashid Al Maktoum**  
Deputy Ruler of Dubai  
Minister of Finance of the UAE



His Highness  
**Sheikh Maktoum bin Mohammed bin Rashid Al Maktoum**  
Deputy Ruler of Dubai

## Our Vision

The Bank which leads the way to greater financial and social prosperity

## Our Mission

- Clients: To be recognised as the preferred banking partner in our target client segments
- Employees: To be recognised as an employer of choice through the fostering of a motivational environment which rewards superior performance
- Society: To be recognised for our ethical banking practices and for our contribution to the social well-being of the communities in which we are present
- Shareholders: To be one of the most profitable banks in the U.A.E.

## Our Values

- Clients First
- Consistent High Quality
- Cooperation and Teamwork
- Capability Enhancement Through Learning and Empowerment

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## Board of Directors



**Mr. Saeed Ahmed Ghobash**  
Chairman



**Mr. Khalid Abdul Wahed  
Al Rostamani**  
Deputy Chairman



**Mr. Omar Abdulla Al Futtaim**  
Director



**Mr. Hamed Ahmed Kazim**  
Director



**Mr. Ali Fardan**  
Director



**Mr. Mohammed Abdulrahman  
Al Jallaf**  
Director



**Mr. Shehab Mohamed Gargash**

Director



**Mr. Mana Mohammed Saeed Al Mulla**

Director



**Mr. Abdulla Saif Al Hathboor**

Director



**Mr. Abdul Wahid Abdul Rahim Al Ulama**

Director



**Mr. Abdulla Saeed Al Nabooda**

Director

**Shareholders**

**80%**  
UAE Nationals

**20%**  
Dubai Government

## Chairman's Statement



Dear Shareholders,

It is my pleasure to welcome you on behalf of Commercial Bank of Dubai's Board of Directors, management and staff to a review of activities of the Bank and its financial statements for the year 2013. We analyse the most important events and economic changes on the local, regional and international levels, and their implications for the banking and financial sector.

2013 was a good year in terms of some industrial economies registering modest recovery on the back of a surge in financial markets. However, the economies of some European Union countries continued to show weakness, casting doubts on the sustainability of the global recovery. Locally, the year witnessed unprecedented qualitative developments, with the UAE's Gross Domestic Product (GDP) registering a growth of 4.5% to reach AED1.45 trillion, supported by a solid recovery in tourism, commerce and services sectors.

Dubai's successful bid for the Expo 2020, after a fierce competition with several international cities, has further cemented the UAE's global standing. In addition, the UAE stock markets were upgraded to the MSCI Emerging Markets Index, which was followed by the S&P Dow Jones Indices upgrading the UAE markets to emerging markets status. These achievements pave the way for domestic stock markets to attract major international investments.

The economic momentum was further boosted by stability in oil prices, with the price averaging just above \$100/barrel for the year. Government expenditure on development

projects such as education, energy, healthcare, roads and transportation increased, along with soaring investor confidence, which has reached its highest levels since 2008. The UAE stock market which saw major setbacks in the previous years witnessed solid recovery on the back of a return of confidence in equity markets. The shares of the majority of listed companies received a bigger than anticipated boost due to a surge in demand thanks to the financial markets' upgrade to emerging markets status.

The tourism sector was among the biggest gainers of the year, with a very healthy increase in the number of visitors, tourist spend and the length of their stay in the country. The UAE has been ranked among the best tourist attractions, both regionally as well as internationally. The increase in in numbers of tourists helped in enhancing the fortunes of hospitality, retail and services sectors.

The real estate sector continued to recover with a surge in property prices across the country, particularly in Dubai and Abu Dhabi. The sector saw a remarkable rise in demand and a gradual increase in prices. This had a positive impact on property transactions, which returned to pre-2008 levels.

“ During 2013, CBD put in place an ambitious strategy to strengthen its activities in various fields. A comprehensive programme to develop the personal banking segment was established, while the Bank continued to focus on leveraging its leadership status in the corporate banking segment ”

The construction sector, too, saw improvement, with developers resuming some projects that had been suspended over the past few years.

These developments had major positive effects on the banking sector, which registered a notable performance backed by an increase in revenues and profits, a decline in credit provisions, and a good proportion of non-performing loans being serviced.

During 2013, CBD worked on implementing an ambitious strategy that aims to strengthen its activities in various fields. In line with a key restructuring exercise that was implemented with notable success, the Bank established a comprehensive programme to develop its personal banking segment while continuing to focus on leveraging our leadership status in the corporate and commercial banking segment. This will result in a quantum leap in the products and services offered to different customer segments.

The Board of Directors continued its efforts to strengthen CBD's standing as a leading and pioneering bank in the UAE, and across the GCC. The Directors paid special attention to enhancing performance and efficiency of the Bank's operations. The goal was to optimise the use of resources and increase revenues and profits.

The Bank's systems and processes also underwent an upgrade to serve clients better and to give the bank the capacity to handle challenges and meet its targets. The

strong performance of all the business segments helped achieve a remarkable year-on-year growth of 18% in net profit. The Bank's net profit exceeded the AED1 billion-mark for the first time.

These developments came at a time when we kept our commitment to continue to bolster the Bank's creditworthiness, quality of assets, and lending portfolio along with adopting the highest standards of performance and corporate governance.

Consistent with the aspirations and ambitions of our respected shareholders, we are committed to promoting the capabilities of the Bank and developing its operations and profits. We are also committed to effectively support the rapid development of the UAE under its wise leadership.

I would like to take this opportunity to extend my sincerest gratitude and appreciation to CBD shareholders and clients for their trust and support. And I would also like to thank CBD management and staff for their sincere and untiring efforts, which have contributed to the growth and the record results achieved by the bank.

Best regards,

**Saeed Ahmed Ghobash**  
Chairman

## General Management



First row (from left to right):

**Mr. Peter Baltussen**  
Chief Executive Officer

**Mr. Yaqoob Yousuf Hassan**  
Deputy Chief Executive

**Mr. Ibrahim Abdulla**  
Secretary to the Board of Directors  
General Manager, Administration  
and Human Resources

Second row (from left to right):

**Mr. Mahmoud Hadi**  
Chief Operations Officer

**Mr. Thomas Pereira**  
Chief Financial Officer

**Mr. Murray Sims**  
General Manager  
Personal Banking Group



From left to right

**Stephen Davies**  
Head of Corporate Banking

**Frans Jan Burkens**  
Head of Consumer Banking

**Othman Bin Hendi**  
Head of Credit

**John Tuke**  
Head of Treasury and Asset and Liability Management

**Abdul Rahim Al Nimer**  
Head of Commercial Banking

**Jamal Saleh**  
Head of Risk Management

**Shorouk Al Redha**  
Head of Human Resources

**Moukarram Atassi**  
Head of Investment Group

**Ahmed Al Aboodi**  
Head of Special Credit

**Asem Fikree**  
Chief Information Officer

**Anoop Sapra**  
Head of Internal Audit

**Nabil Tayyeb**  
Head of Islamic Banking

**Ibrahim Salama**  
Advisor to the Senior Management

**Akram Gharabeh**  
Head of Financial Control

**Hassan Al Redha**  
Head of Financial Institutions

**Ra'ed Abubaker**  
Regional Manager, Abu Dhabi Region

**Mohammed Ali Redha**  
Head of Business Banking

**Akram Skaik**  
Head of Branch Distribution

**Nasser Alnajjar**  
Head of Central Operations

**V.P. Bhatia**  
Head of Treasury Trading

**Jaweed Gaya**  
Head of Branches Operations & Internal Control

**Masood Safar**  
Head of AML and Compliance

**Stelios Michaelides**  
Head of Strategic Planning

**Achillefs Manolopoulos**  
Head of Digital User Experience

**Badr Soueidan**  
Head of Marketing and Corporate Communications

**Yousif Al Suwaidi**  
Head of Sales

**Waleed Mohammed Bin Suloom**  
Assistant General Manager, Administration

**N. Rameshan**  
Head of Corporate Credit

**Souhayel Tayeb Ph.D**  
Head of Legal Department

**Hasan Kazim**  
General Manager, CBD Financial Services

**Lakshmanan Sankaran**  
Head of Operations and Trade Finance

**Souheil Yammine**  
Head of Cards Management

**Sami Al Awadi**  
Head of Fraud Prevention and Investigation

**Jamal Al Matari**  
Head of Attijari Al Islami Branches

**Tanveer Islam**  
Head Of Corporate Banking, Dubai Region

**Sonea Talreja**  
Head of Quality and Contact Center Personal Banking Group

“ CBD streamlined and intensified its operations in personal banking, resulting in a 35% growth in loans and advances ”

Dear Shareholders,

On behalf of Commercial Bank of Dubai we have the pleasure of presenting you with the Bank's Annual Report for 2013, which outlines the achievements and financial results.

The audited financial statements in this Annual Report have been prepared in accordance with International Financial Reporting Standards (IFRS) and include Basel II Pillar III disclosures.

### FINANCIAL HIGHLIGHTS

Commercial Bank of Dubai (CBD) reported a record net profit of AED1.01 billion for the year ended 31 December 2013, an increase of 18% over the AED857 million recorded a year earlier. The increased net profit was a result of a strong performance across all the business lines. CBD's personal banking strategy with renewed focus on asset growth has enabled the Bank to diversify its customer base and increase market share. At the same time the Bank continued to stay close to its corporate and commercial clients particularly the family owned businesses to ensure that CBD remains their preferred banking partner in the coming years.

**Operating income** for the year reached an all-time high of AED2.03 billion which was 9.4% higher than AED1.86 billion for the year ended 2012. The increase in operating income was largely driven by a 8.7% increase in net interest income from AED1.33 billion in 2012 to AED1.45 billion for the year ended 2013 and a

11.1% increase in non-interest income from AED 525.7 million in 2012 to AED584.2 million for 2013.

**Operating expenses** increased by 9.7% to AED627.6 million for the year ended 2013 (2012: AED572.2 million) as a result of substantial investments in resources and infrastructure. The Bank's operating profit increased by 9.3% to AED1.40 billion (2012: AED1.29 billion), while cost-to-income ratio increased slightly from 30.8% for 2012 to 30.9% for the full year ended 2013.

**Impairment allowances:** CBD has continued its prudent provisioning policy booking an incremental impairment allowance for the year of AED419 million, including AED33 million for collective impairment provisions, which represents 1.5% of the Bank's credit risk weighted assets.

**Non-performing loans (NPL)** ratio improved from 11.2% as at end of December 2012 to 10.1% as at end of December 2013, while NPL coverage ratio improved to 84.9% (2012: 71.7%)

**Net profit** for the year 2013 amounted to AED1.01 billion, up by 18% as compared to AED857 million for 2012. With this, the Bank maintains its record of annual growth in its net profit over the past 5 years right through the economic downturn. Return on average assets for the year ended 31 December 2013 improved to 2.4% from 2.2% for the year ended 2012, which is substantially higher than peer group average. Return on average equity increased to 15.1% for the year ended 31



December 2013 when compared to 13.4% for the year ended 31 December 2012.

**Assets and liquidity:** CBD reported total assets of AED44.5 billion as at 31 December 2013, 13.2% higher than AED39.3 billion as at 31 December 2012. Customers' loans & advances stood at AED30.3 billion, 11.3% higher when compared to AED27.2 billion last year end. The Bank continued to grow its corporate banking business where gross lending increased by 9.3% from AED26.9 billion as at end of December 2012 to AED29.4 billion as at 31 December 2013. The Bank's increased focus on its personal banking offering resulted in a 34% increase in loans from AED2.4 billion as at 31 December 2012 to AED3.3 billion as at 31 December 2013.

**Customers' deposits** were at AED30.9 billion, 10.3% over the AED 28 billion as at end of 2012. During the year, the Bank repaid AED1.8 billion of its deposits received from the UAE Ministry of Finance ahead of its contractual maturity on 31 December 2016. Subsequently, the Bank successfully issued USD500 million of conventional bonds as part of its Euro Medium Term Note programme. The Bank also prepaid its USD450 million club deal in October 2013 with a remaining maturity of 1 year and replaced it with a club deal of similar amount in December 2013 with a 3 year maturity.

**Advances to stable resources ratio** at 80.9% as at 31 December 2013 against 81.8% as at 31 December 2012

compared to the regulatory maximum ratio of 100%. Liquidity coverage ratio as calculated per Basle-III guidelines was 116% as at 31 December 2013 whilst the minimum stipulated ratio is 50%.

**Capital adequacy:** The Bank is robustly capitalized with total capital resources of AED7.2 billion as at 31 December 2013. Capital adequacy ratio as per BASEL II was at 19% as at 31 December 2013 against the regulatory requirement of 12%, while Tier 1 capital ratio was at 17.7% as at 31 December 2013.

The Board of Directors has proposed a cash dividend of AED612 million to the shareholders i.e. 30% of the Bank's capital and 10% bonus shares of AED204 million as at 31<sup>st</sup> December 2013, subject to the agreement of the shareholders at the Annual General Assembly Meeting (2012: AED612 Million 30% cash dividend proposed and approved).

## CORPORATE GOVERNANCE

CBD fully implemented the revised Corporate Governance framework in 2013 that the Bank adopted in 2012, which is consistent with international best practice. The framework is created on principles of fair treatment for all stakeholders, forming the basis for an effective relationship between the Bank, its Board of Directors, its shareholders and other stakeholders including customers, regulators and supervisors.

### Board of Directors

The Board of Directors has the collective responsibility

“ After detailed studies, the CBD Board of Directors adopted a five-year strategic plan comprising several far-reaching initiatives. The goal is to achieve faster, higher growth rates in diverse areas ”

to ensure the long-term success of CBD and to provide overall direction, supervision and control. It has complete responsibility for the Bank's operations and financial stability.

The Board sets CBD's strategic objectives and oversees the executive management. It also must ensure the effectiveness of internal control systems and keep a watch on the extent to which the Bank abides by the strategic plans and written policies. In addition, it is responsible for the credibility of the Bank's financial reports, the application of appropriate risk policies as well as compliance with all laws in force.

The formation of the Board of Directors is governed by the Federal Law No. 8 of 1984 (as amended). The current Board comprises 11 members elected for a tenure of three years. CBD's Board of Directors held a total of 8 meetings during 2013 for a total of 24 working hours.

The Board has delegated authority to CBD's executive management to enter into transactions consistent with the Bank's risk strategy and policy guidelines (as described on pages 62 to 66 of the audited financial statements).

#### Board Committees

The Board has delegated specific responsibilities to committees as shown in the following table. Each committee has a formal charter.

The Board and its committees are supplied with full and timely information to enable them to discharge their

responsibilities. In this respect, the Board, its committees and all the directors have access to senior management, external consultants and advisors.

For more details about corporate governance, board committees and management committees and control environment please see pages 62 to 68 of the audited financial statements.

<p><b>Credit &amp; Investment Committee (CICO)</b></p>	<p>CICO oversees the quality of the Group's Credit &amp; Investment portfolio and the effectiveness of its credit policies as well as the approval of loans and investments above management limits.</p>
<p><b>Audit, Risk &amp; Compliance Committee (ARCC)</b></p>	<p>ARCC assists the Board of Directors in ensuring and maintaining oversight of the Group's financial reporting system, internal control and risk management framework, audit functions, legal and regulatory requirements.</p>
<p><b>Nomination &amp; Remuneration Committee (NRC)</b></p>	<p>The NRC reviews and approves overall HR policies including employee remuneration and performance appraisals aimed at attracting, retaining and motivating employees.</p>



## STRATEGY

The year 2013 was a year of creditable achievement for CBD as it delivered an outstanding financial performance. Following an intensive planning exercise the Board of Directors approved a five year strategic plan for the Bank which incorporates ambitious growth initiatives.

In order for the Bank to focus more intensely on its core customer segments, the Business Group has been re-organized around the three main customer segments of the Bank: corporate banking, commercial banking and personal banking. The realignment is keeping in mind the Bank's ambitious future growth plans with enhanced focus on personal banking.

The corporate and commercial divisions will seek to focus on increased share of wallet from existing customers as well as acquiring new customers. Trade finance initiatives will aim at support to client's business including trade corridors between Asia and Africa via UAE.

Personal Banking division's focus, going forward will be built around deepening customer relationships, both in terms of higher cross-sell and loyalty, in our chosen target segments; developing innovative value propositions tailored to segment characteristics and customer needs and differentiating through superior customer satisfaction.

A clear statement of ambition has now been developed to be recognized by consumers and competitors as

the leading services provider in the UAE for affluent, professional and small enterprises competing on the basis of comprehensive personalized, quality service across both traditional and digital channels.

## CORPORATE BANKING

In an increasingly competitive environment as a result of improved economic conditions in 2013, corporate banking further expanded its relationships with clients within the UAE, both public and private sector.

There was particular emphasis on those companies involved in trade and manufacturing, together with an expansion of activity in the growing services, hospitality, healthcare and education sectors.

CBD provides traditional lending and credit services via trade and working capital finance, medium-term lending and foreign exchange and interest rate hedging. To serve larger corporate clients that wish to optimize debt and capital structures, a Debt Capital Markets Unit was added during the year and this led to the Bank's involvement in a number of high-profile syndicated loan transactions.

CBD also provides non-credit services through its Transaction Banking Unit which structures cash management and payment solutions to the client base. During 2013, a corporate card was launched to assist clients with expense management and procurement.

The Bank continues to pay particular attention to the day-to-day management of its credit exposures to ensure an appropriate level of structuring and ongoing monitoring.

“ In 2013, the Bank concentrated on expanding its Al Dana Wealth Management client base, for which the target group is high-income individuals. This was done by offering more banking products and solutions, all benchmarked to the highest global standards ”

## COMMERCIAL BANKING

The pace of export growth in the UAE is quite an exciting story. Dubai's foreign trade surged 16% year-on-year to AED679 billion in the first half of 2013. Exports jumped by 22% to AED84 billion from AED69 billion and were the key growth driver. Since 2010, the re-emergence of traditional growth sectors like logistics, retail, trade and tourism has been quite evident.

Reports reveal that the UAE's non-oil foreign trade stood at AED1.5 trillion in 2012, up by 16 per cent compared to 2011, ranking the UAE 19th in contribution to the volume of world trade. The UAE also maintained its fourth position in re-exports and fifth in the world on cross-border trade. It ranks as the first exporter for investments in the Middle East and North Africa (MENA).

The Bank increased the number of relationships in the commercial banking segment during 2013. CBD has also chosen to leverage its experience with trade clients. Accordingly a Trade Sales Team was introduced to provide trade expertise and advice to clients. This coordinated approach helped CBD to deepen existing relationships which resulted in increased trade finance business from commercial banking customers.

This past year also witnessed increased export finance through CBD's popular product, 'Tasdeer Finance'. This end-to-end export financing product is targeted at Letter of Credit beneficiaries. The department continued to offer its traditional trade products of import letters of credit (LCs), export LCs, guarantees, standby LCs, trade

finance loans, export pre- and post-shipment financing, collections, trade bills discounting, avalization and bankers' acceptances.

Trade Finance products in demand are those that improve the cash flow cycles both on the buying and the selling side. For some time now, CBD Trade Finance has been focusing on promoting SCF (Supply Chain Finance) products aggressively to clients. SCF directly targets open account clients and helps bring them under the Bank's umbrella. The usage of structured products with built-in credit insurance for factoring or receivable finances or invoice discounting helps mitigate risk and makes financing more attractive to both the Bank and our customers. Islamic Trade Finance had a very good year in 2013 and registered an impressive growth from the previous year.

In 2013, CBD Trade Finance successfully migrated to a new Trade Finance platform 'TI Plus' from Misys. The new system is a significant improvement over the existing legacy platform and is expected to improve customer experience as well as boost productivity. This will help CBD achieve improved automation of trade processes with the objective to achieve a paperless environment and straight through processing.

CBD commercial banking platform is poised to take up the growth challenges for the year 2014 and aims to keep pace with improving market trends being offered by UAE economy on the whole.



## PERSONAL BANKING

Commercial Bank of Dubai aggressively grew its personal banking franchise in 2013 on the back of a revamped sales strategy and a mobilized sales-force. The Bank retained its relationship-driven approach towards its clients while initiating a well-thought above-the-line communication towards its target audiences. This helped effectively raise the profile of CBD's personal banking franchise to further build business.

Capitalizing on much improved market conditions the division has significantly increased both its asset and liability balance sheet as well as its overall segmental revenue contribution relative to previous year.

CBD's position as one of the top banks in e-commerce helped it to acquire new business from public sector entities, which are now serviced with CBD's cash online and e-commerce solutions. We have further strengthened our deep relationships with Government and Semi-Government entities via our various public sector solutions and towards the country's M-Government vision.

CBD has taken a leading role in fast-tracking the UAE's shift to cashless transactions through the launch of a range of solutions designed to meet the financial requirements of organisations and institutions in all sectors. The Bank expanded its portfolio of cashless solutions by launching co-branded cards with prestigious local institutions like the Al-Ahli Football Club as well as the Bait Al-Khair Society. In addition, CBD also developed a pre-paid card for the Community Development Authority (CDA) to

disburse financial benefits in a cashless method.

Fixed income continued to be the asset of choice for the wealth management client base in 2013. Fixed income funds managed by CBD received record inflows in the year and now rank among the top funds in the market, both in terms of size and performance. At a time when average fixed income yields have come down significantly, the CBD Al Dana GCC Income Fund achieved double-digit returns through investments in high quality regional bonds and participation in new issuances.

In general, Personal Banking Division's revised focus is in line with the Bank's requirement to differentiate our offering as much as possible in a competitive market. In order to do this, the Bank is focusing on providing a superior personalized banking experience, for our valued clients through the use of alternate delivery and service channels. Over the course of the coming months greater emphasis will be placed on increasing share of wallet and acquiring new customers in the chosen segments through the use of more advanced data analytics and customer propensity modelling.

## TREASURY AND ASSET & LIABILITY MANAGEMENT

During 2013, Treasury and Asset & Liability Management had a mixed performance. Even as income from foreign exchange transactions fell below 2012 levels, the department contributed positively to the Bank's overall low cost of funds by keeping a tight control on deposit rates. The fixed income book was increased

“ The distinctive performance of ‘Attijari Al Islami’ was crowned by the ‘Best Islamic Bank for 2013’ Award, conferred on CBD’s Islamic finance division by The Banker magazine ”

substantially throughout the year as an alternative to placing surplus funds with either the UAE Central Bank or into the local interbank market, where rates were very low; these fixed income investments have provided good additional income.

Competition for foreign exchange business increased during the year as local banks increased their sales efforts, especially in Dubai. This resulted in lower margins. Due to the continuing low interest rate environment, clients generally remain reluctant to lock-in their borrowing costs using interest rate hedges; however, this scenario is expected to change in 2014 as the global economy recovers and expectations of interest rate rises come to the fore.

In January 2013, CBD was proud to enter into the first Islamic Commodity Murabaha transaction facilitated by the Dubai Multi Commodities Centre (DMCC). The transaction was carried out using the DMCC’s “Tradeflow” platform, our counterparty was Noor Islamic Bank and the underlying commodities were supplied by Dubai Cable Company (DUCAB) and Emirates National Oil Company (ENOC).

In May 2013, CBD launched a debut \$500 million bond issue from its Euro Medium Term Note programme (EMTN). Following presentations in the UAE, Asia and the UK the issue was very well received by investors with subscriptions exceeding \$2.5 billion.

In December, the Bank entered into a \$450 million 3-year borrowing from a group of nine of its close

relationship banks who each contributed \$50 million. This borrowing was undertaken in order to replace a previous 3-year transaction that was raised in August 2011, and prepaid in October 2013. The new transaction enabled the Bank to substantially reduce the margin on the borrowing.

#### ATTIJARI AL ISLAMI

2013 was a remarkable year for Attijari Al Islami, CBD’s Islamic Banking division, as it continued to record impressive growth. The success of Attijari Al Islami can be gauged by the fact that, during the year, its assets increased by 25% while deposits surged by 99%, following on from a strong performance in 2012.

CBD has 20 Islamic desks and five dedicated Islamic banking centres across the UAE. During the year, Attijari Al Islami launched a new product ‘Absher Personal Finance Tawarruq through Sukuk (National Bonds)’ that further strengthens our range of products available to customers.

The Attijari Al Islami Supervisory Committee comprises three of the leading scholars in the field of Islamic Banking. The role of these scholars is to review the operation of Attijari Al Islami, supervise its development of Islamic products, and determine the Shari’a compliance of the Bank’s existing and new products.

In 2013 “Attijari Al Islami” won “The FT Banker – Best Islamic Bank of the Year Award”. This remarkable



achievement validated CBD's integrated approach to Sharia-compliant business, with products and services based on a reputable and credible infrastructure.

### INFORMATION TECHNOLOGY

During 2013, Information Technology (IT) launched several initiatives to support business function automation and new product launch while simultaneously strengthening and standardising the Bank's IT infrastructure, information security, and robust networking.

The following solutions were implemented during the year:

#### Business Solutions - *Value delivery to customers*

- A new personal banking internet solution was developed in 2013. This incorporates several value added features aimed at significantly enhancing user experience. Public launch is scheduled for 2014
- Data analytics and campaign management aimed at providing customers with personalized offers
- New Contact Centre with a new IVR System to give the customers a wide range of services
- Western Union Funds Transfer facility through Internet banking
- Fully-automated Central Bank of the UAE Direct Debit system

#### Infrastructure Upgrades - *Platform ready for value delivery*

- IT Hardware upgraded to a new platform of latest technology to meet next five years storage capacity

demands and to optimize performance for efficient processing

- Enhanced internet security with latest technology to ensure secure customer transactions
- IT Disaster Recovery Centre is being set up in our new building in Sharjah, for smooth recovery and operations of critical systems to ensure seamless business continuity in a disaster situation. The Bank is committed to enhance technology to introduce banking products in an efficient, contemporary way to optimize banking convenience.

### HUMAN RESOURCES AND TRAINING

Commercial Bank of Dubai, takes pride in recognizing and rewarding staff for their achievements, with a special focus on promoting deserving UAE nationals to key senior management positions. At the end of 2013, the number of UAE Nationals employed in CBD constituted 41.2% of the Bank's employees, many of whom are in key leadership positions. The number of the Bank's employees stood at 1,143 at the end of 2013. CBD is proud of its workforce, which it considers its most valuable asset.

In accordance with the directives of the Board of Directors of the Bank, CBD's approach to Emiratization is to increase and optimize the number of UAE Nationals working for the Bank across all levels of the organisation, and to prepare them for responsible positions within the organisation through intensive training and guidance. 2013 held even greater significance for CBD's drive to hire UAE nationals as it was declared the Year of Emiratization.

“ CSR is a vital component of the vision and mission of the Commercial Bank of Dubai, which has always made effective participation in social welfare a priority area. The Bank revises its CSR policy regularly to ensure that its work conforms to the best practices worldwide ”

The Bank has a proactive Emiratization strategy that covers the entire employee life cycle. An 18-month management training programme selects high potential Emirati candidates, who then undergo a carefully planned series of training programmes as well as on-the-job training. Through this process, they are groomed to take on leadership roles in CBD. To support its Emiratization policy, the Bank took part in the National Career Exhibition in Sharjah and the Careers UAE 2013 exhibition in Dubai as well as the Higher Colleges of Technology's 7th Annual Careers Day. CBD won the Human Resources Development Award from Emirates Institute for Banking and Financial Studies (EIBFS) for 2013 which is based on Strategic Emiratization Plan, Leadership, Human Resources Training & Development, and Community Service.

In 2013, 55 employees attended a leadership program accredited by the Institute of Leadership and Management. The Bank also has an association with the British University in Dubai and 53 staff completed a strategic leadership program. CBD sent five senior managers to the Harvard Business School for leadership development courses in 2013.

The Bank continues to place emphasis on employees and conducts an annual employee satisfaction survey, the results of which showed an improvement compared to the previous years. The feedback from employees has been very positive as there is more engagement and transparency.

## CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility is a core element of CBD's mission, vision and values. The Bank's CSR policies are continuously reviewed and aligned with the needs of the society and environment. Its CSR practices showcase the emphasis on ethics and integrity. The Bank aims to fulfill its role as a responsible corporate citizen through a CSR framework that addresses all its stakeholders. The four elements of CBD's CSR framework:

### Governance & Transparency

The Bank has established and adopted policies and procedures for governance, risk management, professional ethics and code of conduct, compliance and AML, security and data protection, consumer protection and product responsibility.

### Society and Culture

The Bank's CSR strategy ensures a balanced focus on all relevant areas of the society. The initiatives that are implemented include extending support to the underprivileged - especially to those with special needs, participating in health campaigns, promoting education and sport among the youth, and celebrating the UAE culture.

In 2013, the Bank carried out its annual blood donation drive for thalassemia patients, with the help of its employees. CBD also organized awareness programmes in partnership with specialist non-government bodies.



A critical health related concern in the UAE is the high prevalence of diseases like diabetes and obesity not only among adults, but also young children. Taking cognisance of this, CBD launched its signature CSR event, the inter-school CBD Youth Athletics Competition (CBDYAC), with a view to encouraging young children to take up outdoor physical sports that help promote health and fitness and keep diseases at bay. The CBDYAC has been growing in size and scope every year. The 2013 event recorded participation of over 1,650 students from 69 schools. This competition embodies the vision of the Dubai government, led by His Highness Sheikh Mohammed bin Rashid Al Maktoum - UAE Vice President, Prime Minister and Ruler of Dubai - to strengthen school sports into a springboard from which promising talents can blossom to carry UAE's flag high on the world stage.

In 2013, CBD continued its support to sport and culture through sponsorships. The Bank was a principal sponsor of the Dubai International Racing Carnival at the Meydan Racecourse and Jebel Ali Race Championships. The Bank also sponsored many career fairs and the University of Sharjah Theatre Festival among other initiatives.

To underline its philanthropic commitment to the underprivileged, the Bank generously supported the causes of various institutions like the Red Crescent, Beit Al Khair Society, Al Thiqah Club for the Handicapped, Dubai Autism Center, Dubai Centre for Special Needs, Emirates Association for the Blind, Emirates

Thalassemia Society and other similar institutions.

#### **Employees**

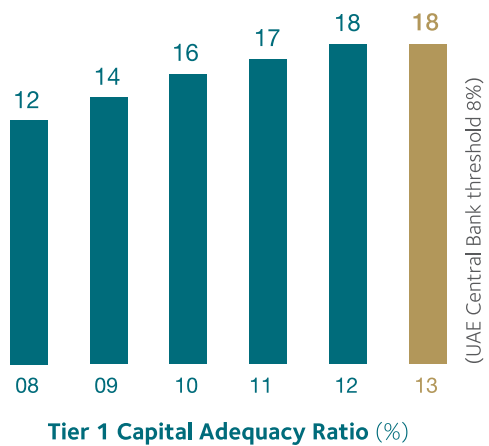
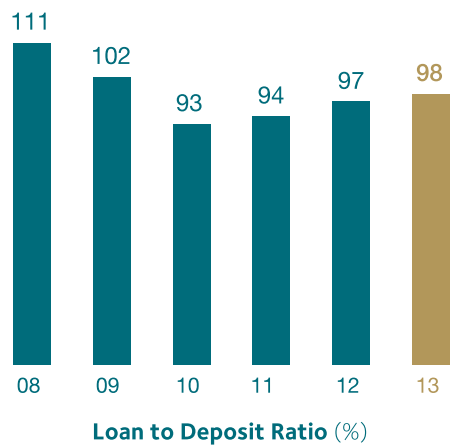
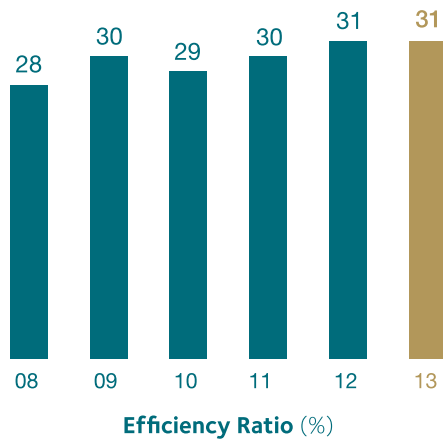
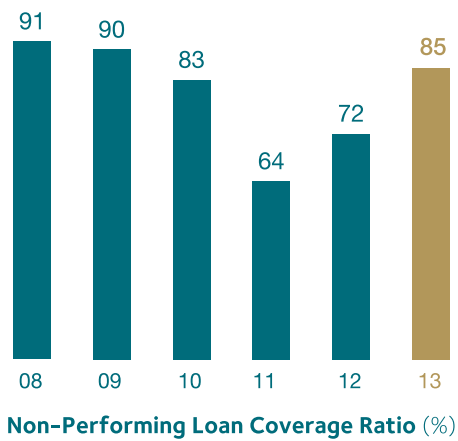
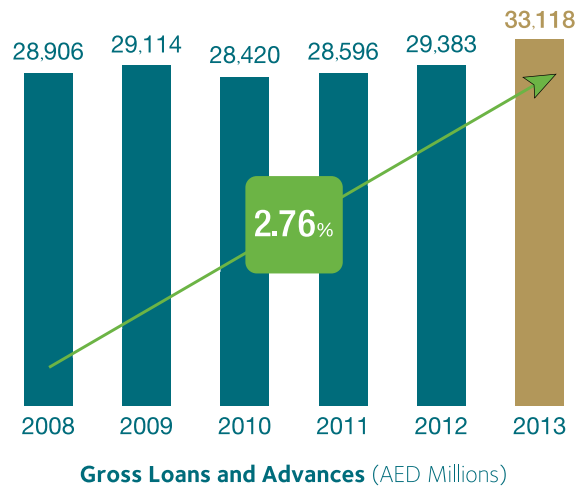
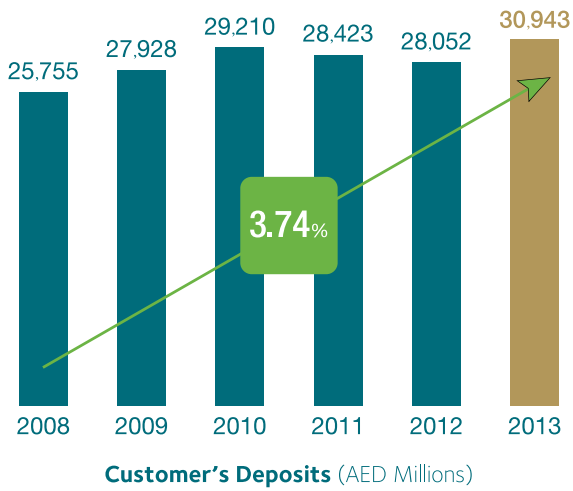
The Bank proactively implements the Emiratization initiative to recruit, train and develop as well as retain Emirati staff at all levels. The Bank also adheres to 'SA8000' norms, proactively seeks and addresses employee concerns through various channels, including the Employee Engagement Survey, imparts training and nurtures career development for all employees, ensures health and safety of all stakeholders in all its premises, and has extended various benefits and measures to boost staff welfare.

#### **Environment and Sustainability**

CBD continues to create awareness on environmental issues, extends credit facilities to green projects and has implemented internal measures to conserve resources by recycling and reducing wastage.

The Bank is a corporate sponsor of the Emirates Wildlife Society-World Wildlife Fund and the Emirates Environmental Group and actively participates in their events. In 2013, the Bank's employees have actively participated in initiatives promoting a green and healthy environment like the World Car Free Day. Energy conservation is incorporated into the design and layout of the CBD premises, which has sensors to turn lights and water faucets off when not in use. To conserve water, the Bank has implemented the grey water technology in some of its premises, which facilitates recycling of drain water.

# Major Indicators



Report of the Auditors to the Shareholders

Consolidated Statement of Financial Position

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements



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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 2013, 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. The consolidated financial statements of the Group as of 31 December 2012 were audited by another auditor whose report dated 6 February 2013 expressed an unqualified opinion on the consolidated financial statements.

#### *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 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.

#### *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 2013, 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) 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

29 January 2014

Dubai, United Arab Emirates

A member firm of Ernst & Young Global Limited

## Consolidated Statement of Financial Position As at 31 December 2013

	Note	2013 AED'000	2012 AED'000
<b>ASSETS</b>			
Cash and balances with Central Bank	5	6,132,063	5,563,270
Due from banks	6	1,662,172	1,827,702
Loans and advances and Islamic financing	7	30,287,385	27,201,610
Investment securities	8	4,228,653	2,378,235
Investment in associate	9	72,862	61,374
Investment properties	10	259,853	166,115
Property and equipment	11	321,273	432,168
Other assets	12	1,511,930	1,667,295
<b>Total assets</b>		<b>44,476,191</b>	<b>39,297,769</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks	13	499,259	434,864
Customers' deposits and Islamic customers' deposits	14	30,942,680	28,051,989
Notes and medium term borrowings	15	4,014,806	2,191,207
Other liabilities	16	1,803,057	1,809,125
<b>Total liabilities</b>		<b>37,259,802</b>	<b>32,487,185</b>
<b>EQUITY</b>			
Share capital	17	2,038,352	2,038,352
Legal reserve	17	1,379,813	1,379,683
Capital reserve	17	38,638	38,638
General reserve	17	1,100,000	1,100,000
Cumulative changes in fair values of AFS investments	17	54,712	22,533
Reserve for proposed bonus issue	17	203,835	-
Proposed cash dividend	17	611,506	611,506
Proposed directors' remuneration	17	11,000	11,000
Retained earnings		1,778,533	1,595,295
<b>Equity attributable to equity holders of the parent</b>		<b>7,216,389</b>	<b>6,797,007</b>
Non-controlling interest		-	13,577
<b>Total equity</b>		<b>7,216,389</b>	<b>6,810,584</b>
<b>Total liabilities and equity</b>		<b>44,476,191</b>	<b>39,297,769</b>

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 29th of January 2014. The attached notes on pages 30 to 93 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 page 24.

## Consolidated Income Statement For the year ended 31 December 2013

	Note	2013 AED'000	2012 AED'000
Interest income and income from Islamic financing	18	1,766,533	1,675,351
Interest expense and distributions to Islamic depositors	19	(317,864)	(343,076)
<b>Net interest income and net income from Islamic financing</b>		<b>1,448,669</b>	<b>1,332,275</b>
Fees and commission income		382,008	360,148
Fees and commission expense		(27,090)	(22,658)
<b>Net fees and commission income</b>	20	<b>354,918</b>	<b>337,490</b>
Net gains from foreign exchange and derivatives		113,469	124,326
Net gains from investments at fair value through profit or loss - held for trading	21	1,604	1,609
Net gains from sale of available-for-sale investments		51,239	16,152
Share of profit of associate	9	17,337	7,020
Dividend income	22	6,254	3,584
Other income		39,404	35,491
<b>Total operating income</b>		<b>2,032,894</b>	<b>1,857,947</b>
Impairment allowances on loans and advances and Islamic financing	7	(419,208)	(489,761)
Recoveries		24,155	62,865
<b>Total net income</b>		<b>1,637,841</b>	<b>1,431,051</b>
General and administrative expenses	23	(581,382)	(521,741)
Depreciation and amortization	10&11	(46,224)	(50,458)
<b>Total operating expenses</b>		<b>(627,606)</b>	<b>(572,199)</b>
<b>Net profit for the year</b>		<b>1,010,235</b>	<b>858,852</b>
<b>Attributed to:</b>			
Equity holders of the parent		1,010,235	857,468
Non-controlling interest		-	1,384
<b>Net profit for the year</b>		<b>1,010,235</b>	<b>858,852</b>
<b>Basic and diluted earnings per share</b>	25	<b>AED 0.50</b>	<b>AED 0.42</b>

The attached notes on pages 30 to 93 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 page 24.

## Consolidated Statement of Comprehensive Income For the year ended 31 December 2013

	<b>2013</b> <b>AED'000</b>	2012 AED'000
<b>Net profit for the year</b>	<b>1,010,235</b>	858,852
<b>Other comprehensive income:</b>		
<b>Changes in available-for-sale investments:</b>		
Realized gains on sale of available-for-sale investments	<b>(51,239)</b>	(16,152)
Amortization of reclassified investments	<b>3,608</b>	18,023
Share of other comprehensive income of associate	-	1,918
Revaluation of available-for-sale investments	<b>79,810</b>	87,113
<b>Net change in available-for-sale investments</b>	<b>32,179</b>	90,902
<b>Other comprehensive income for the year</b>	<b>32,179</b>	90,902
<b>Total comprehensive income for the year</b>	<b>1,042,414</b>	949,754
<b>Attributed to:</b>		
Equity holders of the parent	<b>1,042,414</b>	948,370
Non-controlling interest	-	1,384
<b>Total comprehensive income for the year</b>	<b>1,042,414</b>	949,754

All items included in other comprehensive income (as above) for the year ended 31 December 2013 and 2012 could be reclassified to consolidated income statement in subsequent periods.

The attached notes on pages 30 to 93 form part of these consolidated financial statements.

The report of the Auditors is set out on page 24.

## Consolidated Statement of Changes in Equity For the year ended 31 December 2013

	Share capital	Legal reserve	Capital reserve	General reserve	Cumulative changes in fair values of AFS investments	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
<b>At 1 January 2012</b>	1,941,287	1,379,683	38,638	1,100,000	(68,369)	1,454,749	399,257	6,245,245	15,284	6,260,529
<b>Transactions with owners, recorded directly in equity:</b>										
Cash dividend paid for 2011 (20%)	-	-	-	-	-	-	(388,257)	(388,257)	-	(388,257)
Bonus shares issued for 2011 (5%)	97,065	-	-	-	-	(97,065)	-	-	-	-
Proposed cash dividend for 2012 (30%)	-	-	-	-	-	(611,506)	611,506	-	-	-
Directors' remuneration paid for 2011	-	-	-	-	-	2,917	(11,000)	(8,083)	-	(8,083)
Proposed directors remuneration for 2012	-	-	-	-	-	(11,000)	11,000	-	-	-
Share of Directors' remuneration of associate	-	-	-	-	-	(268)	-	(268)	-	(268)
Redemption of units of funds	-	-	-	-	-	-	-	-	(3,091)	(3,091)
<b>Comprehensive income</b>										
Net profit for the year	-	-	-	-	-	857,468	-	857,468	1,384	858,852
Other comprehensive income for the year	-	-	-	-	90,902	-	-	90,902	-	90,902
<b>Total comprehensive income</b>	-	-	-	-	90,902	857,468	-	948,370	1,384	949,754
<b>At 31 December 2012</b>	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
<b>Transactions with owners, recorded directly in equity:</b>										
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	-	-	-
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)	-	-	-	-
Share of Directors' remuneration of associate	-	-	-	-	-	(526)	-	(526)	-	(526)
Redemption of units of funds	-	-	-	-	-	-	-	-	(13,577)	(13,577)
<b>Comprehensive income</b>										
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
<b>Total comprehensive income</b>	-	-	-	-	32,179	1,010,235	-	1,042,414	-	1,042,414
<b>At 31 December 2013</b>	2,038,352	1,379,813	38,638	1,100,000	54,712	1,778,533	826,341	7,216,389	-	7,216,389

The attached notes on pages 30 to 93 form part of these consolidated financial statements.

The report of the Auditors is set out on page 24.

## Consolidated Statement of Cash Flows For the year ended 31 December 2013

	2013 AED'000	2012 AED'000
<b>OPERATING ACTIVITIES</b>		
Profit for the year	1,010,235	858,852
Adjustments for:		
Depreciation and amortization	46,224	50,458
(Gain) / loss on disposal of properties and equipment	(647)	116
Dividend income	(6,254)	(3,584)
Increase in investment in associate	(12,014)	(3,028)
Amortization of securities	31,303	2,022
Loss on sale of subsidiary	269	-
Net unrealized losses / (gains) on investments at fair value through profit or loss - held for trading net of forex translation	944	(181)
Realized gains on sale of investments	(52,323)	(16,936)
Net unrealized gains on derivatives	(2,739)	(800)
Amortization of medium term borrowings	7,613	8,265
Directors' remuneration paid	(11,000)	(8,083)
	<b>1,011,611</b>	<b>887,101</b>
Increase in statutory reserve with the Central Bank	(253,378)	(173,108)
Increase in loans and advances and Islamic financing, net	(3,085,775)	(194,152)
(Increase) /decrease in other assets	(42,633)	64,448
Decrease in due from banks with original maturity of more than three months	-	4,315
Increase / (Decrease) in customers' deposits and Islamic customers' deposits	2,890,691	(371,441)
Increase in other liabilities	194,731	159,135
<b>Net cash flow from operating activities</b>	<b>715,247</b>	<b>376,298</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments	(3,231,321)	(1,080,218)
Purchase of property and equipment	(30,098)	(23,079)
Increase in investment properties (net)	-	(170)
Dividend received	6,254	3,584
Proceeds from sale of investments	1,404,759	596,120
Proceeds from sale of subsidiary	14,675	-
Proceeds from sale of property and equipment	1,678	533
<b>Net cash flow used in investing activities</b>	<b>(1,834,053)</b>	<b>(503,230)</b>
<b>FINANCING ACTIVITIES</b>		
Notes and medium term borrowings	1,815,986	551,441
Dividend paid	(611,506)	(388,257)
<b>Net cash flow from financing activities</b>	<b>1,204,480</b>	<b>163,184</b>
<b>Net increase in cash and cash equivalents</b>	<b>85,674</b>	<b>36,252</b>
Cash and cash equivalents at 1 January	5,083,345	5,047,093
<b>Cash and cash equivalents at 31 December</b>	<b>5,169,019</b>	<b>5,083,345</b>

Note 26

### Supplemental disclosure:

Interest income and income from Islamic financing received	1,758,134	1,919,815
Interest expense and distributions to Islamic depositors paid	298,889	452,014

The attached notes on pages 30 to 93 form part of these consolidated financial statements.

The report of the Auditors is set out on page 24.

### 1. LEGAL STATUS AND ACTIVITIES

Commercial Bank of Dubai PSC (“the Bank”) was incorporated in Dubai, United Arab Emirates in 1969 and is registered as a Public Shareholding Company (PSC) in accordance with Federal Law No. 8 of 1984 (as amended).

The consolidated financial statements of the Group for the year ended 31 December 2013 comprise the results of the Bank, its Subsidiaries “CBD Financial Services LLC” and “Al Dana Global Fixed Income Manager Selection Fund” (together referred to as “the Group”). CBD Financial Services LLC was incorporated on 9 March 2005 in Dubai, United Arab Emirates and is registered as a limited liability company in accordance with Federal Law No. 8 of 1984 (as amended). The Bank holds a 100% interest in CBD Financial Services LLC.

Al Dana Global Fixed Income Manager Selection Fund (fund) was sold during the third quarter of 2013. The fund was an open ended fund managed by CBD.

The Bank is listed on the Dubai Financial Market. The Bank’s principal activity is commercial banking while that of CBD Financial Services LLC is broking for local shares and bonds.

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 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. The adoption 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, 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 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.

#### 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.

#### 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).

## 2. BASIS OF PREPARATION (continued)

### e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2013. 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
- 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 to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. 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 carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- 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 recognise 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 amortised nor individually tested for impairment.

## 2. BASIS OF PREPARATION (continued)

### e) Basis of consolidation (continued)

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 recognises the loss as 'Share of profit of an associate in the statement of profit or loss.

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 profit or loss.

#### *(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.

### f) Disposal of subsidiary

During August 2013, the Company sold its interest in Al Dana Global Fixed Income Manager Selection Fund. The fund was an open ended fund managed by CBD. The carrying values of all identifiable assets and liabilities of the subsidiary transferred at the date of sale are as follows:

<i>Details of</i>	<b>AED'000</b>
Net assets transferred	14,944
Consideration received	14,675
Loss on sale	(269)

The related asset and liabilities had been derecognised on the date of disposal.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The Group has applied, IFRS 10 Consolidated Financial Statement for the first time during the first quarter of 2013.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it 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. To meet the definition of control in IFRS 10, all three criteria must be met, including:

- An investor has power over an investee;
- The investor has exposure, or rights, to variable returns from its involvement with the investee; and
- The investor has the ability to use its power over the investee to affect the amount of the investor's returns.

Adoption of IFRS 10 caused Group's total assets and non-controlling interest to increase by AED 15.3 million as at 1 January 2012 and AED 13.6 million as at 31st December 2012.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Several other new standards and amendments apply for the first time in 2013. However, the Group believes that they do not have any significant impact on the financial statements of the Group.

During the first quarter of 2013, the Group reassessed its relationship with National General Insurance Co. (P.S.C.) and designated it as an associate (previously classified as an available for sale investment) and accounted for it using equity method retrospectively. This resulted in total assets and total equity to decrease by AED 76 million as at 1 January 2012, AED 32 million as at 31 December 2012 and AED 20 million as at 31 December 2013.

#### 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;
- 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.

##### (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 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### a) Financial instruments (continued)

##### *(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) 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.

##### *(vi) Fair value measurement principles*

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

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.

##### *(vii) 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### a) Financial instruments (continued)

**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.

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's 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 distribution 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.

#### *(viii) 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, or, where appropriate, as shorter period to the net carrying amount of the financial asset or financial liability.

#### *(ix) 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### a) Financial instruments (continued)

##### *Individually assessed loans*

At each balance sheet 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.

##### *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 balance sheet 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### a) Financial instruments (continued)

##### *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 to income (OCI) statement as a reclassification adjustment. The cumulative loss that is reclassified 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.

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, with the amount of the reversal recognised in consolidated income statement. 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.

#### 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

##### (iii) Fair value hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as fair value hedges 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 other comprehensive income. 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 other comprehensive income 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

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, or, where appropriate, a shorter period.

#### 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 in '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 a 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 or completion of development.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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:

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 Bank'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, other than liabilities classified as FVPL, 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 issue of customer deposit.

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

##### Mudaraba

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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### j) Customers' deposits and Islamic Customers' deposits (continued)

##### Wakala

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.

#### 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 balance sheet 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

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.

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowance for impairment and is not recognized as interest income.

##### (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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### q) Revenue recognition (continued)

*(vii) Share of profit from associate*

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

*(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 mid-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 Bank 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 Bank'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.

#### 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 bank 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).

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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 Management Committee of the Group to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Management 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).

#### 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 balance sheet 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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

##### *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.

##### *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) The standards and interpretations that are issued but not yet effective for accounting periods beginning on 1 January 2013

A number of new standards, amendments to standards and interpretations are not yet effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early and the implementation of these standards is not expected to have a significant impact on the Groups consolidated financial statements.

##### *IFRS 9 Financial Instruments*

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9

Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

*IAS 32 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. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

#### 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:

	Fair value through P/L AED'000	Amortized Cost		Available- For-sale at fair value AED'000	Other amortized cost AED'000	Total carrying amount AED'000
		Held-to- maturity AED'000	Loans and receivables AED'000			
<b>31 December 2013</b>						
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
<b>Total financial asset</b>	<b>47,992</b>	<b>35,261</b>	<b>30,287,385</b>	<b>4,160,095</b>	<b>9,164,611</b>	<b>43,695,344</b>
<b>31 December 2012</b>						
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	-	-	-	1,731,968	1,742,171
<b>Total financial liabilities</b>	<b>10,203</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37,188,713</b>	<b>37,198,916</b>

##### 31 December 2012

Cash and balances with Central Bank	-	-	-	-	5,563,270	5,563,270
Due from banks	-	-	-	-	1,827,702	1,827,702
Loans and advances and Islamic financing	-	-	27,201,610	-	-	27,201,610
Investment securities	17,932	648,303	-	1,712,000	-	2,378,235
Other assets	2,113	-	-	-	1,549,639	1,551,752
<b>Total financial assets</b>	<b>20,045</b>	<b>648,303</b>	<b>27,201,610</b>	<b>1,712,000</b>	<b>8,940,611</b>	<b>38,522,569</b>

Due to banks	-	-	-	-	434,864	434,864
Customers' deposits and Islamic customers' deposits	-	-	-	-	28,051,989	28,051,989
Notes and medium term borrowing	-	-	-	-	2,191,207	2,191,207
Other liabilities	360	-	-	-	1,753,453	1,753,813
<b>Total financial liabilities</b>	<b>360</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,431,513</b>	<b>32,431,873</b>

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:

<b>31 December 2013</b>	<b>Level 1 AED'000</b>	<b>Level 2 AED'000</b>	<b>Level 3 AED'000</b>
Investments			
Equity	84,129	18,875	-
Fund of funds	-	188,824	-
Fixed and floating rate securities	3,901,564	-	-
Forward foreign exchange contracts and other derivatives (net)	-	4,492	-
	<b>3,985,693</b>	<b>212,191</b>	<b>-</b>
<b>31 December 2012</b>			
Investments			
Equity	60,405	18,236	-
Fund of funds	-	103,895	-
Fixed and floating rate securities	1,547,396	-	-
Forward foreign exchange contracts and other derivatives (net)	-	1,753	-
	<b>1,607,801</b>	<b>123,884</b>	<b>-</b>

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

	<b>2013 AED'000</b>	2012 AED'000
Cash on hand	443,485	430,153
Balances with Central Bank		
- Clearing account balances	362,621	260,538
- Statutory reserves	2,125,957	1,872,579
- Negotiable certificates of deposit	3,200,000	3,000,000
	<b>6,132,063</b>	<b>5,563,270</b>

#### 6. DUE FROM BANKS

	<b>2013 AED'000</b>	2012 AED'000
Current and demand deposits	89,948	136,350
Placements	1,572,224	1,691,352
	<b>1,662,172</b>	<b>1,827,702</b>

The geographical concentration is disclosed in note 33.b.

## 7. LOANS AND ADVANCES AND ISLAMIC FINANCING

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

	2013	2012
	AED'000	AED'000
<b>Loans and advances</b>		
Overdrafts	5,486,219	5,862,726
Loans	24,160,337	20,590,920
Advances against letters of credit and trust receipts	680,820	847,520
Bills discounted	677,948	627,553
<b>Gross loans and advances</b>	<b>31,005,324</b>	<b>27,928,719</b>
<b>Islamic financing</b>		
Murabaha	872,066	906,952
Ijara	982,413	614,856
Musharaka	101,691	80,000
Others	156,114	44,920
<b>Gross Islamic financing</b>	<b>2,112,284</b>	<b>1,646,728</b>
<b>Gross loans and advances and Islamic financing</b>	<b>33,117,608</b>	<b>29,575,447</b>
Provisions for impairment losses	(2,830,223)	(2,373,837)
<b>Net loans and advances and Islamic financing</b>	<b>30,287,385</b>	<b>27,201,610</b>

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

	Interest suspended AED'000	Specific provisions AED'000	Collective provisions AED'000	Total AED'000
<b>Opening balance 1 January 2012</b>	<b>222,018</b>	<b>1,128,988</b>	<b>430,066</b>	<b>1,781,072</b>
Interest not recognized / new provisions raised	202,058	479,084	10,677	691,819
<b>Less:</b>				
Written-Off	(15,174)	(16,408)	-	(31,582)
Recoveries / reversal to income	(13,901)	(53,571)	-	(67,472)
<b>Closing Balance 31 December 2012</b>	<b>395,001</b>	<b>1,538,093</b>	<b>440,743</b>	<b>2,373,837</b>

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

**8. INVESTMENT SECURITIES**

<b>31 December 2013</b>	<b>Domestic AED'000</b>	<b>GCC AED'000</b>	<b>International AED'000</b>	<b>Total AED'000</b>
<b>Held for trading</b>				
Equities	834	-	817	1,651
Fixed rate securities				
- Government	13,262	7,311	-	20,573
- Others	-	11,073	-	11,073
<b>Available-for-sale</b>				
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	522,921	207,610	2,003,055
Floating rate non government securities	71,363	68,859	-	140,222
<b>Held-to-maturity</b>				
Floating rate non government securities	35,261	-	-	35,261
<b>Total investment securities</b>	<b>3,054,602</b>	<b>810,352</b>	<b>363,699</b>	<b>4,228,653</b>

<b>31 December 2012</b>	<b>Domestic AED'000</b>	<b>GCC AED'000</b>	<b>International AED'000</b>	<b>Total AED'000</b>
<b>Held for trading</b>				
Equities	652	-	543	1,195
Fixed rate securities				
- Government	3,526	-	-	3,526
- Others	7,695	5,516	-	13,211
<b>Available-for-sale</b>				
Equities	77,446	-	-	77,446
Fund of funds	40,245	13,663	49,987	103,895
Fixed rate securities				
- Government	534,165	146,314	-	680,479
- Others	468,894	106,780	-	575,674
Floating rate non government securities	211,239	63,267	-	274,506
<b>Held-to-maturity</b>				
Fixed rate government securities	178,585	-	-	178,585
Floating rate securities				
- Government	434,457	-	-	434,457
- Others	35,261	-	-	35,261
<b>Total investment securities</b>	<b>1,992,165</b>	<b>335,540</b>	<b>50,530</b>	<b>2,378,235</b>

## 8. INVESTMENT SECURITIES (continued)

### 8.1 AFS and HTM debt securities

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

	2013 AED'000	2012 AED'000
Rated Aaa to Aa3	319,957	369,740
Rated A1 to A3	1,584,956	593,217
Rated BBB+ to BBB-	1,044,160	494,037
Rated BBB- and below	241,017	50,578
Unrated	715,089	671,390
<b>Total AFS and HTM debt securities</b>	<b>3,905,179</b>	<b>2,178,962</b>

### 8.2 Reclassification of investment securities

The Group, as a result of the adoption of amendments of IAS-39 financial instruments; recognition and measurement and IFRS -7 Financial Instruments: Disclosures, introduced in October 2008, had reclassified investments from the fair value through profit or loss classification to the available-for-sale investments category. As there was no trading in the reclassified investments during the years prior to re-classification, the management considered that the reclassification provided a more appropriate presentation of the investments in accordance with the Group's long-term investment strategy. Reclassified investments currently held by the Group amounts to AED 13,625 thousand (31 December 12: AED 63,496 thousand). As required by the amendments, the effects of such a reclassification are set out below:

	2013 AED'000	2012 AED'000
<b>After reclassification</b>		
Unrealised fair value gain recognized in statement of other comprehensive income	3,917	212

During 2013 the Group sold AED 49,871 thousand of the reclassified investments resulting in a gain of AED 2,806 thousand which was recognized in the consolidated income statement.

### 8.3 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.

## 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 material associates:

	2013 AED'000	2012 AED'000
Assets	911,551	866,937
Liabilities	501,002	521,121
Profit	97,687	39,555
	2013 AED'000	2012 AED'000
<b>At 1 January</b>	<b>61,374</b>	<b>56,696</b>
Share of profit of associate	17,337	7,020
Dividend received	(5,323)	(3,992)
Others including Share of OCI of associate	(526)	1,650
<b>At 31 December</b>	<b>72,862</b>	<b>61,374</b>

Fair value of the Group's share of associate as at 31 December 2013 was AED 149.6 million(31 December 2012: AED 93.14 million).

## 10. INVESTMENT PROPERTIES

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

	2013 AED'000	2012 AED'000
<b>Cost</b>		
<b>At 1 January</b>	<b>245,501</b>	<b>245,331</b>
Additions	-	170
Transfer from capital work in progress	104,400	-
Transfer to property and equipment	(7,181)	-
<b>At 31 December</b>	<b>342,720</b>	<b>245,501</b>
<b>Depreciation</b>		
<b>At 1 January</b>	<b>79,386</b>	<b>71,508</b>
Charge for the year	9,074	7,878
Transfer to property and equipment	(5,593)	-
<b>At 31 December</b>	<b>82,867</b>	<b>79,386</b>
<b>Net book value</b>		
<b>At 31 December</b>	<b>259,853</b>	<b>166,115</b>

Investment properties comprises of buildings. Rental income from investment properties leased under operating lease recorded in other income is AED 28.3million (2012: AED 27.46 million).

The fair value of investment properties as at 31 December 2013 is AED 361 million (2012: AED 312 million). The fair value of investment properties represents management's internally estimated market value of the properties.

**11. PROPERTY AND EQUIPMENT**

	Freehold land and buildings AED'000	Leasehold improvements AED'000	Furniture, equipment & vehicles AED'000	Capital work in progress AED'000	Total AED'000
<b>Cost</b>					
<b>At 1 January 2013</b>	<b>332,590</b>	<b>36,102</b>	<b>258,855</b>	<b>155,887</b>	<b>783,434</b>
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)
<b>At 31 December 2013</b>	<b>385,240</b>	<b>38,132</b>	<b>272,140</b>	<b>13,222</b>	<b>708,734</b>
<b>Depreciation</b>					
<b>At 1 January 2013</b>	<b>109,471</b>	<b>24,069</b>	<b>217,726</b>	-	<b>351,266</b>
Charge for the year	12,072	4,946	20,132	-	37,150
Transfer from own properties	5,593	-	-	-	5,593
On disposals	-	-	(6,548)	-	(6,548)
<b>At 31 December 2013</b>	<b>127,136</b>	<b>29,015</b>	<b>231,310</b>	-	<b>387,461</b>
<b>Net book values</b>					
<b>At 31 December 2013</b>	<b>258,104</b>	<b>9,117</b>	<b>40,830</b>	<b>13,222</b>	<b>321,273</b>

	Freehold land and buildings AED'000	Leasehold improvements AED'000	Furniture, equipment & vehicles AED'000	Capital work in progress AED'000	Total AED'000
<b>Cost At</b>					
<b>1 January 2012</b>	<b>332,374</b>	<b>32,938</b>	<b>245,367</b>	<b>150,970</b>	<b>761,649</b>
Additions during the year	216	3,863	4,248	14,752	23,079
Transfer from capital work in progress	-	-	9,643	(9,643)	-
Disposals / transfer to investment properties	-	(699)	(403)	(192)	(1,294)
<b>At 31 December 2012</b>	<b>332,590</b>	<b>36,102</b>	<b>258,855</b>	<b>155,887</b>	<b>783,434</b>
<b>Depreciation</b>					
<b>At 1 January 2012</b>	<b>98,012</b>	<b>19,254</b>	<b>192,065</b>	-	<b>309,331</b>
Charge for the year	11,459	5,335	25,786	-	42,580
On disposals	-	(520)	(125)	-	(645)
<b>At 31 December 2012</b>	<b>109,471</b>	<b>24,069</b>	<b>217,726</b>	-	<b>351,266</b>
<b>Net book values</b>					
<b>At 31 December 2012</b>	<b>223,119</b>	<b>12,033</b>	<b>41,129</b>	<b>155,887</b>	<b>432,168</b>

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**

	2013 AED'000	2012 AED'000
Interest receivable	246,592	238,193
Accounts receivable and prepayments	184,262	150,749
Customer's indebtedness for acceptances	1,065,694	1,276,240
Positive mark to market value of derivatives (note 29)	14,695	2,113
Amounts receivable from brokerage customers	687	-
	<b>1,511,930</b>	<b>1,667,295</b>

**13. DUE TO BANKS**

	2013 AED'000	2012 AED'000
Current and demand deposits	258,378	56,214
Short term borrowings	240,881	378,650
	<b>499,259</b>	<b>434,864</b>

**14. CUSTOMERS' DEPOSITS AND ISLAMIC CUSTOMERS' DEPOSITS**

<b>Customers' deposits</b>	2013 AED'000	2012 AED'000
Current and demand accounts	12,106,932	10,523,573
Savings accounts	1,352,344	1,283,371
Time deposits	10,714,666	12,825,633
	<b>24,173,942</b>	<b>24,632,577</b>

<b>Islamic customers' deposits</b>	2013 AED'000	2012 AED'000
Current and demand accounts	857,584	425,322
Mudaraba savings accounts	504,915	253,105
Investment and Wakala deposits	5,406,239	2,740,985
	<b>6,768,738</b>	<b>3,419,412</b>
<b>Total customers' deposits and Islamic customers' deposits</b>	<b>30,942,680</b>	<b>28,051,989</b>

<b>By Sector</b>	2013 AED'000	2012 AED'000
Government	4,765,539	3,488,902
Corporate	17,739,712	17,114,843
Personal	8,437,429	7,448,244
	<b>30,942,680</b>	<b>28,051,989</b>

## 14. CUSTOMERS' DEPOSITS AND ISLAMIC CUSTOMERS' DEPOSITS (continued)

### Subordinated term loans

Customers' deposits included deposits received by the Group in 2008, aggregating to AED 1,841.526 million from the UAE Ministry of Finance. On 9 December 2009 (the re-categorization date), the Group entered into an agreement with the UAE Ministry of Finance, by which these deposits were subordinated to other claims and were treated as lower Tier 2 capital in agreement with the UAE Central Bank. The subordinated 7 years term loan bore a fixed interest rate of 4% per annum for first two years and steps up to 4.5% per annum and 5% per annum in the third and fourth years and from fifth years onwards to 5.25% per annum. Interest was payable quarterly from the date of re-categorization.

The agreement contained certain conditions relating to the Group's minimum Tier 1 Capital requirement and also stipulated certain conditions under which MOF had the right to convert the loan amount together with accrued interest into share capital upon occurrence of the conversion events as per the terms of the agreement.

The Bank had the option at any time during the option period to repay the loans in whole or in part subject to meeting certain conditions. The Group exercised this option and repaid the entire loan in two tranches: AED 1,500 million in May 2013 and AED 341.526 million in July 2013.

## 15. NOTES AND MEDIUM TERM BORROWINGS

### Syndicated loan

In December 2013, the Group entered into a club deal of USD 450 million for a term of 3 years with an option to roll over on a quarterly or semi-annual basis, to replace the syndicated loan arrangement of USD 450 million maturing in August 2014, which was prepaid in October 2013. The current arrangement carries interest at the rate of 3 month LIBOR plus 125 basis points payable on a quarterly basis. Prepaid arrangement carried interest at the rate of 3 month LIBOR plus 175 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 with arrangements to repurchase them at a fixed future date in July 2017.

### Euro medium term notes

CBD has activated its Euro Medium Term Note (EMTN) program which was launched in 2008. The maximum issuance under the program is USD 2 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 of conventional bonds. These notes were priced at 3.375 per cent fixed rate and mature on 21 May 2018.

## 16. OTHER LIABILITIES

	2013 AED'000	2012 AED'000
Interest payable	82,199	63,224
Employees' terminal benefits	60,886	55,312
Accounts payable	413,495	349,187
Unearned fee income	79,648	48,686
Negative mark to market value of derivatives (note 29)	10,203	360
Liabilities under acceptances	1,065,694	1,276,240
Amounts payable to brokerage customers	90,932	16,116
	<b>1,803,057</b>	<b>1,809,125</b>

## 17. EQUITY

### Share capital

The fully paid up and authorized ordinary share capital as at 31 December 2013 comprised 2,038,351,976 ordinary shares of AED 1 each (2012: 2,038,351,976 shares of AED 1 each).

### 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.

### 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.

### Cumulative changes in fair values of AFS investments

This represents the net change in the fair values of available-for-sale investments held by the Group and 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 5th March 2014.

#### *i) Proposed cash dividend*

A cash dividend of 30% (2012: 30%) of the share capital amounting to AED 611,505,593 (2012: AED 611,505,593) is proposed representing a dividend of AED 0.30 per share (2012: AED 0.30 per share).

#### *ii) proposed bonus issue*

A bonus issue of 10 % in the ratio of 1 share for every 10 shares held is proposed (there was no bonus issue proposed for 2012).

#### *iii) Proposed directors' remuneration*

In accordance with Article 118 of Federal Law No.8 of 1984, directors' remuneration amounting to AED 11,000,000 (2012: AED 11,000,000) has been treated as an appropriation from equity.

## 18. INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING

<b>Interest income</b>	<b>2013 AED'000</b>	<b>2012 AED'000</b>
Loans and advances	<b>1,556,458</b>	1,534,491
Negotiable certificates of deposit with the Central Bank	<b>3,771</b>	612
Due from banks	<b>2,534</b>	2,836
Investment securities		
- Held-to-maturity bonds	<b>7,625</b>	15,112
- Available-for-sale bonds	<b>76,253</b>	42,886
	<b>1,646,641</b>	1,595,937
<b>Income from Islamic financing</b>		
Murabaha	<b>56,277</b>	33,228
Ijara	<b>48,769</b>	25,245
Musharaka	<b>4,090</b>	2,321
Investment securities		
- Held-to-maturity sukuk	<b>1,712</b>	10,129
- Available-for-sale sukuk	<b>9,044</b>	8,491
	<b>119,892</b>	79,414
<b>Total interest income and income from Islamic financing</b>	<b>1,766,533</b>	1,675,351

**19. INTEREST EXPENSE AND DISTRIBUTION TO ISLAMIC DEPOSITORS**

	2013 AED'000	2012 AED'000
<b>Interest expense</b>		
Due to banks	740	1,586
Customers' deposits	163,705	244,884
Notes and medium term borrowings	92,292	51,402
Derivative financial instruments	-	98
	<b>256,737</b>	<b>297,970</b>
<b>Distribution to Islamic depositors</b>		
Islamic customers' deposits	61,127	45,106
	<b>61,127</b>	<b>45,106</b>
<b>Total interest expense and distribution to Islamic depositors</b>	<b>317,864</b>	<b>343,076</b>

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**

	2013 AED'000	2012 AED'000
Lending activities	88,179	60,937
Trade finance activities	101,968	123,060
Account operating activities	125,084	125,286
Cards income and brokerage fees	66,777	50,865
	<b>382,008</b>	<b>360,148</b>
<b>Cards and brokerage expenses</b>	<b>(27,090)</b>	<b>(22,658)</b>
	<b>354,918</b>	<b>337,490</b>

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

	2013 AED'000	2012 AED'000
Net realized gains on sale of investments at fair value through profit or loss	1,886	1,428
Net unrealized (losses) / gains on investments at fair value through profit or loss	(282)	181
	<b>1,604</b>	<b>1,609</b>

**22. DIVIDEND INCOME**

	2013 AED'000	2012 AED'000
Investments at fair value through profit or loss – held for trading	20	3
Available-for-sale investments	6,234	3,581
	<b>6,254</b>	<b>3,584</b>

## 23. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include staff related expenses of AED 432.6 million (2012: AED 385.8 million).

## 24. OPERATING LEASES

### Group as lessee

General and administrative expenses include rental expense under operating leases of AED 14.4 million (2012: AED 14.8 million). Non-cancellable operating lease rental payable as at 31 December is as follows:

	2013 AED'000	2012 AED'000
Less than one year	7,246	9,011

### Group as lessor

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

	2013 AED'000	2012 AED'000
Less than one year	14,771	15,350

## 25. BASIC AND DILUTED EARNINGS PER SHARE

The earnings per share is based on the Group's profit attributable to shareholders for the year amounting to AED 1,010.2 million (2012: AED 857.5 million), and on the weighted average number of shares in issue totaling 2,038,351,976 (2012: 2,038,351,976).

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:

	2013 AED'000	2012 AED'000
Cash on hand	443,485	430,153
Balances with the Central Bank	362,621	260,538
Negotiable certificates of deposit with the Central Bank	3,200,000	3,000,000
Due from banks with original maturity less than three months	1,662,172	1,827,518
	<b>5,668,278</b>	<b>5,518,209</b>
Due to banks with original maturity less than three months	(499,259)	(434,864)
	<b>5,169,019</b>	<b>5,083,345</b>

## 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.

	2013 AED'000	2012 AED'000
<b>Contingent liabilities:</b>		
Letters of credit	1,157,129	967,836
Guarantees	5,107,403	5,555,384
	<b>6,264,532</b>	6,523,220
<b>Credit commitments:</b>		
Undrawn commitments to extend credit	9,927,716	8,969,201
<b>Capital commitments:</b>		
Capital expenditure commitments	10,636	10,500
<b>Total contingent liabilities and commitments</b>	<b>16,202,884</b>	15,502,921

## 28. FIDUCIARY ASSETS

Assets held under fiduciary capacity on behalf of clients amounted to AED 634.9 million (2012: AED 656 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 2013	Positive market value AED'000	Negative market value AED'000	Notional amount AED'000	Less than three months AED'000	From three months to one year AED'000	From one year to five years AED'000
<b>Held for trading:</b>						
Forward foreign exchange contracts and other derivatives	14,695	10,203	2,030,209	1,811,895	218,314	-
	<b>14,695</b>	<b>10,203</b>	<b>2,030,209</b>	<b>1,811,895</b>	<b>218,314</b>	<b>-</b>

## 29. DERIVATIVES (continued)

31 December 2012	Positive market value AED'000	Negative market value AED'000	Notional amount AED'000	Less than three months AED'000	From three months to one year AED'000	From one year to five years AED'000
<i>Held for trading:</i>						
Forward foreign exchange contracts and other derivatives	2,113	360	343,963	337,229	3,382	3,352
	2,113	360	343,963	337,229	3,382	3,352

## 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 an arm's length basis to reflect the allocation of capital and funding costs.

### *Business segments*

<b>Corporate banking</b>	Includes loan and other credit facilities, deposits, trade finance products and e-commerce solutions to large corporate clients (including Government related entities).
<b>Commercial banking</b>	Includes loans, working capital financing, trade finance and deposits products to commercial (mid-sized) clients and business (small) clients.
<b>Personal banking</b>	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 high net-worth (Al Dana), mid-tier clients (personal) and modest income group (direct).
<b>Treasury and investments</b>	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 2013 was as follows:

	Corporate banking AED'000	Commercial banking AED'000	Personal banking AED'000	Treasury & investments AED'000	Unallocated AED'000	Total AED'000
<b>Assets</b>	<b>21,305,740</b>	<b>7,620,751</b>	<b>3,344,474</b>	<b>12,205,226</b>	<b>-</b>	<b>44,476,191</b>
<b>Liabilities</b>	<b>14,635,805</b>	<b>9,462,992</b>	<b>8,626,099</b>	<b>4,534,906</b>	<b>-</b>	<b>37,259,802</b>
Interest Income and Income from Islamic financing	933,476	510,158	221,451	100,939	509	1,766,533
Interest Expense and distribution to Islamic depositors	(161,074)	(29,033)	(34,725)	(93,032)	-	(317,864)
<b>Net interest income and income from Islamic financing</b>	<b>772,402</b>	<b>481,125</b>	<b>186,726</b>	<b>7,907</b>	<b>509</b>	<b>1,448,669</b>
Net inter segment income	(193,453)	(10,998)	34,826	169,625	-	-
Other operating income	143,034	175,586	74,169	127,722	63,714	584,225
<b>Total income</b>	<b>721,983</b>	<b>645,713</b>	<b>295,721</b>	<b>305,254</b>	<b>64,223</b>	<b>2,032,894</b>
Allocated cost	112,900	189,693	121,695	16,734	140,360	581,382
Provisions for impairment losses net of recoveries	373,710	47,835	(26,492)	-	-	395,053
Depreciation	5,784	3,015	4,264	300	32,861	46,224
<b>Total expenses</b>	<b>492,394</b>	<b>240,543</b>	<b>99,467</b>	<b>17,034</b>	<b>173,221</b>	<b>1,022,659</b>
<b>Net profit for the year</b>	<b>229,589</b>	<b>405,170</b>	<b>196,254</b>	<b>288,220</b>	<b>(108,998)</b>	<b>1,010,235</b>

Segmental analysis for the year ended 31 December 2012 was as follows:

	Corporate banking AED'000	Commercial banking AED'000	Personal banking AED'000	Treasury & investments AED'000	Unallocated AED'000	Total AED'000
<b>Assets</b>	<b>20,125,302</b>	<b>6,855,692</b>	<b>2,374,891</b>	<b>9,941,884</b>	<b>-</b>	<b>39,297,769</b>
<b>Liabilities</b>	<b>13,318,671</b>	<b>9,012,986</b>	<b>7,518,789</b>	<b>2,636,739</b>	<b>-</b>	<b>32,487,185</b>
Interest Income and Income from Islamic financing	942,410	481,644	170,618	80,066	613	1,675,351
Interest Expense and distribution to Islamic depositors	(214,388)	(36,908)	(38,694)	(53,086)	-	(343,076)
<b>Net interest income and income from Islamic financing</b>	<b>728,022</b>	<b>444,736</b>	<b>131,924</b>	<b>26,980</b>	<b>613</b>	<b>1,332,275</b>
Net inter segment income	(164,077)	(3,005)	41,024	126,058	-	-
Other operating income	106,428	157,583	60,941	89,068	111,652	525,672
<b>Total income</b>	<b>670,373</b>	<b>599,314</b>	<b>233,889</b>	<b>242,106</b>	<b>112,265</b>	<b>1,857,947</b>
Allocated cost	98,022	172,471	105,916	15,886	129,446	521,741
Provisions for impairment losses net of recoveries	448,576	11,503	(33,183)	-	-	426,896
Depreciation	7,162	3,733	4,568	833	34,162	50,458
<b>Total expenses</b>	<b>553,760</b>	<b>187,707</b>	<b>77,301</b>	<b>16,719</b>	<b>163,608</b>	<b>999,095</b>
<b>Net profit for the year</b>	<b>116,613</b>	<b>411,607</b>	<b>156,588</b>	<b>225,387</b>	<b>(51,343)</b>	<b>858,852</b>

### 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	
	2013 AED'000	2012 AED'000	2013 AED'000	2012 AED'000
Loans and advances	377,155	342,188	1,344,759	543,807
Due from Banks	-	-	650,000	509,918
Investment securities	-	-	527,000	453,933
Acceptances	68,423	89,554	-	-
Letters of credit	8,619	22,120	-	402
Letters of Guarantees	145,401	153,730	3,116	3,130
Deposits	619,870	279,147	4,185,420	3,423,992
Interest income	22,975	23,321	56,132	35,554
Interest expense	5,852	764	40,774	30,980

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 2012: NIL). The loans issued to directors are unsecured and repayable monthly over a maximum period of 5 years (31 December 2012: 5 years) and carry interest at the rates comparable to the third party loans.

#### Key management compensation

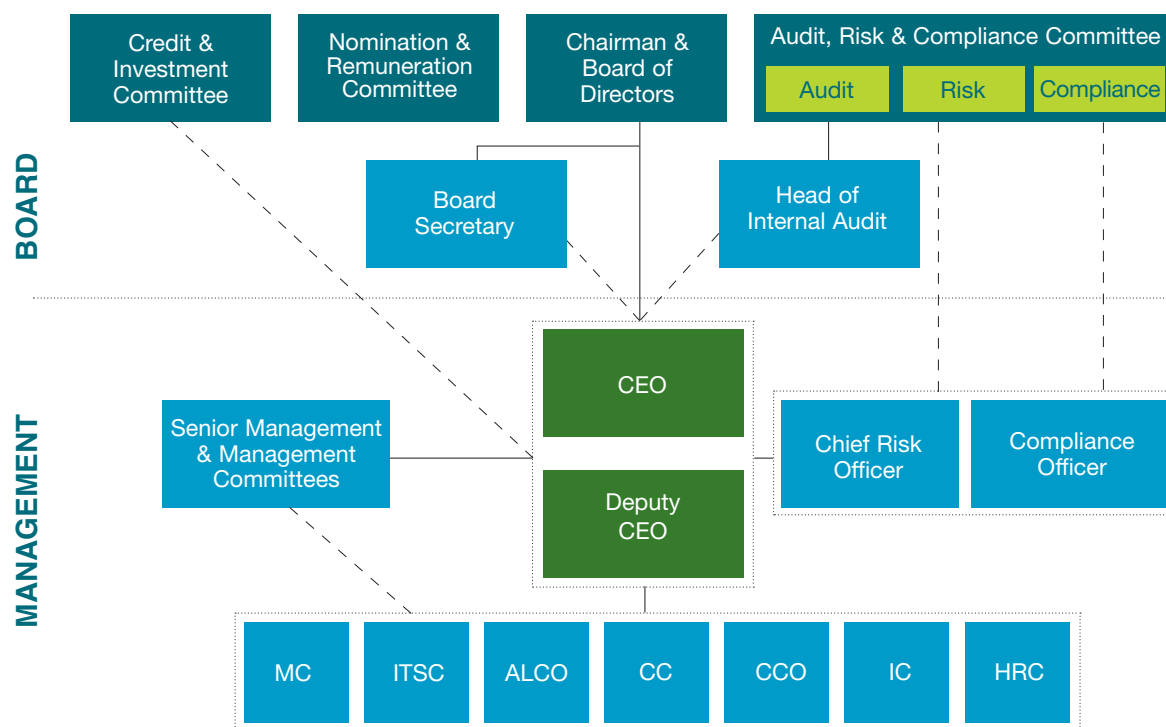
	2013 AED'000	2012 AED'000
Salaries	10,772	11,189
Post-employment benefits	1,188	525
Other benefits	6,778	8,994

## 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 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 three Board Committees and seven management committees. An illustration of how these committees report to the Group Board is shown below:



#### 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 disposal of assets.

CICO consists of six non-executive Board members.

##### b) Audit, Risk & Compliance Committee (ARCC)

The ARCC consists of four non-executive Board members and an independent non-Board member. The role of the ARCC is to assist the Board of Directors in ensuring and maintaining oversight of the Group’s financial reporting system, internal control and risk management processes, audit functions and legal and regulatory requirements by:

## 32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Board Committees (continued)

#### 32.1 Risk Governance (continued)

##### *b) Audit, Risk & Compliance Committee (ARCC) (continued)*

- 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, 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.

##### *c) Nomination & Remuneration Committee (NRC)*

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. The Chairman and the Members of the committee are appointed by the Board from amongst its Directors. The NRC comprises of four non-executive Board members; the Group's Head of Human Resources acts as a Secretary to the Committee.

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.

## 32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 32.1 Risk Governance (continued)

#### Executive Management Committees

##### a) Management Committee (MC)

The scope of management committee includes all cross functional issues that are not covered in the scope of other committees. Typically, MC covers the areas like strategy, policies, marketing, administration, processes and decides on business initiatives related to corporate and consumer banking, treasury and investments. In addition, the MC is also responsible for management of Operational Risk with the support of the Risk Management Department who is responsible to liaise with all other units/divisions across the Group.

##### b) 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;
- 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.

##### 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;
    - 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.

## 32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 32.1 Risk Governance (continued)

#### 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) *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. It consists of five executive members whose 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 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.

#### f) *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.

## 32. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 32.1 Risk Governance (continued)

#### 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.
- Performance Management ensures performance driven work culture, develop managers' competence and ensure managers agree on the KPI's and performance reviews.
- 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.

### 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**

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, once each year the ARCC shall:

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

## 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 and fraud

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 letter 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;
- 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.

### 33. FINANCIAL RISK MANAGEMENT (continued)

#### a) Introduction and overview (continued)

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 Group 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, risk arising from holding property & equipment and equity instrument is reported under credit risk. For risk management purposes, credit risk arising on trading investments is managed independently, but reported as a component of market risk exposure.

##### (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-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.

Grades	Asset quality	Risk significance
1	Standard	Good, top performing assets and debt securities with 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	Substandard "a"	Substandard "a"- Interest Suspended / non-performing
12	Substandard "b"	Substandard "b"- Provision Starts / non-performing
13	Doubtful	Doubtful of recovery / non-performing
14	Loss	Loss (fully provided for, and 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 started pricing facilities using Risk Adjusted Return on Capital (RAROC), which leads to the Basel II compliance.

### 33. FINANCIAL RISK MANAGEMENT (continued)

#### b) Credit risk (continued)

##### (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 which are classified as watch-list loans as of the reporting date, whose terms have been restructured or are under restructuring and involve the concession in rate of interest. These loans are not delinquent; however appropriate impairment loss is recognized on such loans.

At 31 December 2013 restructured performing loans and loans under restructuring amount to AED 693 million (2012: AED 962 million).

##### (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.

**33. FINANCIAL RISK MANAGEMENT (continued)**
**b) Credit risk (continued)**

	Loans and receivables		Due from banks		Debt securities	
	2013 AED'000	2012 AED'000	2013 AED'000	2012 AED'000	2013 AED'000	2012 AED'000
<b>i. Neither past due nor impaired</b>						
Grades 1: good, top performing assets	6,647,316	4,504,910	1,662,172	1,827,702	2,616,387	1,615,820
Grade 2-9: good, performing assets	20,168,056	17,926,091	-	-	1,320,438	579,879
Grade 10: watch- list loans / performing	2,242,118	2,817,920	-	-	-	-
<b>Carrying amount</b>	<b>29,057,490</b>	<b>25,248,921</b>	<b>1,662,172</b>	<b>1,827,702</b>	<b>3,936,825</b>	<b>2,195,699</b>
<b>ii. Past due but not impaired In Grade 1 to 10</b>						
Less than 30 days	81,958	226,838	-	-	-	-
30 – 60 days	29,733	69,242	-	-	-	-
60 – 90 days	12,229	85,849	-	-	-	-
Over 90 days	664,380	736,617	-	-	-	-
<b>Carrying amount</b>	<b>788,300</b>	<b>1,118,546</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>iii. Individually impaired</b>						
Grade 11: Substandard (a)	87,250	-	-	-	-	-
Grade 12: Substandard (b)	817,654	868,564	-	-	-	-
Grade 13: Doubtful	1,813,551	2,037,678	-	-	-	-
Grade 14: Loss	295,962	116,699	-	-	-	-
<b>Carrying amount</b>	<b>3,014,417</b>	<b>3,022,941</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>iv. Impaired on portfolio basis - Retail</b>						
Grade 11: Substandard (a)	3,352	-	-	-	-	-
Grade 12: Substandard (b)	283,856	245,670	-	-	-	-
Grade 13: Doubtful	6,383	3,233	-	-	-	-
Grade 14: Loss	26,156	37,341	-	-	-	-
<b>Carrying amount</b>	<b>319,747</b>	<b>286,244</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Less: deferred credits</b>	<b>(62,346)</b>	<b>(101,205)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total carrying amount</b>	<b>33,117,608</b>	<b>29,575,447</b>	<b>1,662,172</b>	<b>1,827,702</b>	<b>3,936,825</b>	<b>2,195,699</b>
Specific provision for impairment	(1,523,066)	(1,136,306)	-	-	-	-
Portfolio provision for impairment related to (iv) above	(84,604)	(120,441)	-	-	-	-
Specific provision for individually Restructured loans and under restructuring /OLEM	(270,076)	(245,265)	-	-	-	-
Interest in suspense	(478,482)	(431,082)	-	-	-	-
Collective provision for impairment related to (i) and (ii) above	(473,995)	(440,743)	-	-	-	-
<b>Total provision for impairment</b>	<b>(2,830,223)</b>	<b>(2,373,837)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Carrying amount net of impairment</b>	<b>30,287,385</b>	<b>27,201,610</b>	<b>1,662,172</b>	<b>1,827,702</b>	<b>3,936,825</b>	<b>2,195,699</b>

**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:

<b>31 December 2013</b>	<b>Impaired loans AED'000</b>	<b>Collateral AED'000</b>	<b>Specific provision and interest in suspense AED'000</b>
<b>Commercial and Business:</b>			
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
<b>Total commercial and business</b>	<b>2,971,600</b>	<b>855,536</b>	<b>1,890,887</b>
Banks and financial institutions	4,723	-	1,542
Government and public sector entities	-	-	-
Personal-schematic	355,208	226,488	191,351
Others	2,633	59	2,372
<b>Total carrying amount</b>	<b>3,334,164</b>	<b>1,082,083</b>	<b>2,086,152</b>

In addition to the specific provision, the Group held 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.

<b>31 December 2012</b>	<b>Impaired loans AED'000</b>	<b>Collateral AED'000</b>	<b>Specific provision and interest in suspense AED'000</b>
<b>Commercial and Business:</b>			
Agriculture & allied activities	646	-	487
Mining & quarrying	-	-	-
Manufacturing	237,767	27,459	101,334
Construction	122,793	43,993	42,176
Trade	1,877,946	476,967	959,335
Transport & communication	35,201	2,004	24,535
Services	377,964	139,093	192,365
Business and investment	338,815	78,748	173,026
<b>Total commercial and business</b>	<b>2,991,132</b>	<b>768,264</b>	<b>1,493,258</b>
Banks and financial institutions	-	-	-
Government and public sector entities	-	-	-
Personal-schematic	314,071	205,799	191,080
Others	3,982	96	3,491
<b>Total carrying amount</b>	<b>3,309,185</b>	<b>974,159</b>	<b>1,687,829</b>

### 33. FINANCIAL RISK MANAGEMENT (continued)

#### b) Credit risk (continued)

In addition to the specific provision, the Group held AED 441 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.

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

<b>31 December 2013</b>	<b>Gross AED'000</b>	<b>Specific provision and interest in suspense AED'000</b>	<b>Net AED'000</b>
Grade11&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
<b>Total</b>	<b>3,014,417</b>	<b>1,924,947</b>	<b>1,089,470</b>

#### 31 December 2012

Grade11&12: Substandard (a & b)	868,564	236,833	631,731
Grade 13: Doubtful	2,037,678	1,172,348	865,330
Grade 14: Loss	116,699	85,419	31,280
<b>Total</b>	<b>3,022,941</b>	<b>1,494,600</b>	<b>1,528,341</b>

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.

#### *(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 2013 or 2012.

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

	<b>2013 AED'000</b>	2012 AED'000
Pledged deposits	1,751,783	1,889,662
Properties	9,052,507	9,115,860
Hypothecation & mortgages	355,738	418,443
Pledge of shares	710,974	701,673
Government and bank guarantees	846,981	548,209
Bills discounted-cheques	623,167	583,969
Others	394,360	318,977
<b>Total Collaterals</b>	<b>13,735,510</b>	13,576,793

The above represents collateral value restricted to the lower of loan balance or collateral value. The collateral value is before The UAE, Central Bank haircut.

### 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:

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity Securities	Cash, balances with Central bank and other assets	Undrawn Total commitments	Contingent liabilities and acceptances	
31 December 2013	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	
<b>Commercial and Business:</b>								
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
<b>Total commercial and Business</b>	<b>24,585,743</b>	<b>-</b>	<b>181,951</b>	<b>912</b>	<b>-</b>	<b>24,768,606</b>	<b>8,436,382</b>	<b>6,790,981</b>
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
<b>Total carrying amount</b>	<b>33,117,608</b>	<b>1,662,172</b>	<b>3,936,825</b>	<b>291,828</b>	<b>7,235,354</b>	<b>46,243,787</b>	<b>9,927,716</b>	<b>7,330,226</b>

**33. FINANCIAL RISK MANAGEMENT (continued)**
**b) Credit risk (continued)**
*(x) Concentration (continued)*

Concentration of credit risk by sector:

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity Securities	Cash, balances with Central bank and other assets	Total	Undrawn commitments	Contingent liabilities and acceptances
31 December 2012	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<b>Commercial and Business:</b>								
Agriculture & allied activities	16,741	-	-	-	-	16,741	81,244	44,189
Mining & quarrying	60,544	-	-	399	-	60,943	122,952	165,709
Manufacturing	1,176,304	-	-	-	-	1,176,304	633,589	307,984
Construction	3,554,868	-	-	-	-	3,554,868	108,235	252,845
Trade	7,370,205	-	-	-	-	7,370,205	3,315,142	2,899,979
Transport & communication	316,315	-	-	-	-	316,315	185,851	242,978
Services	4,125,538	-	-	53	-	4,125,591	1,984,015	3,158,650
Business and investment	6,102,509	-	8,338	188	-	6,111,035	1,179,204	51,789
<b>Total commercial and Business</b>	<b>22,723,024</b>	<b>-</b>	<b>8,338</b>	<b>640</b>	<b>-</b>	<b>22,732,002</b>	<b>7,610,232</b>	<b>7,124,123</b>
Banks and financial institutions	315,561	1,827,702	890,314	181,896	61,374	3,276,847	174,491	521,058
Government and public sector entities	3,488,873	-	1,297,047	-	5,133,117	9,919,037	780,886	21,505
Personal-schematic	2,174,539	-	-	-	-	2,174,539	381,138	15,869
Others	873,450	-	-	-	1,423,418	2,296,868	22,454	116,905
<b>Total carrying amount</b>	<b>29,575,447</b>	<b>1,827,702</b>	<b>2,195,699</b>	<b>182,536</b>	<b>6,617,909</b>	<b>40,399,293</b>	<b>8,969,201</b>	<b>7,799,460</b>

### 33. FINANCIAL RISK MANAGEMENT (continued)

#### b) Credit risk (continued)

##### (x) Concentration (continued)

Concentration of credit risk by geographic location:

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity Securities	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
<b>31 December 2013</b>								
<b>Concentration by location</b>								
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	792,275	18,077	-	1,122,317	-	49,128
Other Arab Countries	-	482	-	-	-	482	-	11,248
Europe	-	87,471	95,970	155,272	-	338,713	-	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
<b>Total carrying amount</b>	<b>33,117,608</b>	<b>1,662,172</b>	<b>3,936,825</b>	<b>291,828</b>	<b>7,235,354</b>	<b>46,243,787</b>	<b>9,927,716</b>	<b>7,330,226</b>

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity Securities	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
<b>31 December 2012</b>								
<b>Concentration by location</b>								
UAE	29,483,709	1,073,765	1,873,822	118,343	6,617,909	39,167,548	8,969,201	7,323,852
GCC	91,738	274,992	321,877	13,663	-	702,270	-	24,383
Other Arab Countries	-	614	-	-	-	614	-	11,291
Europe	-	397,690	-	49,987	-	447,677	-	358,177
USA	-	20,324	-	543	-	20,867	-	-
Asia	-	58,429	-	-	-	58,429	-	81,194
Others	-	1,888	-	-	-	1,888	-	563
<b>Total carrying amount</b>	<b>29,575,447</b>	<b>1,827,702</b>	<b>2,195,699</b>	<b>182,536</b>	<b>6,617,909</b>	<b>40,399,293</b>	<b>8,969,201</b>	<b>7,799,460</b>

### 33. FINANCIAL RISK MANAGEMENT (continued)

#### b) Credit risk (continued)

(x) Concentration (continued)

Concentration of credit risk by currency:

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity Securities	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
<b>31 December 2013</b>								
<b>Concentration by currency</b>								
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
<b>Total carrying amount</b>	<b>33,117,608</b>	<b>1,662,172</b>	<b>3,936,825</b>	<b>291,828</b>	<b>7,235,354</b>	<b>46,243,787</b>	<b>9,927,716</b>	<b>7,330,226</b>

	Loans and advances and Islamic financing	Due from banks	Debt securities	Equity Securities	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
<b>31 December 2012</b>								
<b>Concentration by currency</b>								
AED	27,563,971	590,108	762,796	93,479	6,405,611	35,415,965	8,969,201	7,323,852
Other currencies	2,011,476	1,237,594	1,432,903	89,057	212,298	4,983,328	-	475,608
<b>Total carrying amount</b>	<b>29,575,447</b>	<b>1,827,702</b>	<b>2,195,699</b>	<b>182,536</b>	<b>6,617,909</b>	<b>40,399,293</b>	<b>8,969,201</b>	<b>7,799,460</b>

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 un acceptable 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;
- 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.

## 33. FINANCIAL RISK MANAGEMENT (continued)

## d) Liquidity risk (continued)

*(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 80.9% as at 31 December 2013 (2012: 81.8%). 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 third party liabilities;
- Customers' deposits maturing within one month to customers' deposits; and
- Deposits' concentration.

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 2013** was as follows:

	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
<b>Assets</b>							
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	756,780	395,453	359,697	-	-	-
<b>Total assets</b>	<b>44,476,191</b>	<b>13,470,928</b>	<b>1,956,744</b>	<b>3,251,303</b>	<b>12,930,856</b>	<b>11,477,059</b>	<b>1,389,301</b>
<b>Liabilities</b>							
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
<b>Total liabilities</b>	<b>37,259,802</b>	<b>20,323,437</b>	<b>5,727,535</b>	<b>7,117,048</b>	<b>4,030,896</b>	<b>-</b>	<b>60,886</b>
<b>Gap representing equity</b>	<b>7,216,389</b>	<b>(6,852,509)</b>	<b>(3,770,791)</b>	<b>(3,865,745)</b>	<b>8,899,960</b>	<b>11,477,059</b>	<b>1,328,415</b>

### 33. FINANCIAL RISK MANAGEMENT (continued)

#### d) Liquidity risk (continued)

##### (ii) Exposure to liquidity risk (continued)

The maturity profile of the assets and liabilities at **31 December 2012** was as follows:

	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
<b>Assets</b>							
Cash and balances with Central Bank	5,563,270	5,133,117	-	-	-	-	430,153
Due from banks	1,827,702	1,727,702	100,000	-	-	-	-
Loans and advances and Islamic financing	27,201,610	5,989,556	1,191,719	2,375,003	8,631,849	9,013,483	-
Investment securities	2,378,235	21,194	61,754	636,550	944,001	532,200	182,536
Investment in associate	61,374	-	-	-	-	-	61,374
Investment properties	166,115	-	-	-	-	-	166,115
Property and equipment	432,168	-	-	-	-	-	432,168
Other assets	1,667,295	743,156	696,459	227,680	-	-	-
<b>Total assets</b>	<b>39,297,769</b>	<b>13,614,725</b>	<b>2,049,932</b>	<b>3,239,233</b>	<b>9,575,850</b>	<b>9,545,683</b>	<b>1,272,346</b>
<b>Liabilities</b>							
Due to banks	434,864	239,864	195,000	-	-	-	-
Customers' deposits and Islamic customers' deposits	28,051,989	17,184,239	3,739,402	5,257,039	1,871,309	-	-
Notes and medium term borrowings	2,191,207	-	-	-	2,191,207	-	-
Other liabilities	1,809,125	829,674	696,459	227,680	-	-	55,312
<b>Total liabilities</b>	<b>32,487,185</b>	<b>18,253,777</b>	<b>4,630,861</b>	<b>5,484,719</b>	<b>4,062,516</b>	<b>-</b>	<b>55,312</b>
<b>Gap representing equity</b>	<b>6,810,584</b>	<b>(4,639,052)</b>	<b>(2,580,929)</b>	<b>(2,245,486)</b>	<b>5,513,334</b>	<b>9,545,683</b>	<b>1,217,034</b>

**33. FINANCIAL RISK MANAGEMENT (continued)****d) Liquidity risk (continued)***(ii) Exposure to liquidity risk (continued)*

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

	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
<b>31 December 2013</b>						
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	-
<b>Total</b>	<b>16,192,248</b>	<b>1,025,031</b>	<b>1,432,680</b>	<b>3,180,981</b>	<b>10,270,963</b>	<b>282,593</b>
<b>31 December 2012</b>						
Contingent liabilities	6,523,220	708,611	734,905	2,076,428	2,710,027	293,249
Credit commitments	8,969,201	247,021	494,042	741,063	7,487,075	-
<b>Total</b>	<b>15,492,421</b>	<b>955,632</b>	<b>1,228,947</b>	<b>2,817,491</b>	<b>10,197,102</b>	<b>293,249</b>

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

	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
<b>31 December 2013</b>						
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	1,659,972	904,822	395,453	359,697	-	-
<b>Total liabilities</b>	<b>37,666,915</b>	<b>20,264,387</b>	<b>5,774,358</b>	<b>7,257,996</b>	<b>4,370,174</b>	<b>-</b>
<b>31 December 2012</b>						
Due to banks	434,976	239,874	195,102	-	-	-
Customers' deposits and Islamic customers' deposits	28,520,489	17,186,437	3,782,884	5,402,454	2,148,714	-
Notes and medium term borrowings	2,319,612	3,157	12,831	47,964	2,255,660	-
Other liabilities	1,690,589	766,450	696,459	227,680	-	-
<b>Total liabilities</b>	<b>32,965,666</b>	<b>18,195,918</b>	<b>4,687,276</b>	<b>5,678,098</b>	<b>4,404,374</b>	<b>-</b>

### 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 market risks – trading portfolios*

The principal tool used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 10-day holding period. The VaR model used is based on historical and Monte Carlo simulation taking into account market data for the last 250 business days.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 10-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even with the model used there is a one per cent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day, although real time limit monitoring mitigates this risk somewhat.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The Group uses VaR limits for specific foreign exchange, interest rate and equity price risks. The overall structure of VaR limits is subject to review and approval by the ALCO. VaR limits are allocated only to the trading portfolio. VaR is measured at least daily for more actively traded portfolios. Daily reports of utilization of VaR limits are produced by the Group Risk Management department and periodic summaries are submitted in the ALCO.

### 33. FINANCIAL RISK MANAGEMENT (continued)

#### e) Market risks (continued)

##### *(ii) Exposure to market risks – trading portfolios (continued)*

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Group uses stress tests to model the financial impact of exceptional market scenarios on individual trading portfolios and the Group's overall position.

##### *(iii) 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. Also 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:

	2013		2012	
	Net interest Income		Net interest Income	
	50 b.p. AED'000	100 b.p. AED'000	50 b.p. AED'000	100 b.p. AED'000
Upward Parallel Shift	18,322	45,018	32,698	65,395
Downward Parallel Shift	(11,843)	(23,686)	(14,692)	(25,806)

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

## 33. FINANCIAL RISK MANAGEMENT (continued)

## e) Market risks (continued)

*(iii) Exposure to interest rate risk – non trading portfolio (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 2013	Non interest bearing AED'000	Less than 3 months AED'000	From 3 to 6 months AED'000	From 6 months to 1 year AED'000	Over 1 year AED'000	Total AED'000
<b>Assets</b>						
Cash and balances with Central Bank	2,932,063	3,200,000	-	-	-	6,132,063
Due from banks	-	1,662,172	-	-	-	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
<b>Total assets</b>	<b>5,893,750</b>	<b>30,949,051</b>	<b>837,802</b>	<b>1,271,945</b>	<b>5,523,643</b>	<b>44,476,191</b>
<b>Liabilities and equity</b>						
Due to banks	-	499,259	-	-	-	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
Equity	7,216,389	-	-	-	-	7,216,389
<b>Total liabilities and equity</b>	<b>21,983,962</b>	<b>13,344,437</b>	<b>4,146,279</b>	<b>2,611,071</b>	<b>2,390,442</b>	<b>44,476,191</b>
<b>Interest rate sensitivity gap</b>	<b>(16,090,212)</b>	<b>17,604,614</b>	<b>(3,308,477)</b>	<b>(1,339,126)</b>	<b>3,133,201</b>	<b>-</b>
<b>Cumulative interest rate sensitivity gap</b>	<b>(16,090,212)</b>	<b>1,514,402</b>	<b>(1,794,075)</b>	<b>(3,133,201)</b>	<b>-</b>	<b>-</b>

31 December 2012	Non interest bearing AED'000	Less than 3 months AED'000	From 3 to 6 months AED'000	From 6 months to 1 year AED'000	Over 1 year AED'000	Total AED'000
<b>Assets</b>						
Cash and balances with Central Bank	2,563,270	3,000,000	-	-	-	5,563,270
Due from banks	-	1,827,702	-	-	-	1,827,702
Loans and advances and Islamic financing	3,309,185	21,954,297	1,526,201	1,415,175	1,370,589	29,575,447
Provisions	(2,373,837)	-	-	-	-	(2,373,837)
Investment securities	182,536	399,397	488,043	23,507	1,284,752	2,378,235
Investment in associate	61,374	-	-	-	-	61,374
Investment properties	166,115	-	-	-	-	166,115
Property and equipment	432,168	-	-	-	-	432,168
Other assets	1,667,295	-	-	-	-	1,667,295
<b>Total assets</b>	<b>6,008,106</b>	<b>27,181,396</b>	<b>2,014,244</b>	<b>1,438,682</b>	<b>2,655,341</b>	<b>39,297,769</b>
<b>Liabilities and equity</b>						
Due to banks	-	434,864	-	-	-	434,864
Customers' deposits and Islamic customers' deposits	10,948,895	10,660,222	2,571,721	3,083,710	787,441	28,051,989
Notes and medium term borrowings	-	1,639,765	-	-	551,442	2,191,207
Other liabilities	1,809,125	-	-	-	-	1,809,125
Equity	6,810,584	-	-	-	-	6,810,584
<b>Total liabilities and equity</b>	<b>19,568,604</b>	<b>12,734,851</b>	<b>2,571,721</b>	<b>3,083,710</b>	<b>1,338,883</b>	<b>39,297,769</b>
<b>Interest rate sensitivity gap</b>	<b>(13,560,498)</b>	<b>14,446,545</b>	<b>(557,477)</b>	<b>(1,645,028)</b>	<b>1,316,458</b>	<b>-</b>
<b>Cumulative interest rate sensitivity gap</b>	<b>(13,560,498)</b>	<b>886,047</b>	<b>328,570</b>	<b>1,316,458</b>	<b>-</b>	<b>-</b>

### 33.FINANCIAL RISK MANAGEMENT (continued)

#### e) Market risks (continued)

##### *(iii) Exposure to interest rate risk – non trading portfolio (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:

Currency	Net spot	Forward	Net exposure	
	Position	Position	2013	2012
	AED'000	AED'000	AED'000	AED'000
US Dollar	1,763,273	(1,172,275)	590,998	66,601
Great Britain Pound	(5,306)	5,405	99	(204)
Japanese Yen	18,363	(28,818)	(10,455)	8
Euro	(334,121)	334,257	136	716
Others	95,024	85,489	180,513	572

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

	2013	2012
	AED'000	AED'000
Equity position risk	198	191
Foreign currency risk	1,269	328
Interest rate risk	1,333	550
	<b>2,800</b>	<b>1,069</b>

### 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.

Analysis of equity portfolio:

	2013 AED'000	2012 AED'000
<b>Publicly traded (quoted):</b>		
Equity	103,004	78,641
<b>Privately held (unquoted):</b>		
Funds of funds investments	188,824	103,895
<b>Total</b>	<b>291,828</b>	<b>182,536</b>

Analysis of gains or (losses) on equity investments:

	2013 AED'000	2012 AED'000
Realized gains on sale	28,955	3,313
Unrealized gains in P/L	160	75
Unrealized gains in OCI	65,836	1,052

The revaluation reserve on equity portfolio as at 31 December 2013 amounting to AED 45,013 million (2012: AED (20,823) million) was considered as Tier II capital.

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

	2013				2012			
	Strategic investment AED'000	AFS AED'000	Held for trading AED'000	Total AED'000	Strategic investment AED'000	AFS AED'000	Held for trading AED'000	Total AED'000
Equity	-	12,162	198	12,360	-	9,293	143	9,436
Funds of Funds investment	1,857	20,802	-	22,659	4,829	7,638	-	12,467
<b>Total</b>	<b>1,857</b>	<b>32,964</b>	<b>198</b>	<b>35,019</b>	<b>4,829</b>	<b>16,931</b>	<b>143</b>	<b>21,903</b>

#### 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 (Operational Risk Management Committee) 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. 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:

### 33.FINANCIAL RISK MANAGEMENT (continued)

#### h) Operational risks (continued)

- 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 (ORM) 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. The function also undertakes a review of the insurance coverage available to the bank 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 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:

	2013 AED'000	2012 AED'000
<b>Core tier 1 capital</b>		
Share capital	2,038,352	2,038,352
Legal reserve	1,379,813	1,379,683
General reserve	1,100,000	1,100,000
Non -controlling interests	-	13,577
Retained earnings(including bonus reserve)	1,982,368	1,595,295
<b>Tier 1 Capital</b>	<b>6,500,533</b>	<b>6,126,907</b>
<b>Upper tier 2 capital</b>		
Fair value reserve	24,620	10,140
Collective provisions	459,916	432,145
	<b>484,536</b>	<b>442,285</b>
<b>Lower tier 2 capital</b>		
Subordinated term loans*	-	1,473,221
<b>Tier 2 capital</b>	<b>484,536</b>	<b>1,915,506</b>
<b>Deductions from Tier 1 &amp; Tier 2</b>		
Investments in un consolidated subsidiaries	(10,000)	(10,000)
<b>Total capital base</b>	<b>6,975,069</b>	<b>8,032,413</b>
<b>Risk weighted assets (RWA) Pillar 1</b>		
Credit risk	34,374,854	32,228,322
Market risk	23,336	8,909
Operation risk	2,395,103	2,334,344
<b>Risk weighted assets</b>	<b>36,793,293</b>	<b>34,571,575</b>
<b>Tier 1 ratio</b>	<b>17.67%</b>	<b>17.72%</b>
<b>Capital adequacy ratio (Pillar) 1</b>	<b>18.96%</b>	<b>23.23%</b>

\* During the year the Group prepaid the MOF deposits of AED 1.8 billion. These deposits were treated as Tier II capital in agreement with the UAE Central Bank.

## 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 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 commercial PSE were treated as claims on corporate.

#### *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 portfolio*

Claims on corporate are risk weighted in accordance with ratings from acceptable ECAIs. Risk weightings for unrated corporate claims are assigned at 100%.

#### *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 93,091 thousand (2012: AED 80,894 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 balance	Off balance	Credit risk mitigation (CRM)			Risk weighted assets
	Sheet	sheet	Exposure			
	Gross Outstanding	Net Exposure After Credit Conversion Factors (CCF)	Before CRM	CRM	After CRM	
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<b>31 December 2013</b>						
Claims on Sovereigns	6,292,558	13,881	6,306,439	-	6,306,439	38,537
Claims on Non-Central Government						
Public Sector Entities (PSEs)	5,286,673	5,981	5,292,654	702,680	4,589,974	3,613,862
Claims on banks	3,746,623	238,350	3,984,973	-	3,984,973	1,497,849
Claims on corporate	19,867,964	3,970,560	23,593,687	2,097,305	21,496,382	21,409,716
Claims included in the regulatory retail portfolio	1,579,540	49,327	1,628,867	61,967	1,566,900	1,251,076
Claims secured by residential property	1,277,380	21,560	1,298,940	-	1,298,940	656,115
Claims secured by commercial property	2,599,730	121,150	2,720,880	1,372	2,719,508	2,719,508
Non performing and past due loans	3,723,069	38,312	1,649,990	37,402	1,612,588	1,797,790
Other assets	1,870,250	-	1,867,183	-	1,867,183	1,390,401
<b>Total claims</b>	<b>46,243,787</b>	<b>4,459,121</b>	<b>48,343,613</b>	<b>2,900,726</b>	<b>45,442,887</b>	<b>34,374,854</b>
<b>Settlement risk - from SR 1</b>						<b>-</b>
<b>Total credit risk</b>						<b>34,374,854</b>
<b>31 December 2012</b>						
Claims on Sovereigns	5,789,399	20,822	5,810,221	-	5,810,221	-
Claims on Non-Central Government						
Public Sector Entities (PSEs)	4,130,292	136,319	4,266,611	-	4,266,611	3,415,852
Claims on banks	2,742,571	392,879	3,135,450	-	3,135,450	950,614
Claims on corporate	17,565,256	4,373,896	21,805,268	1,200,134	20,605,134	20,605,133
Claims included in the regulatory retail portfolio	1,062,575	42,785	1,105,360	16,341	1,089,019	867,074
Claims secured by residential property	1,076,701	26,972	1,103,673	400	1,103,273	653,210
Claims secured by commercial property	2,867,225	-	2,867,225	646,719	2,220,506	2,220,506
Non performing and past due loans	3,476,751	42,277	1,834,864	26,068	1,808,796	2,279,421
Other assets	1,688,523	-	1,684,596	-	1,684,596	1,236,512
<b>Total claims</b>	<b>40,399,293</b>	<b>5,035,950</b>	<b>43,613,268</b>	<b>1,889,662</b>	<b>41,723,606</b>	<b>32,228,322</b>
<b>Settlement risk - from SR 1</b>						<b>-</b>
<b>Total credit risk</b>						<b>32,228,322</b>

### 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 & Poors', 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 4,246.3 million (2012: AED 3,206.9 million) rated exposure.

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

	2013		2012	
	Exposure AED'000	Risk weighted assets AED'000	Exposure AED'000	Risk weighted assets AED'000
Gross exposure prior to CRM	48,343,613	37,275,580	43,613,268	34,117,984
Less: Eligible financial collateral	2,900,726	2,900,726	1,889,662	1,889,662
<b>Net exposure after CRM</b>	<b>45,442,887</b>	<b>34,374,854</b>	<b>41,723,606</b>	<b>32,228,322</b>

*(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. The total capital requirement is calculated as 15% of last three years average income.

### 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.



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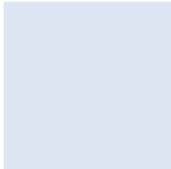
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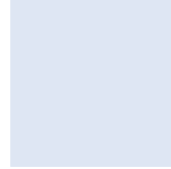
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**Branch Manager: Hasan Al Marzouqi**



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**Branch Manager: Moustafa Mahfouz**



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