Invest bank P.S.C.

Consolidated financial statements
31 December 2014

Registered office

Al Zahra Street
P O Box 1885 - Sharjah
United Arab Emirates

Invest bank P.S.C.

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31 Deeember 2014

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Invest bank

Board of Directors Report
To the General Assembly of Shareholders
At its 39th annual meeting
Sharjah on 16 February 2015

Dear Sirs,

It is my pleasure to welcome you to this annual general assembly meeting of your Bank in order to provide you with the thirty-ninth annual report, including the P&L statement during the year 2014.

The global economy is still facing instability with a risk of slow recovery, more than was expected. The International Monetary Fund report predicted a decline in the Global Economic growth by 3.3% in Year 2014, and to decline by 4% in Year 2015.

The continuous decline in oil prices, and expectations on the same during the next two years, puts a burden on both oil producing and consuming countries. This manipulates most of the oil producing countries to implement policies and guidelines regarding expenditure due to this drop in prices to less than **60$** a barrel.

Most of the Gulf countries, specifically the United Arab Emirates, has adapted to the fluctuation which is historically inherited in commodities including the oil market as well as other markets, in general. The UAE proved to have successfully surpassed the 2008 global economic crisis, that led to a sudden drop in oil prices from the peak **135$**/barrel to **38$**/barrel. Despite the crisis, the UAE has continued its usual investments and infrastructure projects. In fact, the level of expenditure on investments has increased during the crisis. Aligned with the guidance of **His Highness Sheikh Khalifa bin Zayed Al Nahyan**, the UAE was able to overcome the crisis and protect its economy from any repercussions.

According to the analysis of experts and institutions that closely follow the Emirati affairs, and the current oil situation in correlation with the Emirati economy, there will always be ups and downs in light of this considerable decline in oil prices. The Emirati economy is expected to overcome the repercussion and endure the consequence from this drop in oil prices in the future, due to its immunity against external fluctuations. This resistance is a result of a well-diversified economy

INVEST BANK P.S.C. GENERAL MANAGEMENT

ص.ب ١٨٨٥، الشارقة – إ.ع.م، هاتف: ٥٦٩٤٤٤٠ (٦ – ٩٧١)، فاكس: ٥٦٩٤٤٤٢ (٦ – ٩٧١)، البريد الالكتروني: sharjah@investbank.ae
P.O. Box 1885, Sharjah - U.A.E., Tel: (971-6) 5694440, Fax: (971-6) 5694442, E-mail: sharjah@investbank.ae
Website: www.investbank.ae

endorsed by the government along with the continued growth across other non-oil-dependent sectors. The state also owns foreign stocks, equities and assets that provide surplus income creating an additional safeguard from the external crisis.

On the Banking level, this sector remains as one of the main drivers behind the UAE economy, since the Banks maintained ongoing growth, which surpassed the expectations. Commencing the implementation of "Basel III" standards on the UAE Banks has reflected high levels of capital adequacy and liquidity. It is also worth mentioning that the UAE Banks, under the guidance of the UAE central Bank, are now entitled to be active partners in the global banking sector by adhering to the International Standards and decisions issued by International Regulatory Institutions. Accordingly, the UAE Banks availed confidence and trust from the said institutions which enabled them to overcome repercussions through retaining the related ratios and indicators.

As always promised, your Bank's situation remains strong due to your Board of Director's desire to promote ethical trust and credibility as the Bank's essential assets, and strengthen its policies on solid grounds....

The Bank's profitability improved during the year 2014, with satisfactory growth. Thus, gross operating income reached **AED 665 Million**, and net operating income (excluding provisions and depreciation) was **AED 511.4 Million**; whereas, interest income was **AED 461.2 Million**, while the non-interest income was **AED 204 Million**.

Total loans and advances increased by **12%** to reach **AED 9.9 Billion,** while total deposits increased by **13% to reach AED 10.2 Billion**. Total assets and total liabilities amounted to **AED 13.8 Billion and AED 11 Billion**, respectively.

The Bank's net profits improved to **AED 360 Million**, and total shareholder's equity reached **AED 2.8 Billion**.

The Bank's capital adequacy for the year 2014 reached a ratio of (20.18%) which is well over the Central Bank's requirement of **12%**.

As part of the Bank's expansion plans, the Bank opened its new headquarters in Al Nad area (Sharjah) during the last quarter of YE2014. This new premises includes both the Bank's headquarters and new branch. Hence, the number of branches operating in the State has come

INVEST BANK P.S.C.
GENERAL MANAGEMENT

to sixteen branches, including seven branches in Sharjah; in addition to an overseas branch launched the beginning of 2014 in Beirut - Lebanon.

Your Bank meets the interest of various local and especially International Organizations specialized in the assessment of companies and evaluation of financial institutions. Amazingly, the annual financial market analysis conducted by **Darien Analytics Ltd** published in London in 2014 categorized **Invest Bank** as the "**The best performing commercial bank in the GCC**" through the special publication on the best performing Banks in the region.

The Darien Analytics report on the best performing Commercial Bank in the GCC clearly stated that **Invest Bank's ranking performance was indicated through covering all the six financial ratios. These ratios measure and assess the solvency, capital strength and ability to absorb losses, as well as the Bank's profitability, operational efficiency and funding strength.**

It is also essential to highlight that in the early 2014, the Bank has signed contracts with reputed International Consultant companies, in order to develop new related banking strategies and restructure the organizational structure including the Bank's administration and human resources in line with the advanced standards.

The Bank pays special attention to localization employment, and strives to develop and strengthen the UAE national employees in the banking sector through setting up training centers in order to qualify them in achieving higher managerial positions.

The Board of Directors recommended a distribution of **(10%)** cash dividend + **(10%)** dividend shares to the shareholders.

In conclusion, I thank you all for your presence. On your behalf and on the behalf of the Bank's Board of Directors, chairman and members, I convey my sincere gratitude and appreciation to **His Highness Sheikh Dr. Sultan bin Mohammed Al Qasimi**, member of the Supreme Council and ruler of Sharjah, for the keen interest and ongoing support that your Bank receives from HH.

On your behalf and on the behalf of the Board of Directors, I would like to thank the Bank's management and staff members for their continuous determent efforts at the service of your Bank.

INVEST BANK P.S.C. GENERAL MANAGEMENT

Chairman of the Board

ص.ب ١٨٨٥، الشارقة – إ.ع.م.، هاتف: ٥٦٩٤٤٤٠ (٦ – ٩٧١)، فاكس: ٥٦٩٤٤٤٢ (٦ – ٩٧١)، البريد الالكتروني: sharjah@investbank.ae
P.O. Box 1885 , Sharjah - U.A.E., Tel: (971-6) 5694440, Fax: (971-6) 5694442 , E-mail: sharjah@investbank.ae
Website: www.investbank.ae

KPMG Lower Gulf Limited
Level 13, Boulevard Plaza Tower One
Mohammed Bin Rashid Boulevard
P.O.Box 3800
Downtown Dubai
United Arab Emirates

Telephone +971 (4) 403 0300
Fax +971 (4) 330 1515
Website: www.ae-kpmg.com

Independent Auditors' Report

The Shareholders
Invest bank P.S.C

Report on the consolidated financial statements

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

Management's responsibility for the 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 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.

Auditors' 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 our 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, we consider 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 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Independent Auditors' Report (continued)

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law no.8 of 1984 (as amended), Union Law no.10 of 1980 and the Articles of Association of the Bank; that proper financial records have been kept by the Bank; and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Bank's financial records. We are not aware of any violation of the above mentioned Laws and the Articles of Association having occurred during the year ended 31 December 2014, which may have had a material adverse effect on the business of the Bank or its financial position.

KPMG

KPMG Lower Gulf Limited

Muhammad Tariq

Registration No.: 793

21 January 2015

Invest bank P.S.C.
Consolidated statement of financial position
at 31 December

	Note	2014 AED '000	2013 AED '000
Assets			
Cash and deposits with central banks	*9*	**729,339**	956,523
Due from banks	*10*	**1,353,005**	975,618
Investment securities	*11*	**970,287**	892,382
Loans and advances to customers	*4(b)*	**9,855,708**	8,764,281
Customers' indebtedness for acceptances	*26*	**433,771**	304,878
Property and equipment	*12*	**125,239**	94,786
Other assets	*13*	**362,499**	310,877
Total assets		**13,829,848**	12,299,345
Liabilities			
Due to banks	*14*	**229,101**	229,900
Deposits from customers	*15*	**10,194,191**	9,007,849
Liabilities under acceptances	*26*	**433,771**	304,878
Other liabilities	*16*	**188,262**	160,278
Total liabilities		**11,045,325**	9,702,905
Equity			
Share capital	*17*	**1,443,750**	1,312,500
Legal reserve	*17*	**398,297**	362,288
Special reserve	*17*	**398,297**	362,288
Fair value reserve	*11*	**(28,342)**	35,714
Retained earnings		**572,521**	523,650
Total equity		**2,784,523**	2,596,440
Total liabilities and equity		**13,829,848**	12,299,345

The notes on pages 11 to 59 are an integral part of these consolidated financial statements.

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 21 JAN 2015 and signed on its behalf by:

General Manager

Director

The independent auditors' report is set out on page 4 and 5.

Invest bank P.S.C.
Consolidated statement of profit or loss
for the year ended 31 December

	Note	**2014 AED '000**	2013 AED '000
Interest income	*18*	**672,493**	645,200
Interest expense	*18*	**(211,287)**	(205,350)
Net interest income	*18*	**461,206**	439,850
Net fees and commission income	*19*	**135,356**	117,091
		596,562	556,941
Net trading income from foreign currencies		**17,945**	16,923
Net income from investment securities at fair value through profit or loss	*11*	**35,339**	25,528
Other income	*20*	**15,344**	8,588
Total operating income		**665,190**	607,980
Operating expenses			
General and administrative expenses	*21*	**(153,755)**	(129,182)
Specific impairment provision on loans and advances, net	*4(b)*	**(95,078)**	(116,819)
Collective impairment provision	*4(b)*	**(48,240)**	(27,940)
Depreciation and amortisation		**(8,031)**	(5,964)
Total operating expenses		**(305,104)**	(279,905)
Profit for the year		**360,086**	328,075
Basic and diluted earnings per share (UAE Dirhams)	*22*	**0.249**	0.227

The notes on pages 11 to 59 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 4 and 5.

Invest bank P.S.C.
Consolidated statement of profit or loss and other comprehensive income
for the year ended 31 December

	2014 AED '000	2013 AED '000
Profit for the year	360,086	328,075
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Change in fair value of financial assets measured at fair value through other comprehensive income	(39,703)	110,087
Total items that will not be reclassified to profit or loss	(39,703)	110,087
Items that are or may be reclassified subsequently to profit or loss:		
Amortisation of fair value movements on reclassified investments	-	115
Items that are or may be reclassified subsequently to profit or loss	-	115
Total other comprehensive income	(39,703)	110,202
Total comprehensive income for the year	320,383	438,277

The notes on pages 11 to 59 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 4 and 5.

Invest bank P.S.C.
Consolidated statement of changes in equity
for the year ended 31 December

	Share capital AED '000	Legal reserve AED '000	Special reserve AED '000	Fair value reserve AED '000	Retained earnings AED '000	Total AED '000
Balance at 1 January 2014	1,312,500	362,288	362,288	35,714	523,650	2,596,440
Total comprehensive income						
Profit for the year	-	-	-	-	360,086	360,086
Other comprehensive income						
Changes in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	(39,703)	-	(39,703)
Gain on sale of financial assets measured at fair value through other comprehensive income transferred to retained earnings	-	-	-	(24,353)	24,353	-
Total other comprehensive income	-	-	-	(64,056)	24,353	(39,703)
Total comprehensive income for the year	-	-	-	(64,056)	384,439	320,383
Transfers to reserves	-	36,009	36,009	-	(72,018)	-
Directors remuneration	-	-	-	-	(1,050)	(1,050)
Transaction with owners of the Bank						
Issue of bonus shares	131,250	-	-	-	(131,250)	-
Cash dividend paid	-	-	-	-	(131,250)	(131,250)
Balance At 31 December 2014	**1,443,750**	**398,297**	**398,297**	**(28,342)**	**572,521**	**2,784,523**
At 1 January 2013	**1,250,000**	**329,480**	**329,480**	**(76,229)**	**513,982**	**2,346,713**
Total comprehensive income for the year						
Profit for the year	-	-	-	-	328,075	328,075
Other comprehensive income						
Changes in fair value of financial assets measured at fair value through other comprehensive income	-	-	-	110,087	-	110,087
Amortisation of fair value movements on reclassified investments	-	-	-	115	-	115
Loss on sale of financial assets measured at fair value through other comprehensive income	-	-	-	1,741	(1,741)	-
Total other comprehensive income	-	-	-	111,943	(1,741)	110,202
Total comprehensive income for the year	-	-	-	111,943	326,334	438,277
Transfers to reserves	-	32,808	32,808	-	(65,616)	-
Directors remuneration	-	-	-	-	(1,050)	(1,050)
Transaction with owners of the Bank						
Issue of bonus shares	62,500	-	-		(62,500)	-
Cash dividend paid	-	-	-	-	(187,500)	(187,500)
At 31 December 2013	**1,312,500**	**362,288**	**362,288**	**35,714**	**523,650**	**2,596,440**

The notes on pages 11 to 59 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 4 and 5.

Invest bank P.S.C.
Consolidated statement of cash flows
for the year ended 31 December

	Note	2014 AED '000	2013 AED '000
Cash flows from operating activities			
Profit for the year		360,086	328,075
Adjustments for:			
Depreciation and amortisation		8,031	5,964
Amortisation of premium on bonds		14,019	13,085
Net gain on investment securities		(35,339)	(25,528)
Net gain from revaluation of investment property		(2,922)	(860)
Net impairment loss and collective impairment provisions		143,318	144,759
Dividend income		(11,080)	(7,151)
		476,113	458,344
Changes in time deposits with banks maturing after three months		-	155,095
Change in loans and advances to customers		(1,234,745)	(767,686)
Change in other assets		(48,700)	(31,111)
Change in time deposits from banks maturing after three months		1,837	200,000
Change in deposits from customers		1,186,342	488,473
Change in other liabilities		27,984	2,706
Directors' remuneration paid		(1,050)	(1,050)
Blocked capital with Banque Du Liban		-	(9,182)
Net cash generated from operating activities		407,781	495,589
Cash flows from investing activities			
Purchase of property and equipment		(38,484)	(35,067)
Purchase of investment securities		(923,390)	(610,591)
Proceeds from sale of investment securities		827,102	567,732
Dividend received		11,080	7,151
Net cash used in investing activities		(123,692)	(70,775)
Cash flows from financing activity			
Cash dividend paid		(131,250)	(187,500)
Net cash used in financing activity		(131,250)	(187,500)
Net increase in cash and cash equivalents		152,839	237,314
Cash and eash equivalents at 1 January		1,898,568	1,661,254
Cash and cash equivalents at 31 December	23	2,051,407	1,898,568

The notes on pages 11 to 59 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 4 and 5.

1 Legal status and activities

Invest bank P.S.C. ("Invest bank" or "the Bank") is a public shareholding company with limited liability which was incorporated in 1975 by an Emiri Decree issued by His Highness Dr. Sheikh Sultan Bin Mohammed Al Qassimi, Ruler of Sharjah. The registered address of the Bank is at Al Zahra Street, P.O.Box 1885, Sharjah, United Arab Emirates ("UAE").

Invest Bank is licensed by the Central Bank of the UAE (the "CB UAE") to carry out banking activities and is principally engaged in the business of corporate and retail banking through its network of branches located in the Emirate of Sharjah, Dubai, Abu Dhabi, Al Ain, Ras Al Khaimah and Fujairah. Invest Bank is also carrying out banking activities in Beirut, Lebanon, through license issued by Banque Du Liban (the "CB Lebanon"). The Bank's shares are listed on the Abu Dhabi Securities Exchange ("ADX").

The Bank has a fully owned subsidiary, ALFA Financial Services FZE with limited liability status in the Sharjah Airport International Free Zone to provide support services to the Bank.

The consolidated financial statements for the year ended 31 December 2014 comprise the Bank and its subsidiary (together referred to as "the Group").

2 Basis of preparation

a) *Statement of compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and comply with the guidelines of the CB UAE.

b) *Changes in accounting policy*

In the current year, the Group has adopted a number of amendments to IFRSs and new Interpretation's issued by the International Accounting Standards Board (IASB) that are effective for an accounting period that begins on or after 1 January 2014.

- Investment Entities (Amendment to IFRS 10, IFRS 12, and IAS 27).
- Offsetting Financial Assets and Financial Liabilities (Amendment to IAS 32).
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36).
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39).
- IFRIC 21 Levies.

The nature and effects of changes are explained below.

Investment entities (Amendment to IFRS 10, IFRS 12, and IAS 27)

The amendments to IFRS 10, define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

Since Invest bank is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014), the application of the amendments had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

2 Basis of preparation *(continued)*

Offsetting financial assets and financial liabilities (Amendment to IAS 32)

The amendments to IAS 32 clarify the requirements relating to offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The change had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Recoverable amount disclosures for non-financial assets (Amendments to IAS 36)

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendment introduce additional disclosure requirement applicable to when the recoverable amount of an asset or a CGU is measured at fair value less cost of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurement.

These amendments had no material impact on the disclosures in the Group's consolidated financial statements.

Novation of derivatives and continuation of hedge accounting (Amendments to IAS 39)

The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

These amendments had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

IFRIC 21-Levies

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when - and only when - the triggering event specified in the legislation occurs. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of the financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The application of this Interpretation had no material impact on the disclosures or on the amounts recognized in the Group's consolidated financial statements.

2 Basis of preparation *(continued)*

c) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for the following which are stated at fair value:
- Investment properties;
- Derivative financial instruments;
- Financial instruments at fair value through profit or loss; and
- Financial instruments at fair value through other comprehensive income.

d) Functional and presentation currency

These consolidated financial statements have been presented using UAE Dirham ("AED"), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in AED has been rounded to the nearest thousand.

e) Use of estimates and judgments

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 7.

3 Summary of significant accounting policies

Except for changes explained in note 2b, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

***a)* Basis of consolidation**

Subsidiary
A subsidiary is an investee controlled by the Group. The Group controls an investee if it is exposed to, 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. The financial statements of a subsidiary are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but to the extent that there is no evidence of impairment.

3 **Summary of significant accounting policies *(continued)***

b) **Interest income and expense**

Interest income and interest expense are recognised in consolidated statement of profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates the future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

Interest income and expense presented in the consolidated statement of profit or loss include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income/expenses; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net income from investments.

Fair value changes on the other derivatives held for risk management purposes, and other financial assets and financial liabilities carried at Fair Value Through Profit and Loss (FVTPL) are presented in net trading income from foreign currencies and net income from investment securities in the consolidated statement of profit or loss.

c) **Fees and commission income and expense**

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

Other fees and commission income are generally recognised on an accrual basis when the related services are performed by the Group. When a loan commitment is not expected to result in the draw-down of a loan, commitment fees are recognised on a straight line basis over the commitment period. Other fees and commission expenses are expensed as the related services are received.

d) **Dividend income**

Dividend income is recognised in the consolidated statement of profit or loss when the Group's right to receive such income is established. Usually this is the ex-dividend date for equity securities.

3 Summary of significant accounting policies ***(continued)***

e) Financial assets

Recognition

The Group initially recognises financial assets such as loans and advanccs and debt securities on the date at which they are originated. All other financial assets (including assets designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes party to the contractual provision of the instrument.

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

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

Classification

At inception a financial asset is classified as measured at amortised cost or fair value.

A financial asset qualifies for amortised eost measurement only if it meets both of the following two conditions:
- the asset is held within a business model whose objeetive is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Group makes an assessment of a business model at portfolio level as this reflect the best way the business is managed and information is provided to the management.

In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focus on earning contractual interest income;
- the degree of frequency of any expected asset sales;
- the reason of any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual eash flows.

The Group has designated certain financial assets at fair value through profit or loss because designation eliminates or signifieantly reduces an accounting mismatch, which would otherwise arise.

3 Summary of significant accounting policies *(continued)*

e) **Financial assets *(continued)***

Financial assets at FVTOCI

At initial recognition the Group makes an irrevocable election (on an instrument-by-instrument basis) to designate investments in certain equity instruments at FVTOCI (fair value through other comprehensive income). Designation to FVTOCI is not permitted if the equity instrument is held for trading.

Dividend from such equity instruments are recognised in the consolidated statement of profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

Gains and losses on such equity instruments are never reclassified to consolidated statement of profit or loss and no impairment is recognised in profit or loss.

Financial assets are not reclassified subsequent to their initial recognition, except when the Group changes its business model for managing financial assets.

Impairment of financial assets carricd at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets carried at amortised cost are impaired. A financial asset or group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows relating to the asset that can be estimated reliably. The Group considers evidence of impairment at both a specific and collective level.

Objective evidence that financial assets are impaired can include significant financial diffieulty 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, indication that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a seeurity, or other observable data relating to a group of assets such as adverse change in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Specific impairment
At each reporting date, the Group assesses on a case-by-case basis whether there is any objective evidenee that an asset is impaired. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows diseounted at the asset's original effective interest rate.

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

3 Summary of significant accounting policies *(continued)*

e) Financial assets *(continued)*

Impairment of financial assets carried at amortised cost *(continued)*

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

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

Collective impairment
Impairment is determined on a collective basis for two different scenarios:
- for loans subject to individual assessment to cover losses which have been incurred but have not yet been identified.
- for homogeneous groups of loans that are not considered individually significant.

In assessing collective impairment the Group uses statistical modeling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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

Impairment losses are recognised in the consolidated statement of profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of profit or loss.

De-recognition of financial assets

The Group derecognises a financial asset when the contractual right to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risk and rewards of the ownership are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control on the financial asset. Any interest in transferred financial assets that qualify for derecognition that is carried or retained by the Group is recognised as separate asset or liability in the consolidated statement of financial position. On derecognition of financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in the consolidated statement of profit or loss.

3 Summary of significant accounting policies *(continued)*

e) Financial assets *(continued)*

De-recognition of financial assets (continued)

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the financial assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfer of assets with retention of all or substantially all risks and rewards include securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the services.

f) Financial liabilities and equity instruments issued by the Group

Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. The Group initially recognises financial liabilities such as deposits and debt securities issued on the date at which they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes party to the contractual provision of the instrument.

Financial liabilities at FVTPL
Financial liabilities are classified at FVTPL where the financial liability is either held for trading or it is designated at FVTPL and measured at fair value.

Other financial liabilities
Other financial liabilities including Group borrowings and customers' deposits are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis.

De-recognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3 Summary of significant accounting policies *(continued)*

f) Financial liabilities and equity instruments issued by the Group *(continued)*

Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus, in case of financial assets, any reduction for impairment.

Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the consolidated statement of financial position, with transaction costs recognised in the consolidated statement of profit or loss. All changes in fair value are recognised as part of net trading income in the consolidated statement of profit or loss.

Designation at fair value through profit or loss

The Group has designated financial assets and liabilities at fair value through profit or loss in either of the following circumstances:
- the assets or liabilities 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 or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

g) Offsetting

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

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

h) Fair value measurement principles

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

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

3 Summary of significant accounting policies *(continued)*

h) Fair value measurement principles *(continued)*

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

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

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

i) Derivative financial instruments - Other non trading derivatives

Derivatives held for internal risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the consolidated statement of financial position and all changes in their fair value are recognised immediately in the consolidated statement of profit or loss. The Group enters into derivative financial instruments primarily to meet its customer requirements.

j) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to UAE Dirhams at the foreign exchange rates at the date of the transaction.

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

3 Summary of significant accounting policies ***(continued)***

j) Foreign currency ***(continued)***

(i) Foreign currency transactions ***(continued)***

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

Foreign currency differences arising on translation are generally recognised in consolidated statement of profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into UAE Dirhams at spot exchange rate at the reporting date. The income and expenses of foreign operations are translated to UAE Dirhams at spot exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI, and accumulated in the foreign currency translation reserve (translation reserve), except to the extent that the translation difference is allocated to non- controlling interest ("NCI").

When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to NCI.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognised in OCI, and accumulated in the translation reserve within equity.

k) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Subsequent cost

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. On going repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight line method over their useful lives, and is generally recognised in consolidated statement of profit or loss. Land is not depreciated.

3 Summary of significant accounting policies *(continued)*

k) Property and equipment *(continued)*

The estimated useful lives of significant items of property and equipment are as follows:

	Years
Buildings	20 to 30
Office installations and improvements	10
Office furniture and equipment	2 to 5
Motor vehicles	3
IT equipment (including software)	5

Depreciation methods, useful lives and residual values are reassessed at the reporting date and adjusted if appropriate. No depreciation is charged on freehold land and capital-work-in-progress. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of profit or loss.

l) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. The Group holds some investment property acquired through the enforcement of security over loans and advances. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in the consolidated statement of profit or loss. The Group determines fair value on the basis of valuation provided by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

m) Staff terminal benefits

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

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

n) Provisions

A provision is recognised 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 to reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

o) Financial guarantees and loan commitments

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

3 Summary of significant accounting policies *(continued)*

o) Financial guarantees and loan commitments *(continued)*

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

p) 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 Group by the weighted average number of ordinary shares outstanding during the period.

q) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, balances with central banks, amounts due from other banks and deposits from other banks that are held for the purpose of meeting short term cash commitments.

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

r) Loans and advances to customers

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

Loans and advances are initially measured at fair value plus incremental direct transaction costs. Subsequent to the initial recognition loans and advances are measured at amortised cost using the effective interest method, except when the Group recognises the loans and advances at fair value through profit or loss.

When the Group is a lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to the ownership of the asset to the lessee, the arrangement is classified as finance lease and a receivable equal to the net investment in lease is recognised and presented within loans and advances.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

s) Investment securities

Investment securities are initially measured at fair value plus in case of investment securities not at fair value through profit or loss, incremental direct transaction cost. Subsequent to initial recognition investment securities are accounted for depending upon their classification as either amortised cost, fair value through profit or loss or fair value through other comprehensive income.

3 Summary of significant accounting policies *(continued)*

s) Investment securities *(continued)*

Investment securities are measured at amortised cost using the effective interest method, if:

- they are held within a business model with an objective to hold assets in order to collect contractual cash flow and the contractual terms of financial assets give rise, on specific dates, to cash flows that are solely payments of principal and interest; and

- they have not been designated previously as measured at fair value through profit or loss.

The Group elects to present changes in fair value of certain investments in equity instruments held for strategic purpose in other comprehensive income. The election is irrevocable and is made on an instrument-by-instrument basis at initial recognition.

Gains and losses on such equity instruments are never reclassified to consolidated statement of profit or loss and no impairment is recognised in the consolidated statement of profit or loss.

t) Dividend on ordinary shares

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

u) Share capital

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

v) Operating leases

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

w) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of a non-financial asset is the greater of its value in use and its fair value less cost to sell. The reduction in value is recognised in the consolidated statement of profit or loss.

An impairment loss is reversed only to the extent that assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

x) 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, whose operating results are reviewed regularly by the Executive 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.

3 Summary of significant accounting policies *(continued)*

y) Directors remuneration

In accordance with the Ministry of Economy and Commerce Interpretation of Article 118 of Federal Law No. 8 of 1984 (as amended), directors' remuneration of the Group has been treated as an appropriation from equity and presented under statement of changes in equity.

z) New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014 and have not been applied in preparing these consolidated financial statements. Those that may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

IFRS 15	Revenue from Contracts with Customers.	(effective 1 January 2017)
IFRS 9	Financial instruments (2014).	(effective 1 January 2018)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The Group is in the process of evaluating the potential impact of this standard on it's consolidated financial statement resulting from application of this IFRS 15.

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 (2009) which sets out guidelines for the classification and measurement of financial assets.

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The Group has commenced the process of evaluating the potential effect of this standard.

4 Financial Risk Management

a) Introdnction and overview

The Group has exposure to many major risk categories as outlined in its Internal Capital Adequacy Assessment Process (ICAAP) documents. However, following are the primary risks arising from financial instruments and its operations:

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

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

Risk management framework

The Board of Directors (the "Board" or "BOD") has the overall responsibility for the establishment and oversight of the Group's Risk Management Framework. The previously established committees viz a Board level Executive Committee, Asset and Liability Committee (ALCO) and the Audit Committee which formed the base for risk management have been expanded by recognising the need to evolve and to meet the structural changes in the banking industry and by heeding to the regulations. It resulted into formation of Management Credit Committee, independent Risk Management Department, and Anti Money Laundering (AML) and Compliance Department. Considering the pace of change, a Compliance Committee has also been established and the AML and Compliance is operated under the General Manager to ensure AML compliances meet the international standards and Bank's reputation is protected. Committees are streamlined and restructured to mirror the changes in governance to cope with rapid changes in the markets.

New concepts and approaches and Basel II Frameworks have been introduced in phases and accordingly policies too are being revised to meet the current requirements. Control is maintained by assigning distinct responsibilities to members of the senior management under Risk Management Matrix.

Instead of a 'bolt on' to existing process, Group continues to re-examine the entire process, inherent risk factors and controls and consider opportunities by rationalizing regulatory risk management initiatives. Experiencing from the crisis, and to deliver value beyond mere adherence, one part of the framework is ICAAP, to assess capital to cover risks not covered under Pillar I. This ICAAP exercise has demonstrated that the Group has sufficient capital buffers for any extreme circumstances or scenarios and the Group has adequate Risk Bearing Capacity at 99.9% confidence level. In response to the CB UAE's request, the Group has also conducted an extensive Self Assessment exercise which was consolidated and reported under the following five streams as outlined by the CB UAE. Each of the streams have been segregated and backed by worksheets based on functional responsibilities:

4 Financial Risk Management *(continued)*

a) Introduction and overview *(continued)*

a. Assets and Value and location of the collateral – covering all advances to corporates, retail, banks, property and other assets;
b. Funding and Liquidity;
c. Efficiency of the Management Information System;
d. Shared and Outsourced services; and
e. Efficiency of arrangements to receive Payments from the transaction counterparties.

Given the operating environment, Group's size and the products, the Group has continued to adopt a "mine for value" approaeh. In other words the focus and intensity of efforts are proportionate to the strategic impact and business value. The Group is also mindful that fragmented and labour intensive compliance activities put a drain on ongoing costs, resources and efficiencies of core business operations. Therefore risk management activities are being managed in a calculated manner, but confirming regulatory requirements and international best practices desirable under Basel II and Basel III mandates.

Under the purview of the Risk Management Department, Group is making steady progress in its initiatives to embrace an Enterprise Risk Management (ERM) framework to enable the business and functional units manage all risks in a pro-active manner while integrating concepts of strategic planning, operational risk management, internal controls, and eomplianees. These include methods and processes, encompassing all risk dimensions to seize the opportunities related to the achievement of the Group's objectives.

Credit Risk Management Department (CRMD) has formulated Credit Risk policies aligned with Group's strategies, goal vis-a-vis risk appetite, including collateral management policies, credit assessment, risk grading and reporting, risk rating in compliance with regulatory and statutory requirements.

Frameworks for translating policies defining "risk appetite" and "risk tolerance" levels to measurement techniques are in the advanced stages to link them to appropriate risk limits, controls and capital management planning (CMP) frameworks. CMP which was developed and rolled out in 2014 has been embedded with the ICAAP framework. Through CMP, the Group strives to maximize stakeholder value, strategic planning, risk based pricing, and risk adjusted performance measurement in addition to fulfilling regulatory requirements. Reviewing of risk management policies and systems is a regular activity to reflect changes in market conditions, products and services offered by the Group in order to present a comprehensive view of risk from a strategic and operational perspective and have a process to address risk proactively.

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, and arises principally from the Group's loans and advances to customers, balances due from banks and investment securities.

4 Financial Risk Management *(continued)*

b) Credit Risk *(continued)*

It is also the risk of loss, or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to whom Group is exposed - in the form of counterparty default risk, or (credit) spread risk, or market risk concentrations.

Management of credit risk

The Board of Directors has delegated the responsibilities of the management of credit risk to its Executive Committee (EC) and Management Credit Committee (MCC), which was restructured in June 2014 in line with the launch of the new growth strategy of the Group. The strategy also included transforming various business units, reshaping functional units, the business processes for efficiency and effectiveness in order to embrace change that is critical with the evolution of banking. A separate and centralised credit risk management division ("CRMD") is responsible for oversight of the Group's credit risk, which comprises of various independent functions viz. credit assessment and evaluation, monitoring, control, administration and documentation. The Group is expanding its remedial and recovery functions. The broad functions of CRMD includes:

- 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.

- Bank's Delegation and Authority (D&A) has been restructured with a tiered delegation structure, linked to risk grading and a 'four eye' principle concept for quicker turn-around time, thus giving a competitive service advantage, whilst maintaining adequate controls. The Board has also delegated some discretionary limits to the Management Credit Committee (MCC) and joint approval authority to a combination of Credit and Business member. Changes to discretionary limits are subject to Board approval. Similarly, facilities in excess of discretionary limits are approved by the EC or the Board of Directors.

- Reviewing and assessing credit risk in accordance with D&A structure, limits and discretionary powers prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.

- Reviewing compliance on an ongoing basis with approved exposure limits relating to counterparties, industries and countries. Regular reports are provided to the management, MCC, Executive Committee and the Board of Directors on the quality of portfolios and appropriate corrective action is initiated when necessary.

- Limiting concentrations of credit exposure to counterparties and industries (for loans and advances) by establishing exposure caps and monitoring sectoral exposures. Preferred sectors are identified regularly in line with market dynamics. Accordingly marketing initiatives are directed either to expand or to reduce balance risk / reward trade offs.

- Providing advice, guidance and specialized skills to business units to promote best practices throughout the Group in the management of credit risk.

- For financial institutions, the Group uses external rating issued by Standard and Poor's, Moody's, Fitch and Capital Intelligence or other recognised credit rating agencies in order to manage its credit risk exposure. Framework for establishing internal rating, risk based pricing and Internal Ratings-Based (IRB) / Advanced Internal Ratings-Based (AIRB) approaches is being established by the Group in a phased manner.

- Regular audit of business units and Group credit processes are undertaken by internal audit.

4 Financial Risk Management *(continued)*

b) Credit Risk *(continued)*

Exposure to credit risk

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

	Loans and advances		Due from banks		Debt securities	
	2014	2013	2014	2013	2014	2013
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Carrying amount, net	9,855,708	8,764,281	1,353,005	975,618	831,791	743,199
Individually impaired*						
Substandard	347,573	486,014	-	-	-	-
Doubtful	341,942	144,978	-	-	-	-
Loss	156,214	163,850	-	-	-	-
Total impaired portfolio	845,729	794,842	-	-	-	-
Interest suspended	(55,746)	(30,876)	-	-	-	-
Specific allowance for impairment	(709,725)	(581,967)	-	-	-	-
Carrying amount	80,258	181,999	-	-	-	-
Past due but not impaired	83,544	80,057	-	-	-	-
Neither past due nor impaired	9,841,535	8,603,614	1,353,005	975,618	831,791	743,199
Total non-impaired portfolio	9,925,079	8,683,671	1,353,005	975,618	831,791	743,199
Collective impairment provision	(149,629)	(101,389)	-	-	-	-
Carrying amount	9,775,450	8,582,282	1,353,005	975,618	831,791	743,199
Total carrying amount	9,855,708	8,764,281	1,353,005	975,618	831,791	743,199

The Group has a defined policy for delinquency, monitoring and controlling such delinquent accounts, in line with the CB UAE and Basel II guidelines.

4 Financial risk management *(continued)*

b) Credit Risk *(continued)*

Exposure to credit risk *(continued)*

The table below sets out the credit quality of debt securities which is based on the rating of the respective debt security. The analysis has been based on 'Standard & Poor's ratings (or its equivalent) where applicable.

	Government bonds		Corporate bonds		Total	
	2014	2013	2014	2013	2014	2013
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Rated AA- to AA+	-	78,995	103,400	157,861	103,400	236,856
Rated A- to A+	18,365	18,365	135,007	146,076	153,372	164,441
Rated BBB+ and below	174,950	159,886	107,621	54,774	282,571	214,660
Unrated	173,698	77,242	118,750	50,000	292,448	127,242
	367,013	334,488	464,778	408,711	831,791	743,199

Investment in bonds issued by Dubai Department of Finance, Dubai Government and commercial papers issued by Al Futtaim Group are unrated. Management believes that the credit risk on these unrated bonds is not significant.

Impaired loans and advances

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

Past due but not impaired loans

These are loans and investments in debt securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of a genuine repayment source such as assigned receivables, the level of security/collateral available and/or the possible scope of collection of amounts owed to the Group.

Allowances for impairment

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

4 Financial risk management *(continued)*

b) Credit Risk *(continued)*

Write-off policy

The Group writes off loans/securities (and any related allowances for impairment losses) when it determines that there is no scope of recovery and the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure and there is no scope to pursue any other avenues. 'However, in the event there are future chances for recovery where the Group believes there are merits in keeping the account open, the debit is written down with a nominal balance of AED 10 for tracking purposes.

Collateral and other credit enhancements

The Group holds collateral against loans and advances to customers in the form of cash margins, pledges/liens over deposits, mortgage interests over property, other registered securities over assets and guarantees. The Group accepts guarantees mainly from well reputed local or international banks/financial institutions, well established local or multinational organisations, large corporates and high net worth individuals. Estimates of fair value are based on the value of eollateral assessed at the time of borrowing which are generally updated during annual reviews or earlier as the Group deems it prudent given the circumstances and market trend / conditions. Collateral is not generally held over loans and advances to other banks or financial institutions, except when securities are held as a part of reverse repurchase and securities borrowing activity.

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

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below. Collateral values reflect the maximum exposure or the value of the collateral whichever is lower. Actual pledged values in most cases are higher.

		2014 AED'000	2013 AED'000
Against neither past due nor impaired			
Cash		2,612,475	2,183,135
Commercial and industrial property		2,377,423	1,895,086
Residential property		6,458	11,000
Equities		289,986	92,424
Other		528,531	894,915
	1	5,814,873	5,076,560
Against past due but not impaired			
Cash		6,147	16,365
Commercial and industrial property		33,593	32,912
Equities		-	514
Other		7,956	3,074
	2	47,696	52,865
Against impaired			
Cash		6,617	1,452
Commercial and industrial property		114,620	56,879
Equities		8,025	8,485
Other		2,086	1,951
	3	131,348	68,767
Total collateral held	1+2+3	5,993,917	5,198,192

4 Financial risk management *(continued)*

b) Credit Risk *(continued)*

In accordance with the disclosure requirement of BASEL II Pillar 3 and the CB UAE guidelines, concentration of credit risk by industry segment and currency are as follows:

	Loans and advances		Debt Securities		Due from Banks	
	2014 AED '000	2013 AED '000	2014 AED '000	2013 AED '000	2014 AED '000	2013 AED '000
Gross credit exposure by industry segment						
Mining and quarrying	236,560	151,984	-	-	-	-
Manufacturing	1,548,709	1,239,447	-	-	-	-
Electricity, gas and water	-	-	14,608	7,308	-	-
Construction	2,345,579	1,904,404	-	-	-	-
Real estate	1,362,327	1,128,970	29,384			
Trade	1,542,473	1,666,508	-	-	-	-
Transport, storage and communication	147,942	212,642	-	-	-	-
Financial institutions	1,209,430	744,476	247,263	296,629	1,353,005	975,618
Other services	439,022	387,236	-	-	-	-
Government	989,806	1,169,312	367,013	334,488	-	-
Loans to individuals	143,294	91,097	-	-	-	-
Loans to high net worth individuals	679,449	557,817	-	-	-	-
Others	126,217	224,620	173,523	104,774	-	-
Total	10,770,808	9,478,513	831,791	743,199	1,353,005	975,618
Gross credit exposure by currency						
Foreign currency	546,998	39,587	687,541	655,262	407,548	133,642
AED	10,223,810	9,438,926	144,250	87,937	945,457	841,976
Total	10,770,808	9,478,513	831,791	743,199	1,353,005	975,618
Concentration by location						
United Arab Emirates	10,552,878	9,438,926	831,791	743,199	1,168,492	863,107
Other G.C.C.	36,730	38,198	-	-	25,541	13,397
Other Arab countries	181,200	1,389	-	-	27,850	36,967
Western Europe and others	-	-	-	-	131,122	62,147
Gross total	10,770,808	9,478,513	831,791	743,199	1,353,005	975,618

4 Financial risk management *(continued)*

b) Credit Risk *(continued)*

Impaired loans and advances by industry segment and geographical location as defined by the CB UAE:

2014	**Overdues 90 days and above**	**Specific Provisions and Interest in suspense**	**Net impaired assets**	**Adjustments**	
Concentration by industry segment				**Write-offs**	**Write-backs**
	AED '000	**AED '000**	**AED '000**	**AED '000**	**AED '000**
Mining and quarrying	5,209	4,827	382	-	-
Manufacturing	70,527	62,964	7,563	3,450	4,810
Electricity, gas and water	-	-	-	-	-
Construction and real estate	356,911	341,805	15,106	865	23,165
Trade	231,168	217,001	14,167	11,781	10,031
Transport, Storage and Communication	30,247	26,607	3,640	-	-
Financial Institutions	-	-	-	-	-
Other services	11,082	10,969	113	-	-
Government	-	-	-	-	-
Loans to individuals	18,830	16,815	2,015	3,537	1,163
Loans to high net worth individuals	121,622	84,454	37,168	2,986	-
Others	133	29	104	-	241
Total	**845,729**	**765,471**	**80,258**	**22,619**	**39,410**
Concentration by geography					
United Arab Emirates	844,943	764,739	80,204	22,619	39,410
Others	786	732	54	-	-
Total	**845,729**	**765,471**	**80,258**	**22,619**	**39,410**

2013					
Concentration by industry segment					
Mining and quarrying	5,134	4,815	319	-	-
Manufacturing	60,568	52,286	8,282	-	300
Electricity, gas and water	-	-	-	-	-
Construction and real estate	263,164	253,118	10,046	28,202	1,323
Trade	191,090	136,276	54,814	13,051	11,434
Transport, Storage and Communication	26,680	23,910	2,770	-	-
Financial Institutions	91,825	31,804	60,021	-	-
Other services	17,053	15,990	1,063	167	-
Government	-	-	-	-	-
Loans to individuals	23,457	7,315	16,142	4,323	161
Loans to high net worth individuals	109,863	82,113	27,750	-	-
Others	6,008	5,216	792	745	1,144
Total	794,842	612,843	181,999	46,488	14,362
Concentration by geography					
United Arab Emirates	793,453	611,654	181,799	46,488	14,362
Others	1,389	1,189	200	-	-
Total	794,842	612,843	181,999	46,488	14,362

At reporting date the Group do not have any impaired loans overdue less than 90 days (2013: Nil).

4 Financial risk management *(continued)*

b) Credit Risk *(continued)*

Analysis of the Group's exposure based on BASEL II standardised approach:

All figures in AED '000

31 December 2014	On balance sheet	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assets
Asset classes	Gross outstanding	Gross outstanding	Exposure before CRM	CRM	After CRM	
Claims on sovereign	1,123,725	23,751	1,147,476	-	1,147,476	62,262
Claims on public sector entities (PSEs)	887,886	470,151	1,358,037	-	1,358,037	-
Claims on banks	1,594,703	94,921	1,689,624	-	1,689,624	528,148
Claims on securities firm	2,771	1	2,772	-	2,772	2,771
Claims on corporates and GREs	8,955,562	9,300,617	18,076,301	2,569,980	15,506,321	10,060,906
Claims included in retail portfolio	38,016	24,058	62,074	651	61,423	28,024
Claims secured by residential property	77	-	77	-	77	27
Claims secured by commercial real estate	72,822	60,707	133,529	15,370	118,159	57,452
Past due loans	929,273	126,558	470,238	49,049	421,189	397,021
High risk categories	261,278	-	260,524	-	260,524	390,786
Other assets	448,274	-	445,817	-	445,817	374,738
Total	**14,314,387**	**10,100,764**	**23,646,469**	**2,635,050**	**21,011,419**	**11,902,135**
31 December 2013						
Asset classes						
Claims on sovereign	1,588,570	201,408	1,789,978	-	1,789,978	9,183
Claims on public sector entities (PSEs)	796,665	19,083	815,748	-	815,748	-
Claims on banks	1,320,795	90,090	1,410,885	-	1,410,885	501,213
Claims on securities firm	4,301	35,001	39,302	-	39,302	4,301
Claims on corporates	7,361,638	7,117,646	14,432,924	2,223,769	12,209,155	8,316,600
Claims included in retail portfolio	43,213	22,834	66,047	842	65,205	31,778
Claims secured by residential property	2,434	8,491	10,925	-	10,925	852
Claims secured by commercial real estate	79,925	5,622	85,547	9,572	75,975	70,353
Past due loans	874,899	176,154	488,191	15,833	472,358	404,386
High risk categories	85,626	-	84,872	-	84,872	127,309
Other assets	553,844	-	551,387	-	551,387	486,555
Total	12,711,910	7,676,329	19,775,806	2,250,016	17,525,790	9,952,530

Summary of exposure and credit risk mitigation at reporting date:

	Exposure		Risk Weighted Assets	
	2014	2013	**2014**	2013
	AED '000	AED '000	**AED '000**	AED '000
Exposure prior to credit risk mitigation	**23,646,469**	19,775,806	**11,929,219**	10,084,358
Less: exposure covered by on balance sheet netting	-	-	-	-
Less: exposure covered by eligible financial collateral	**2,625,239**	2,025,777	**22,178**	19,708
Less: exposure covered by guarantees	**9,811**	224,239	**4,906**	112,120
Less: exposure covered credit derivatives	-	-	-	-
Net exposure after credit risk mitigation	**21,011,419**	17,525,790	**11,902,135**	9,952,530

4 Financial risk management *(continued)*

b) Credit Risk *(continued)*

Analysis of the Group's exposure based on BASEL II standardised approach - rated and unrated:

2014

All figures in AED '000

Asset classes	Rated	Unrated	Exposure before CRM	CRM	After CRM	Risk weighted assets
	Gross Credit Exposures					
Claims on sovereign		1,147,476	1,147,476	-	1,147,476	62,262
Claims on public sector entities (PSEs)		1,358,037	1,358,037	-	1,358,037	-
Claims on banks	1,327,905	361,719	1,689,624	-	1,689,624	528,148
Claims on securities firm		2,772	2,772	-	2,772	2,771
Claims on corporates and GREs*		18,076,301	18,076,301	2,569,980	15,506,321	10,060,906
Claims included in retail portfolio		62,074	62,074	651	61,423	28,024
Claims secured by residential property		77	77	-	77	27
Claims secured by commercial real estate		133,529	133,529	15,370	118,159	57,452
Past due loans		470,238	470,238	49,049	421,189	397,021
High risk categories		260,524	260,524	-	260,524	390,786
Other assets		445,817	445,817	-	445,817	374,738
Total	**1,327,905**	**22,318,564**	**23,646,469**	**2,635,050**	**21,011,419**	**11,902,135**

2013

All figures in AED '000

Asset classes	Rated	Unrated	Exposure before CRM	CRM	After CRM	Risk weighted assets
	Gross Credit Exposures					
Claims on sovereign	-	1,789,978	1,789,978	-	1,789,978	9,183
Claims on public sector entities (PSEs)	-	815,748	815,748	-	815,748	-
Claims on banks	1,184,227	226,658	1,410,885	-	1,410,885	501,213
Claims on securities firm	-	39,302	39,302	-	39,302	4,301
Claims on corporates	-	14,432,924	14,432,924	2,223,769	12,209,155	8,316,600
Claims included in retail portfolio	-	66,047	66,047	842	65,205	31,778
Claims secured by residential property	-	10,925	10,925	-	10,925	852
Claims secured by commercial real estate	-	85,547	85,547	9,572	75,975	70,353
Past due loans	-	488,191	488,191	15,833	472,358	404,386
High risk categories	-	84,872	84,872	-	84,872	127,309
Other assets	-	551,387	551,387	-	551,387	486,555
Total	**1,184,227**	**18,591,579**	**19,775,806**	**2,250,016**	**17,525,790**	**9,952,530**

Based on the new CB guidelines, Government Related Entities (GREs) are commercial companies with federal or emirates government ownership of more than 50%, directly or indirectly and/or stand-alone GREs meeting the laid down criteria.

4 Financial risk management *(continued)*

The Group continues to carry classified doubtful debts and delinquent accounts in its books even after making allowances for impairment in accordance with International Accounting Standard 39 Financial Instruments: Recognition and Measurement ("IAS 39"). However, interest is accrued on doubtful debts for legal purposes and accordingly such interest is not recognised in profit. Such accruals increase gross loans and advances. Loans and advances are written off only when all legal and other avenues for recovery or settlement are exhausted. The movement during the year in the impairment provision is as follows:

	Collective impairment		Specific impairment	
	2014	2013	**2014**	2013
	AED'000	AED'000	**AED'000**	AED'000
At 1 January	**101,389**	73,449	**612,843**	518,244
Charge for the year	**48,240**	27,940	**134,488**	131,181
Recoveries during the year	**-**	-	**(11,571)**	(4,606)
Interest not recognised in the consolidated profit or loss statement (net)	**-**	-	**52,330**	14,512
Amounts written off during the year	**-**	-	**(22,619)**	(46,488)
	149,629	101,389	**765,471**	612,843

During the year, an amount of AED 27.84 million (2013: AED 9.76 million) was recovered from balances previously written off, which have been recognised in specific impairment provision in consolidated statement of profit or loss.

c) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with it's financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk can be segregated into three categories:-

1) Mismatch or structural liquidity risk: Is the liquidity risk in the Group's current consolidated statement of financial position structure due to maturity transformation in the cash flows of individual positions.

2) Contingency liquidity risk: The risk that future events may require a significantly larger amount of cash than what the Group's projections allow. This can arise due to unusual deviations of timing of cash flows (term liquidity risk), e.g., non-contractual prolongation of loans, or unexpected draw downs on committed loan facilities (call/ withdrawal liquidity risk).

3) Market liquidity risk: The risk that the Group cannot easily offset or eliminate a position at the market price because of market disruption or inadequate market depth.

4 Financial risk management *(continued)*

c) Liquidity Risk *(continued)*

Management of liquidity risk

Liquidity risk management has remained at the helm of risk management and is also receiving the close attention of the Board of Directors. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. All liquidity policies and procedures are subject to review and approval by ALCO. The key elements of the Group's liquidity strategy are as follows:

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

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets (i.e., total assets by maturity against total liabilities by maturity) and its loans to deposit ratio. Details of the Group's net liquid assets are summarised in the table below by the maturity profile of the Group's assets and liabilities based on the contractual repayments. The maturity profile is monitored by the management to ensure adequate liquidity is maintained.

Maturities of assets and liabilities

At 31 December 2014	Less than 3 months AED'000	3 months to 1 year AED'000	1 year and above AED'000	Total AED'000
Assets				
Cash and deposits with central banks	720,157	-	9,182	729,339
Due from banks	1,353,005	-	-	1,353,005
Investment securities	360,645	156,622	453,020	970,287
Loans and advances to customers	2,643,716	3,810,184	3,401,808	9,855,708
Customers' indebtedness for acceptances	275,993	157,778	-	433,771
Property and equipment	-	-	125,239	125,239
Other assets	52,349	19,716	290,434	362,499
Total assets	**5,405,865**	**4,144,300**	**4,279,683**	**13,829,848**
Liabilities and equity				
Due to banks	21,755	207,346	-	229,101
Deposits from customers	4,541,235	5,545,618	107,338	10,194,191
Liabilities under acceptances	275,993	157,778	-	433,771
Other liabilities	100,288	26,867	61,107	188,262
Equity	145,425	-	2,639,098	2,784,523
Total liabilities and equity	**5,084,696**	**5,937,609**	**2,807,543**	**13,829,848**

4 Financial risk management *(continued)*

c) Liquidity Risk *(continued)*

Maturities of assets and liabilities *(continued)*

At 31 December 2013	Less than 3 months AED'000	3 months to 1 year AED'000	1 year and above AED'000	Total AED'000
Assets				
Cash and deposits with central banks	947,341	-	9,182	956,523
Due from banks	975,618	-	-	975,618
Investment securities	199,183	234,288	458,911	892,382
Loans and advances to customers	2,156,621	3,690,614	2,917,046	8,764,281
Customers' indebtedness for acceptances	174,650	84,132	46,096	304,878
Property and equipment	-	-	94,786	94,786
Other assets	70,056	62,838	177,983	310,877
Total assets	**4,523,469**	**4,071,872**	**3,704,004**	**12,299,345**
Liabilities and equity				
Due to banks	24,391	205,509	-	229,900
Deposits from customers	4,123,268	4,793,826	90,755	9,007,849
Liabilities under acceptances	174,650	84,132	46,096	304,878
Other liabilities	91,014	54,367	14,897	160,278
Equity	132,350	-	2,464,090	2,596,440
Total liabilities and equity	**4,545,673**	**5,137,834**	**2,615,838**	**12,299,345**

Maturities of assets and liabilities have been determined on the basis of the outstanding period from the reporting date to the contracted or expected maturity dates.

The Group's advances to deposit ratio (internal measure of the Group) and stable resources ratio (as calculated under the CB UAE regulations) are as follows:

At 31 December	2014	2013
Advances to deposit ratio	96.7%	97.3%
Stable resources ratio	90.8%	86.6%

4 Financial risk management *(continued)*

c)* Liquidity Risk *(continued)

Residual contractual maturity of financial liabilities

The following table shows the undiscounted cash flows on the Group's financial liabilities on the basis of their earliest possible contractual maturity. The Group's expected cash flow on these instruments may vary significantly from this analysis, for example demand deposits from customers are expected to maintain a stable or increasing balance and un recognized loan commitments are not expected to be draw down immediately.

2014	**Carrying amount AED'000**	**Gross nominal outflow AED'000**	**Less than 3 months AED'000**	**3 months to 1 year AED'000**	**1 to 5 year AED'000**
Non-derivative liabilities					
Due to banks	229,101	(234,821)	(21,755)	(213,066)	-
Deposits from customers	10,194,191	(10,380,035)	(4,584,069)	(5,685,009)	(110,957)
Liabilities for acceptances	433,771	(433,771)	(275,993)	(157,778)	-
Other liabilities	188,262	(188,262)	(100,288)	(26,867)	(61,107)
Total liabilities	**11,045,325**	**(11,236,889)**	**(4,982,105)**	**(6,082,720)**	**(172,064)**
2013					
Non-derivative liabilities					
Deposits from banks	229,900	(235,538)	(24,391)	(211,147)	-
Deposits from customers	9,007,849	(9,186,390)	(4,161,127)	(4,932,074)	(93,189)
Liabilities for acceptances	304,878	(304,878)	(174,650)	(84,132)	(46,096)
Other liabilities	160,278	(160,278)	(91,014)	(54,367)	(14,897)
Total liabilities	**9,702,905**	**(9,887,084)**	**(4,451,182)**	**(5,281,720)**	**(154,182)**

***d)* Market Risk**

Market Risk is the risk that changes in market prices - such as interest rates, equity prices and foreign exchange rates and credit spreads (not relating to change in the obligor's/issuer's credit standing) - will affect the Group's profit or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Group's solvency while optimizing the return on risk.

Management of market risk

The Group separates its exposure to market risks between trading and non-trading portfolios. Trading portfolios mainly include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

The Group has very limited trading portfolio, hence it is not exposed to any significant market risk in respect of trading portfolio.

4 Financial risk management *(continued)*

d) Market Risk *(continued)*

Exposure to interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of changes in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. The ALCO is the monitoring body for compliance with these limits. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

Assets and liabilities repricing profile

	Effective interest rate %	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 year AED'000	Non-interest bearing AED'000	Total AED'000
Assets						
Cash and deposits with central banks		22,410	-	-	706,929	729,339
Due from banks	0.32	1,184,625	-	-	168,380	1,353,005
Investment securities	2.78	222,149	156,622	453,020	138,496	970,287
Loans and advances to customers	6.83	2,643,716	3,810,184	3,401,808	-	9,855,708
Customers' indebtedness for acceptances		-	-	-	433,771	433,771
Property and equipment		-	-	-	125,239	125,239
Other assets		-	-	-	362,499	362,499
Total assets		**4,072,900**	**3,966,806**	**3,854,828**	**1,935,314**	**13,829,848**
Liabilities and equity						
Due to banks	2.26	-	207,346	-	21,755	229,101
Deposits from customers	2.17	2,938,953	5,096,772	107,338	2,051,128	10,194,191
Liabilities under acceptances		-	-	-	433,771	433,771
Other liabilities		-	-	-	188,262	188,262
Equity		-	-	-	2,784,523	2,784,523
Total liabilities and equity		**2,938,953**	**5,304,118**	**107,338**	**5,479,439**	**13,829,848**
Interest rate sensitivity gap		**1,133,947**	**(1,337,312)**	**3,747,490**	**(3,544,125)**	**-**
Cumulative interest rate sensitivity gap:						
As of 31 December 2014		**1,133,947**	**(203,365)**	**3,544,125**		
As of 31 December 2013		957,477	(107,774)	3,177,428		

4 Financial risk management *(continued)*

d) Market Risk *(continued)*

The assets and liabilities reprising profile has been determined on the basis of the final maturity period or interest reprising periods at the reporting date, whichever is earlier. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Sensitivity analysis - Interest rate risk

Interest rate risk is the sensitivity of asset and liability values to changes in the term structure of interest rates or interest rate volatility. 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 related income. The Group manages the risk principally through monitoring interest rate gaps and matching the re-pricing profile of assets and liabilities. The Group also assesses the impact of defined movement in interest yield curves on its net interest income. The following is the impact of interest rate movement on net interest income and regulatory capital.

Shift in yield curve	**2014**	2013
	AED '000	AED '000
+200 b.p.	**76,883**	63,201
-200 b.p.	**(76,883)**	(63,201)

A substantial portion of the Group's assets and liabilities are re-priced within 1-year. Accordingly, there is limited exposure to interest rate risk. The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 11,967 million of monthly average interest bearing assets and AED 8,123 million of monthly average interest bearing liabilities (31 Dec 2013: AED 10,428 million average interest bearing assets and AED 7,268 million average interest bearing liabilities.) The sensitivity does not incorporate actions that could be taken by the management to mitigate the effect of interest rate movements.

Equity price risk

The primary goal of the Group's investment strategy is to maximise investment returns. In accordance with this strategy, certain investments are designated at fair value through profit or loss as they are managed on a fair value basis.

Sensitivity analysis - equity price risk

Most of the Group's equity investments are listed either on the Dubai Financial Market or the Abu Dhabi Securities Market. For such investments classified as fair value through other comprehensive income, a 5% increase in the two markets at the reporting date would have increased equity by AED 6.87 million (31 December 2013: AED 7.46 million) and an equal change in the opposite direction would have decreased equity by a similar amount. For investments classified as fair value through profit or loss, the impact on the profit would have been an increase or decrease of AED 0.06 million (31 December 2013: zero).

4 Financial risk management *(continued)*

d) Market Risk *(continued)*

Foreign currency risk

The Group engages in limited trading in foreign exchange on its own account. Its treasury activity is mainly directed to assisting its customers in managing their foreign exchange exposures. A system of exposure limits is in place to control price risk on foreign exchange exposures and a system of individual credit limits is in place to control counter-party risk. The amount mentioned in the table below reflects the equal but opposite potential effect on profit and equity based on a 1% negative or positive currency fluctuation, with all other variables held constant. At the reporting date, the Group has the following net open currency exposures in respect of un-pegged currencies to USD:

	2014			2013		
	Total	Impact on profit	Impact on equity	Total	Impact on profit	Impact on equity
	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000
British Pound	**3,222**	**32**	-	145	1	-
Euro	**3,349**	**33**	-	2,153	22	-

e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business entities.

Process risk / Internal process risk:
Process risk is the risk of loss due to inadequate or failed internal processes. It includes the risk of breakdown of the internal control framework.

People risk:
People risk is the risk of loss arising from failures or misbehavior of internal or external people or human errors. It includes internal and external fraud risk.

System risk / IT risk
System risk is the risk of loss arising from erroneous or inadequate electronic IT systems or data sources or the unexpected breakdown of such systems.

External event risk
External event risk is the risk of loss due to unexpected external events (damage, catastrophes, etc.)

Operational risks are segregated into the following seven broad categories:
1. Internal Fraud
2. External Fraud
3. Employment Practices and Workspace Safety
4. Clients, Products and Business practices
5. Damage to Physical Assets
6. Business Disruption and System Failures
7. Execution, Delivery and Process Management

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 innovation. In all cases, Group policy requires compliance with all applicable legal and regulatory requirements.

4 Financial risk management *(continued)*

e)* Operational Risk *(continued)

The Group has taken measures to put in place tools, firstly to identify all such operational risks. The Group has also taken measures to implement processes and policies to mitigate the risk to an acceptable level and to avoid or minimise financial losses and damage to Group's reputation.

For this purpose, the Group has hired an external consulting firm that specialises in providing expertise in managing all risks, contracted to put in place a dedicated software which is currently under testing. Implementation of Standardised approach will be carried out in phases, following data collection of the identified key risk indicators (KRI's), key performance indicators (KPI's) and risk control and self assessment (RCSA).

In order to ensure a structured and focused Operational risk management ("ORM") process, the Group has delegated tasks to Risk Management to establish new frameworks, oversee ORM process, consider each operational risk in order of "Priority by significance", to develop policies, processes and procedures for managing operational risk in all of the Group's material products, activities, processes and systems as well as recommend best way to integrate the ORM in the overall organisation wide risk management process. ORM should develop overall Group standards for the management of operational risk in the following areas:

i) requirements for appropriate segregation of duties, including the independent authorisation of transactions;

ii) requirements for the reconciliation and monitoring of transactions;

iii) compliance with regulatory and other legal requirements;

iv) documentation of controls and procedures;

v) requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;

vi) requirements for the reporting of operational losses and proposed remedial action;

vii) development of contingency plans;

viii) ethical and business standards; and

ix) risk mitigation, including insurance where this is cost effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are shared with Audit Committee and senior management of the Group. The compliance with policies and procedures is strengthened by Internal Audit reviews, while Compliance of regulatory requirements is strengthened by Compliance department.

***f)* Capital risk management and Basel II requirements**

Capital allocation

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

The Group's objective when managing capital are as follows.

- Safeguarding the Group's ability to continue as a going concern and increase return for shareholders; and
- Comply with regulatory capital set by Central Bank the of UAE.

4 Financial risk management *(continued)*

f) **Capital risk management and Basel II requirements *(continued)***

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

The 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 is in the process of introducing the risk adjusted return on capital (RAROC) for credit applications that are priced on a risk-adjusted basis to reflect the risk substituting framework for the loan and advances. RAROC calculations are being built into the implemented Credit Appraisal System.

The Group has determined its regulatory capital as recommended by the Basel II Capital Accord, in line with the guidelines of CB UAE with effect from 2007. The Group has adopted a standardised approach for credit risk and market risk and a Basic Indicator approach for Operational Risk. Models for Internal Rating, Group's own risk grading categorizing the exposures according to the degree of risk of financial loss have been developed and are in use since 2012. These models are currently being back tested. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigants. In addition, the Group has proactively developed frameworks for IRB (Internal Rating Based) approach in anticipation of central bank guidelines. In preparation for the implementation of the IRB approaches and building a strong database, the Group has introduced online processing of credit applications and rating of all counterparties. Models have been independently reviewed and validated. The Group is in the advanced stages of developing a risk sensitive framework with an objective of levying risk premiums. 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 CB UAE has advised that the minimum capital adequacy ratio should be 12% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 8%] .

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

• Tier 1 capital, which includes ordinary share capital, legal and statutory reserve and retained earnings; and
• Tier 2 capital, which includes fair value reserves relating to unrealised gains / losses on investments classified as FVTOCI and derivatives held as cash flow hedges, general 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
- General provision shall not exeeed 1.5% of total risk weighted assets.

4 Financial risk management *(continued)*

The Group's regulatory capital position at 31 December was as follows:

	2014 AED '000	2013 AED '000
TIER 1 CAPITAL		
Share capital	1,443,750	1,312,500
Legal reserves	398,297	362,288
Special reserves	398,297	362,288
Retained earnings	282,721	261,191
Total tier 1 capital	**2,523,065**	2,298,267
TIER 2 CAPITAL		
Fair value reserve	(28,342)	35,714
General provisions/general loan loss reserves	149,629	101,389
Subordinated debt	-	-
Total tier 2 capital	**121,287**	137,103
Total regulatory capital (Sum of tier 1 and 2 capital)	**2,644,352**	2,435,370
RISK WEIGHTED ASSETS		
Credit risk	11,902,135	9,952,530
Market risk	50,225	46,358
Operational risk	1,149,358	707,800
Total risk weighted assets (RWA)	**13,101,718**	10,706,688
Total regulatory capital expressed as % of RWA	**20.18%**	22.75%
Total tier 1 capital expressed as % of RWA	**19.26%**	21.47%

Total capital requirement for market risk under standardised approach as per BASEL II Pillar 3 is as follows:

	2014 - AED '000		2013 - AED '000	
	Capital required	**Risk weighted assets**	**Capital required**	**Risk weighted assets**
Interest rate risk	-	-	-	-
Equity position risk	132	1,104	-	-
Foreign exchange risk	5,895	49,121	5,565	46,358
Commodity risk	-	-	-	-
Total capital requirement	6,027	50,225	5,565	46,358

5 Accounting classification of financial assets and financial liabilities

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

At 31 December 2014	FVTPL	FVTOCI	Others at amortised cost	Total carrying amount
	AED '000	AED '000	AED '000	AED '000
Financial assets				
Cash and deposits with central banks	-	-	729,339	729,339
Due from banks	-	-	1,353,005	1,353,005
Investment securities	1,105	137,391	831,791	970,287
Loans and advances to customers	-	-	9,855,708	9,855,708
Customers' indebtedness for acceptances	-	-	433,771	433,771
Other financial assets	-	-	62,463	62,463
	1,105	**137,391**	**13,266,077**	**13,404,573**
Financial liabilities				
Due to banks	-	-	229,101	229,101
Deposits from customers	-	-	10,194,191	10,194,191
Liabilities under acceptances	-	-	433,771	433,771
Other financial liabilities	-	-	141,484	141,484
	-	-	**10,998,547**	**10,998,547**
At 31 December 2013				
Financial assets				
Cash and deposits with central banks	-	-	956,523	956,523
Due from banks	-	-	975,618	975,618
Investment securities	-	149,183	743,199	892,382
Loans and advances to customers	-	-	8,764,281	8,764,281
Customers' indebtedness for acceptances	-	-	304,878	304,878
Other financial assets	-	-	180,397	180,397
	-	149,183	11,924,896	12,074,079
Financial liabilities				
Due to banks	-	-	229,900	229,900
Deposits from customers	-	-	9,007,849	9,007,849
Liabilities under acceptances	-	-	304,878	304,878
Other financial liabilities	-	-	122,227	122,227
	-	-	9,664,854	9,664,854

6 Fair value of financial instrument

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Inputs other than quoted priees included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category ineludes instruments valued using: quoted market prices in active markets for similar instruments; quoted priees for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category ineludes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a signifieant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

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

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

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

6 Fair value of financial instrument *(continued)*

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

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

At 31 December 2014

	Level 1	Level 2	Level 3	Total
	AED '000	AED '000	AED '000	AED '000
Financial assets				
FVTPL - quoted equities	1,105	-	-	1,105
FVTOCI - financial assets	134,015	3,376	-	137,391
Non financial assets				
Investment properties	-	-	31,972	31,972
	135,120	3,376	31,972	170,468

At 31 December 2013

	Level 1	Level 2	Level 3	Total
	AED '000	AED '000	AED '000	AED '000
Financial assets				
FVTPL - quoted equities	-	-	-	-
FVTOCI - financial assets	137,797	11,386	-	149,183
Non financial assets				
Investment properties	-	-	29,050	29,050
	137,797	11,386	29,050	178,233

Investment properties are valued on the basis of either discounted cash flow method or third party valuations which is based on "comparable market prices".

Although the Bank believes that it's estimates at fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurement in level-3, changing the assumptions by 5%(+/-), would not have any significant impact on the Group's consolidated financial statements.

6 Fair value of financial instrument *(continued)*

b) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

At 31 December 2014	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
	AED '000	AED '000	AED '000	AED '000	AED '000
Financial assets					
Cash and deposits with central banks	-	729,339	-	729,339	729,339
Due from banks	-	1,353,005	-	1,353,005	1,353,005
Investment sceurities	702,325	144,250	-	846,575	831,791
Loans and advances to customers	-	-	9,855,708	9,855,708	9,855,708
Customers' indebtedness for aeceptances	-	-	433,771	433,771	433,771
Other financial assets	-	62,463	-	62,463	62,463
	702,325	2,289,057	10,289,479	13,280,861	13,266,077
Financial liabilities					
Due to banks	-	229,101	-	229,101	229,101
Deposits from customers	-	10,194,191	-	10,194,191	10,194,191
Liabilities under acceptances	-	433,771	-	433,771	433,771
Other financial liabilities	-	141,484	-	141,484	141,484
	-	10,998,547	-	10,998,547	10,998,547

At 31 December 2013	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
	AED '000	AED '000	AED '000	AED '000	AED '000
Financial assets					
Cash and deposits with central banks	-	956,523	-	956,523	956,523
Due from banks	-	975,618	-	975,618	975,618
Investment securities	675,027	75,749	-	750,776	743,199
Loans and advances to customers	-	-	8,764,281	8,764,281	8,764,281
Customers' indebtedness for acceptances	-	-	304,878	304,878	304,878
Other financial assets	-	55,356	-	55,356	55,356
	675,027	2,063,246	9,069,159	11,807,432	11,799,855
Financial liabilities					
Due to banks	-	229,900	-	229,900	229,900
Deposits from customers	-	9,007,849	-	9,007,849	9,007,849
Liabilities under acceptances	-	304,878	-	304,878	304,878
Other financial liabilities	-	77,665	-	77,665	77,665
	-	9,620,292	-	9,620,292	9,620,292

6 Fair value of financial instrument *(continued)*

b) Financial instruments not measured at fair value (continued)

a) In respect of those financial assets and financial liabilities measured at amortised cost, which are of short tenn nature (up to 1 year), management believes that carrying amount is equivalent to it's fair value.

b) In respect of investments in sukuks/bonds, management has used the quoted price when available to assess fair value or used a Discounted Cash Flow (DCF) methodology based on market observable inputs.

c) Long term loans and advances to customers are fair valued based on DCF which takes into account original underlying cash borrower credit grading and expected prepayments. These features are used to estimate expected cash flows and discounted at risk-adjusted rates. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.

d) Fair values of deposits from banks and customers is estimated using DCF, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is considered to be the amount payable at the reporting date.

7 Use of estimates and judgments

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies are as follows.

***(a)* Impairment losses on financial instruments carried at amortised cost**
The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimates of cash flows considered recoverable are independently approved by credit risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolio of loans and advances and investment securities measured at amortised cost with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired financial assets, but the individual impaired items can not yet be identified. In assessing the need for collective loss allowances, management considers factor sueh as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimate of the future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

***(b)* Fair value of derivatives and unquoted securities**
The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (such as models) are used to determine fair values, these are tested before they are used and models are ealibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however area such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

8 Segmental analysis

The Group operates in the United Arab Emirates and Lebanon, and its results arise largely from commercial banking, treasury and investment activities. Information with respect to business segments is as follows:

	Year ended 2014			Year ended 2013		
	Commercial banking AED'000	**Treasury and Investments AED'000**	**Total AED'000**	Commercial banking AED'000	Treasury and Investments AED'000	Total AED'000
Net interest and other income	**568,080**	**97,110**	**665,190**	535,459	72,521	607,980
Net impairment losses	**(138,471)**	**(4,847)**	**(143,318)**	(141,743)	(3,016)	(144,759)
Profit for the year	**245,857**	**114,229**	**360,086**	262,074	66,001	328,075
Segment capital expenditure	**38,484**	**-**	**38,484**	35,067	-	35,067
Segment depreciation	**8,031**	**-**	**8,031**	5,964	-	5,964
At 31 December						
Segment total assets	**10,891,178**	**2,938,670**	**13,829,848**	9,417,344	2,882,001	12,299,345
Segment total liabilities	**10,813,030**	**232,295**	**11,045,325**	9,479,331	223,574	9,702,905

9 Cash and deposits with central banks

	2014 AED'000	2013 AED'000
Cash in hand	**71,080**	64,808
Deposits with central banks (Note 9.1)	**237,300**	599,610
Reserve requirements with the CB UAE	**397,841**	292,105
Reserve requirements with the CB Lebanon	**23,118**	-
	729,339	956,523

Statutory reserve deposits are required to be maintained as per regulations of the CB UAE and the CB Lebanon.

9.1 The Group is required to maintain AED 9.2 million (2013: AED 9.2 million), being 25% of the capital of Lebanon Branch amounting to AED 36.7 million, with the CB Lebanon which is not available for the day to day activities of the Lebanon Branch.

10 Due from banks

	2014 AED'000	2013 AED'000
Money market placements	1,153,170	847,548
Items in course of collection (including export bills discounted)	199,835	128,070
	1,353,005	975,618
The geographical concentration is as follows:		
- Within the U.A.E	1,168,492	863,107
- Outside the U.A.E	184,513	112,511
	1,353,005	975,618

11 Investment securities

The details of investments are as follows:	Domestic AED '000	Other GCC Countries AED '000	Others AED '000	Total AED '000
At 31 December 2014				
Financial assets at fair value through profit or loss (FVTPL):				
Investments in listed equities	1,105	-	-	1,105
Financial assets measured at fair value through other comprehensive income (FVTOCI)				
Investments in listed equities	132,314	1,701	-	134,015
Investments in un-listed equities	3,376	-	-	3,376
Financial assets at amortised cost:				
Investments in sukuks/bonds/commercial papers	831,791	-	-	831,791
	968,586	1,701	-	970,287
At 31 December 2013				
Financial assets at fair value through profit or loss (FVTPL):				
Investments in listed equities	-	-	-	-
Financial assets measured at fair value through other comprehensive income (FVTOCI)				
Investments in listed equities	136,886	911	-	137,797
Investments in un-listed equities	11,386	-	-	11,386
Financial assets at amortised cost:				
Investments in sukuks/bonds/commercial papers	743,199	-	-	743,199
	891,471	911	-	892,382

Fair value reserve

At 31 December 2014, the negative fair value reserve of AED 28.3 million (2013: positive fair value reserve of AED 35.7 million) includes net fair value loss of AED 64.06 million (2013: net fair value gain of AED 111.8 million) on FVTOCI equity securities which are recognised in other comprehensive income.

11 Investment securities *(continued)*

Net gains/(losses) from investment securities

Net gains/(losses) from investment securities have the following components for the year ended 31 December:

	2014	2013
	AED'000	AED'000
Realised gains / losses on sale of investment securities	35,445	26,961
Fair value adjustment for financial assets at fair value through profit or loss	(106)	(1,433)
	35,339	25,528

12 Property and equipment

	Land and building	Office installation and impr- -movements	Office furniture and equipment	Motor vehicles	Capital work in progress	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cost						
At 1 January 2014	48,215	26,705	47,900	425	49,322	172,567
Additions	55,586	18,329	13,431	460	6,264	94,070
Disposals/ transfer	-	-	-	-	(55,586)	(55,586)
At 31 December 2014	**103,801**	**45,034**	**61,331**	**885**	-	**211,051**
Accumulated depreciation						
At 1 January 2014	22,557	15,595	39,204	425	-	77,781
Charge for the year	577	2,961	4,429	64	-	8,031
At 31 December 2014	**23,134**	**18,556**	**43,633**	**489**	-	**85,812**
Net book value at 31 December 2014	**80,667**	**26,478**	**17,698**	**396**	-	**125,239**
Cost						
At 1 January 2013	48,215	26,343	43,990	425	18,527	137,500
Additions	-	362	3,910	-	30,795	35,067
At 31 December 2013	**48,215**	**26,705**	**47,900**	**425**	**49,322**	**172,567**
Accumulated depreciation						
At 1 January 2013	22,552	13,367	35,614	284	-	71,817
Charge for the year	5	2,228	3,590	141	-	5,964
Disposals/ transfer	-	-	-	-	-	-
At 31 December 2013	**22,557**	**15,595**	**39,204**	**425**	-	**77,781**
Net book value at 31 December 2013	**25,658**	**11,110**	**8,696**	-	**49,322**	**94,786**

13 Other assets

	2014 AED'000	2013 AED'000
Interest receivable	**51,178**	55,356
Investment properties	**31,972**	29,050
Prepayments and other assets	**279,349**	226,471
	362,499	310,877

In the past, the Group had acquired two properties in settlement of loans and advances. These properties are classified as investment properties. The management adopted a fair value model and revalued these properties to their estimated fair value based on a valuation performed by an independent professional real estate valuer. The change in fair value was recorded in other operating income.

14 Due to banks

	2014 AED'000	2013 AED'000
Placements from banks	**207,346**	205,509
Items in course of settlement	**14,529**	9,963
Demand deposits	**7,226**	14,428
	229,101	229,900

15 Deposits from customers

Time deposits	**7,579,163**	6,868,816
Savings accounts	**144,128**	133,909
Current and other accounts	**2,470,900**	2,005,124
	10,194,191	9,007,849

Customer deposits by geographical area are as follows:

Within the UAE	**10,135,351**	8,995,432
Others	**58,840**	12,417
	10,194,191	9,007,849

16 Other liabilities

Interest payable	**77,096**	77,665
Unearned commission income	**28,107**	22,942
Staff benefits payable	**18,037**	14,897
Accrued expenses	**13,756**	10,271
Manager's cheques	**13,263**	9,584
Others	**38,003**	24,919
	188,262	160,278

17 Capital and reserves

Share capital

At 31 December 2014, the Group's authorised, issued and fully paid share capital was AED 1,443.75 million comprising 1,443.75 million shares of AED 1 each (at 31 December 2013: AED 1,312.5 million comprising 1,312.5 million shares of AED 1 each).

Proposed dividend

The Board of Directors has proposed a cash dividend of AED 144.4 million for 2014 (2013: AED 131.3 million) being 10% of the paid up share capital (2013: 10%) and a bonus share dividend of AED 144.4 million (2013: AED 131.3 million) being 10% of paid up share capital (2013: 10%).

Reserves

In accordance with Article 82 of Federal Law No.10 of 1980, a transfer of 10% of profit, if any, is made annually to the legal reserve until this reserve equals to 50% of the share capital.

In accordance with the Group's Articles of Association, a minimum 10% of profit is transferred annually to a special reserve which will be used for purposes to be determined by the ordinary general meeting upon a proposal being made by the Board of Directors.

18 Net interest income

	2014 AED'000	2013 AED'000
Interest income:		
Due from banks	**8,219**	4,960
Debt securities	**28,774**	19,935
Loans and advances to customers	**635,500**	620,305
	672,493	645,200
Interest expenses:		
Due to banks	**(5,839)**	(257)
Time deposits	**(200,339)**	(200,136)
Call deposits	**(3,383)**	(2,610)
Savings accounts and others	**(1,726)**	(2,347)
	(211,287)	(205,350)
	461,206	439,850

19 Net fees and commission income

	2014 AED'000	2013 AED'000
Fees and commission income:		
Letters of credit fee	**28,484**	21,537
Letters of guarantee fee	**69,188**	59,486
Retail and corporate lending fees	**17,781**	12,460
Minimum balance fees	**536**	107
Commission on transfers	**3,440**	4,441
Others	**16,298**	19,429
	135,727	117,460
Fees and commission expenses:		
Service charges	**(261)**	(361)
Others	**(110)**	(8)
	(371)	(369)
	135,356	117,091

20 Other operating income

	2014 AED'000	2013 AED'000
Fair value gain on investment properties	2,922	860
Dividends on investment securities	11,080	7,151
Rental and other income	1,342	577
	15,344	8,588

21 General and administrative expenses

Payroll and related costs	112,191	96,975
Occupancy	15,154	13,582
Others	26,410	18,625
	153,755	129,182

22 Earnings per share

Basic earnings per share is based on the profit attributable to ordinary shareholders of the Bank and weighted average number of ordinary shares.

	2014	2013
Profit for the year - AED ('000)	360,086	328,075
Weighted average number of shares outstanding at 31 December - ('000)	1,443,750	1,443,750
Basic earnings per share - AED	0.249	0.227

At reporting date the Group does not have any instrument resulting in dilution of basic earnings per share. Earnings per share as at 31 December 2013 is adjusted for 131.25 million bonus shares issued during the year.

23 Cash and cash equivalents

	2014 AED'000	2013 AED'000
Cash and deposits with central banks	720,157	947,341
Due from banks maturing within three months	1,353,005	975,618
Due to banks maturing within three months	(21,755)	(24,391)
	2,051,407	1,898,568

24 Related party transactions

In the normal course of business, the Group enters into various transactions with related parties including key management personnel and their related companies. 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, executive or otherwise, of the Group. The related party transactions are executed at the terms agreed between the parties. The volume of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

	2014		2013	
	Key management personnel AED'000	Companies associated with key management personnel AED'000	Key management personnel AED'000	Companies associated with key management personnel AED'000
Loans				
Loans outstanding at 1 January	42,843	415,825	59,520	368,008
Loans issued during the year	46,395	245,812	24,468	78,205
Loan repayments during the year	(49,141)	(73,447)	(41,145)	(30,388)
Loans outstanding at 31 December	40,097	588,190	42,843	415,825
Interest income earned during the year	3,869	40,648	4,284	29,108
Outstanding letters of credit and guarantees at 31 December	4,928	59,001	4,728	23,635

None of the loans granted to related parties are impaired or past due as at 31 December 2014 (2013: Nil).

The loans extended to directors during the year are repayable over 1 year and bear interest at rates ranging from 4 % to 10 % per annum (2013: 4% to 10%). At 31 December 2014, outstanding loans and advances due from related parties are secured by deposits under lien amounting to AED 548.8 million (2013: AED 378.8 million).

	2014		2013	
	Key management personnel AED'000	Companies associated with key management personnel AED'000	Key management personnel AED'000	Companies associated with key management personnel AED'000
Deposits				
Deposits at 1 January	325,060	915,815	303,074	958,072
Deposits received during the year	139,654	112,137	108,957	107,119
Deposits repaid during the year	(297,527)	(552,396)	(86,971)	(149,376)
Deposits at 31 December	167,187	475,556	325,060	915,815
Interest expense during the year	6,042	16,915	6,501	18,316

24 Related party transactions *(continued)*

Key management compensation	2014 AED'000	2013 AED'000
Salaries and other short term benefits	10,670	10,667
Termination benefits	348	247
	11,018	10,914

Proposed directors' remuneration

Subsequent to the reporting date, the Board of Directors have proposed AED 1.05 million (2013: AED 1.05 million) towards Directors' remuneration.

25 Commitments and contingent liabilities

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

The Group provides financial guarantees and letter of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend up to period of one year.

The contractual amount of commitments and contingent liabilities are set out in the following table by category.

	2014 AED'000	2013 AED'000
Letters of credit	689,972	361,290
Letters of guarantee	6,519,480	5,035,771
Commitments to extend credit	2,213,549	1,961,846
Foreign exchange and forward commitments	243,992	12,544
	9,666,993	7,371,451

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

Exposure by geography as on 31 December

	Commitment to extend credit		Foreign exchange and forward commitments		Other commitments and contingent liabilities	
	2014 AED'000	2013 AED'000	2014 AED'000	2013 AED'000	2014 AED'000	2013 AED'000
United Arab Emirates	2,213,549	1,961,846	243,992	12,544	7,089,153	5,307,004
GCC Excluding UAE	-	-	-	-	3,802	2,846
Other Arab Countries	-	-	-	-	91,229	68,295
Other	-	-	-	-	25,268	18,916
	2,213,549	1,961,846	243,992	12544	7,209,452	5,397,061

25 Commitments and contingent liabilities *(continued)*

Exposure by currency as on 31 December

	Commitment to extend credit		Foreign exchange and forward commitments		Other commitments and contingent liabilities	
	2014 AED'000	2013 AED'000	2014 AED'000	2013 AED'000	2014 AED'000	2013 AED'000
Foreign currency	-	-	243,992	12,544	251,439	609,348
AED	2,213,549	1,961,846	(243,992)	(12,544)	6,958,013	4,787,713
Total	2,213,549	1,961,846	-	-	7,209,452	5,397,061

Exposure by industry segment as on 31 December

	Commitment to extend credit 2014	2013	Foreign exchange and forward commitments 2014	2013	Other commitments and contingent liabilities 2014	2013
Agriculture, and allied activities	-	-	-	-	13	9
Mining and quarrying	943	6,848	-	-	26,819	21,537
Manufacturing	303,984	226,507	-	-	799,690	642,328
Electricity, gas and water	-	-	-	-	-	-
Construction and real estate	635,674	557,907	-	-	4,594,529	3,681,534
Trade	268,529	249,232	243,992	12,544	846,736	620,356
Transport, storage and communication	25,969	21,420	-	-	121,715	83,703
Financial institutions	127,832	301,332	-	-	36,880	27,594
Other services	66,490	50,077	-	-	256,060	157,635
Government	417,616	200,287	-	-	314,968	19,736
Loans to individuals	33,957	39,536			3,627	3,319
Loans to high net worth individuals	320,520	305,394			5,237	5,437
Others	12,035	3,306	-	-	203,178	133,873
Total	2,213,549	1,961,846	243,992	12,544	7,209,452	5,397,061

Exposure by maturity as on 31 December

	Commitment to extend credit 2014	2013	Foreign exchange and forward commitments 2014	2013	Other commitments and contingent liabilities 2014	2013
Less than 3 months	951,826	843,594	243,992	12,544	2,373,345	2,420,035
3 months to one year	1,261,723	1,118,252	-	-	4,836,107	4,938,872
One to five years	-	-	-	-	-	-
Total	2,213,549	1,961,846	243,992	12,544	7,209,452	7,358,907

26 Customers indebtedness for acceptances

Customers' indebtedness for acceptances represents the accepted doeumented liability amount which is recoverable from the respective customers of the Group at the reporting date. Liabilities under acceptances represents bills of exchange, letters of credit etc where the Group has accepted the liabilities under documentary credits at the reporting date. These assets and liabilities have been presented on a gross basis in the eonsolidated statement of financial position as the Group does not have a legal right of set-off.

27 Comparative figures

Certain comparative figures have been reclassified where necessary to conform to current year's presentation.