

Consolidated Financial Statements

31 December 2014



بنك أبوظبي الوطني
NBAD

Consolidated financial statements

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Independent Auditors' Report

The Shareholders
National Bank of Abu Dhabi PJSC

Report on the Consolidated Financial Statements

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

Management's Responsibility for the 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.

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 (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 Chairman's report which relate to these consolidated financial statements are in agreement with the Group'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.

Austin Rudman
Registration no. 844

28 January 2015

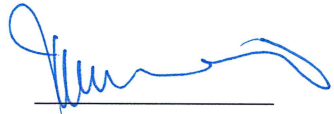
Consolidated statement of financial position

As at 31 December

	Note	2014 AED'000	2013 AED'000
Assets			
Cash and balances with central banks	7	55,452,341	35,061,054
Investments at fair value through profit or loss	8	15,425,662	2,645,893
Due from banks and financial institutions	9	11,134,262	20,100,371
Reverse repurchase agreements	10	15,844,377	18,932,199
Derivative financial instruments	39	7,422,828	6,146,006
Loans and advances	11	194,279,352	183,811,494
Non-trading investments	12	67,493,122	50,846,059
Other assets	13	6,370,981	4,909,712
Investment properties	14	177,533	135,260
Property and equipment	15	2,498,254	2,473,608
Total assets		376,098,712	325,061,656
Liabilities			
Due to banks and financial institutions	16	36,679,504	35,760,382
Repurchase agreements	17	13,875,917	1,352,121
Euro commercial paper	18	5,484,176	6,752,015
Derivative financial instruments	39	10,953,124	7,454,016
Customers' deposits	19	243,184,652	211,097,222
Term borrowings	20	14,998,716	18,690,168
Other liabilities	21	11,442,600	7,772,018
		336,618,689	288,877,942
Subordinated notes	22	1,516,641	1,512,323
Total liabilities		338,135,330	290,390,265
Equity			
Share capital	23	4,723,172	4,280,470
Share premium	25	245,473	143,608
Statutory and special reserves	23	4,736,112	4,305,556
Other reserves	23	17,387,121	15,936,184
Government of Abu Dhabi tier 1 capital notes	24	4,000,000	4,000,000
Share option scheme	25	151,427	107,682
Convertible notes - equity component	20, 22	108,265	108,265
Retained earnings		6,611,812	5,789,626
Total equity		37,963,382	34,671,391
Total liabilities and equity		376,098,712	325,061,656


Nasser Ahmed Khalifa Alsowaidi
Chairman


Alex Thursby
Group Chief Executive


James Burdett
Group Chief Financial Officer

The notes 1 to 45 are an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 2.

Consolidated statement of profit or loss

For the year ended 31 December

	Note	2014 AED'000	2013 AED'000
Interest income	26	8,634,612	8,085,522
Interest expense	27	(1,935,649)	(1,881,653)
Net interest income		6,698,963	6,203,869
Income from Islamic financing contracts	28	336,892	328,691
Depositors' share of profits	29	(17,837)	(22,903)
Net income from Islamic financing contracts		319,055	305,788
Net interest and Islamic financing income		7,018,018	6,509,657
Fee and commission income		3,002,520	2,355,228
Fee and commission expense		(691,928)	(503,058)
Net fee and commission income	30	2,310,592	1,852,170
Net foreign exchange gain	31	196,085	389,875
Net gain on investments and derivatives	32	764,402	311,022
Other operating income	33	125,620	335,264
		1,086,107	1,036,161
Operating income		10,414,717	9,397,988
General, administration and other operating expenses	34	(3,696,033)	(3,230,388)
Profit before net impairment charge and taxation		6,718,684	6,167,600
Net impairment charge	35	(868,127)	(1,205,906)
Profit before taxation		5,850,557	4,961,694
Overseas income tax expense	36	(271,688)	(218,139)
Net profit for the year		5,578,869	4,743,555
Basic earnings per share (AED)	42	1.14	0.96
Diluted earnings per share (AED)	42	1.12	0.95

The notes 1 to 45 are an integral part of these consolidated financial statements.
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Consolidated statement of other comprehensive income
For the year ended 31 December

	Note	2014 AED'000	2013 AED'000
Net profit for the year		5,578,869	4,743,555
Other comprehensive income			
<u>Items that are or may subsequently be reclassified to consolidated statement of profit or loss</u>			
Exchange difference on translation of foreign operations		(22,730)	12,318
Cash flow hedges:			
Effective portion of cash flow hedges	23	(42,584)	35,896
Fair value reserve:			
Net change in fair value during the year	23	380,315	371,735
Net cumulative amount transferred to profit or loss	23	(835,852)	(283,895)
<u>Items that will not subsequently be reclassified to consolidated statement of profit or loss</u>			
Re-measurement of defined benefit obligations		(7,707)	-
Other comprehensive income for the year		(528,558)	136,054
Total comprehensive income for the year		5,050,311	4,879,609

The notes 1 to 45 are an integral part of these consolidated financial statements.
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Consolidated statement of changes in equity

For the year ended 31 December

	Share capital AED'000	Share Premium AED'000	Statutory reserve AED'000	Special reserve AED'000	General reserve AED'000	Government of Abu Dhabi Tier 1 capital notes AED'000	Share option scheme AED'000	Fair value reserve AED'000	Foreign currency translation reserve AED'000	Convertible notes - equity component AED'000	Retained earnings AED'000	Total AED'000
Balance at 1 January 2013	3,874,558	-	1,937,279	2,128,253	13,469,554	4,000,000	95,312	699,317	(101,731)	21,420	5,003,179	31,127,141
Total comprehensive income for the year	-	-	-	-	-	-	-	123,736	12,318	-	4,743,555	4,879,609
<i>Transactions with owners of the Group</i>												
Zakat	-	-	-	-	-	-	-	-	-	-	(17,580)	(17,580)
Issue of shares	39,584	340,417	-	-	-	-	-	-	-	-	-	380,001
Treasury shares	(25,086)	(196,809)	-	-	2,984	-	-	-	-	-	-	(218,911)
Bonus shares issued (note 23)	391,414	-	-	-	(391,414)	-	-	-	-	-	-	-
Dividends paid for 2012 (note 23)	-	-	-	-	-	-	-	-	-	-	(1,359,504)	(1,359,504)
Transfer to general reserve (note 23)	-	-	-	-	2,100,000	-	-	-	-	-	(2,100,000)	-
Options granted to staff (note 25)	-	-	-	-	-	-	12,370	-	-	-	-	12,370
Issue / expiry of conversion option on convertible notes	-	-	-	-	21,420	-	-	-	-	86,845	-	108,265
Payment on Tier 1 capital notes (note 24)	-	-	-	-	-	-	-	-	-	-	(240,000)	(240,000)
Transfer to statutory / special reserve (note 23)	-	-	215,499	24,525	-	-	-	-	-	-	(240,024)	-
Balance at 31 December 2013	4,280,470	143,608	2,152,778	2,152,778	15,202,544	4,000,000	107,682	823,053	(89,413)	108,265	5,789,626	34,671,391
Total comprehensive income for the year	-	-	-	-	-	-	-	(498,121)	(22,730)	-	5,571,162	5,050,311
<i>Transactions with owners of the Group</i>												
Zakat	-	-	-	-	-	-	-	-	-	-	(18,077)	(18,077)
Share options exercised	14,490	101,865	-	-	-	-	-	-	-	-	-	116,355
Treasury shares adjustment	(2,344)	-	-	-	2,344	-	-	-	-	-	-	-
Bonus shares issued (note 23)	430,556	-	-	-	(430,556)	-	-	-	-	-	-	-
Dividends paid for 2013 (note 23)	-	-	-	-	-	-	-	-	-	-	(1,712,848)	(1,712,848)
Transfer to general reserve (note 23)	-	-	-	-	2,400,000	-	-	-	-	-	(2,400,000)	-
Options granted to staff (note 25)	-	-	-	-	-	-	43,745	-	-	-	-	43,745
Payment on Tier 1 capital notes (note 24)	-	-	-	-	-	-	-	-	-	-	(187,495)	(187,495)
Transfer to statutory / special reserve (note 23)	-	-	215,278	215,278	-	-	-	-	-	-	(430,556)	-
Balance at 31 December 2014	4,723,172	245,473	2,368,056	2,368,056	17,174,332	4,000,000	151,427	324,932	(112,143)	108,265	6,611,812	37,963,382

The notes 1 to 45 are an integral part of these consolidated financial statements.

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

Consolidated statement of cash flows

For the year ended 31 December

	Note	2014 AED'000	2013 AED'000
Cash flows from operating activities			
Profit before taxation		5,850,557	4,961,694
Adjustments for:			
Depreciation	34	223,024	206,265
Accreted interest		52,762	39,331
Gain on sale of non-trading investments	32	(835,852)	(283,895)
Profit on buy back of subordinated notes		-	(268,955)
Gain on sale of investment properties		(56,353)	-
Net impairment charges	35	1,348,655	1,532,799
Foreign currency translation adjustment		(394,009)	(343,329)
Share option scheme		43,745	12,370
		<u>6,232,529</u>	<u>5,856,280</u>
Change in investments at fair value through profit or loss		(12,779,769)	628,089
Change in due from central banks, banks and financial institutions		6,215,625	(4,747,496)
Change in reverse repurchase agreements		3,087,822	(422,591)
Change in loans and advances		(11,970,294)	(20,726,835)
Change in other assets		(1,436,820)	(576,594)
Change in due to banks and financial institutions		919,122	283,107
Change in repurchase agreements		12,523,796	(664,920)
Change in customers' deposits		32,084,777	20,793,649
Change in derivative financial instruments		2,377,937	(323,879)
Change in other liabilities		3,636,828	289,828
		<u>40,891,553</u>	<u>388,638</u>
Overseas income tax paid, net of recoveries		(252,399)	(219,340)
Net cash from operating activities		<u>40,639,154</u>	<u>169,298</u>
Cash flows from investing activities			
Purchase of non-trading investments		(75,911,467)	(35,472,981)
Proceeds from sale / maturity of non-trading investments		59,644,718	17,285,514
Proceeds from sale of investment properties		165,785	-
Purchase of property and equipment, net of disposals		(279,210)	(328,584)
Net cash used in investing activities		<u>(16,380,174)</u>	<u>(18,516,051)</u>
Cash flows from financing activities			
Proceeds from issue of shares under share option scheme	25	116,355	161,090
Net movement of Euro commercial paper		(1,267,839)	3,920,817
Issue of term borrowings		1,330,441	3,377,858
Repayment of term borrowings		(4,896,791)	(2,843,842)
Buy back of subordinated notes		-	(3,814,926)
Dividends paid	23	(1,712,848)	(1,359,504)
Payment on Tier 1 capital notes	24	(187,495)	(240,000)
Net cash used in financing activities		<u>(6,618,177)</u>	<u>(798,507)</u>
Net increase / (decrease) in cash and cash equivalents		<u>17,640,803</u>	<u>(19,145,260)</u>
Cash and cash equivalents at 1 January		36,486,123	55,631,383
Cash and cash equivalents at 31 December	37	<u>54,126,926</u>	<u>36,486,123</u>

The notes 1 to 45 are an integral part of these consolidated financial statements.

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

Notes to the consolidated financial statements

1 Legal status and principal activities

National Bank of Abu Dhabi PJSC (the “Bank”) was established in Abu Dhabi in 1968 with limited liability and is registered as a Public Joint Stock Company in accordance with the United Arab Emirates Federal Law No. 8 of 1984 (as amended) relating to Commercial Companies.

Its registered office address is P. O. Box 4, Abu Dhabi, United Arab Emirates. The consolidated financial statements as at and for the year ended 31 December 2014 comprise the Bank and its subsidiaries (together referred to as the “Group”). The Group is primarily engaged in corporate, retail, private and investment banking activities, management services, Islamic banking activities; and carries out its operations through its local and overseas branches, subsidiaries and representative offices located in United Arab Emirates, Bahrain, Egypt, France, Oman, Kuwait, Brazil, Cayman Islands, Sudan, Libya, the United Kingdom, Switzerland, Hong Kong, Jordan, Lebanon, Malaysia, China and the United States of America.

The Group’s Islamic banking activities are conducted in accordance with Islamic Sharia’a laws issued by the Sharia’a Supervisory Board.

The Bank is listed on the Abu Dhabi Securities Exchange (Ticker: NBAD).

The parent company of the Bank is the Abu Dhabi Investment Council, an entity owned by the Government of the Emirate of Abu Dhabi.

These consolidated financial statements were authorised for issue by the Board of Directors on 28 January 2015.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared on an ongoing basis in accordance with the International Financial Reporting Standards (IFRSs) (which comprises accounting standards issued by international Accounting Standards Board (IASB) as well as Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC)) and the requirements of applicable laws in the UAE.

(b) Basis of measurement

These consolidated financial statements are prepared under the historical cost basis except for the following:

- investments at fair value through profit or loss are measured at fair value;
- derivative financial instruments are measured at fair value;
- non-trading investments classified as available-for-sale are measured at fair value;
- recognised assets and liabilities designated as hedged items in qualifying hedge relationships are adjusted for changes in fair value attributable to the risk being hedged; and
- non-financial assets acquired in settlement of loans and advances are measured at the lower of their fair value less costs to sell and the carrying amount of the loan and advances.

(c) Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirhams (“AED”), which is the Bank’s functional currency. Items included in the financial statements of each of the Bank’s overseas subsidiaries and branches are measured using the currency of the primary economic environment in which they operate. Except as indicated, information presented in AED has been rounded to the nearest thousand.

Notes to the consolidated financial statements

2 Basis of preparation *(continued)*

(d) Use of estimates and judgements

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in these consolidated financial statements are described in note 5.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities except for the new standards and interpretations that became applicable and were adopted during the year.

New standards and interpretations adopted

During the year new standards, amendments to standards and interpretations have become effective for the period and have been applied in preparing these consolidated financial statements. These amendments are listed below:

IAS 32 (Financial instruments: Presentation): clarifies the offsetting criteria by explaining when an entity has a legal and enforceable right to set-off and when gross settlement is equivalent to net settlement, offsetting of collateral amounts.

IAS 36 (Impairment of Assets): focuses on the recoverable amount disclosures for non-financial assets. This amendment removed certain unintended disclosures of the recoverable amount of cash generating units which had been included in IAS 36 by the issue of IFRS 13. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed.

IAS 39 (Financial Instruments: Recognition and Measurement): clarifies that hedge accounting can be continued even if a hedging derivative is novated, provided the novation meets certain specific criteria.

The Group does not have a material impact on adoption of these amendments.

(a) Basis of consolidation

IFRS 10 governs the basis for consolidation where it establishes a single control model that applies to all entities including special purpose entities or structured entities. The definition of control is such that an investor controls an investee when 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. To meet the definition of control in IFRS 10, all three criteria must be met, including:

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

Notes to the consolidated financial statements

3 Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(i) Subsidiaries

Subsidiaries are investees that controlled by the Group. The Group controls the investee if it meets the control criteria discussed in note 3(a). The Group reassesses whether it has control if, there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases. These consolidated financial statements of the Group comprise the Bank and its subsidiaries as listed below:

<i>Legal Name</i>	<i>Country of incorporation</i>	<i>Principal activities</i>	<i>Holding % 2014</i>
NBAD Americas N.V. (formerly Abu Dhabi International Bank N.V.)	Curacao	Banking	100%
NBAD Securities LLC	United Arab Emirates	Brokerage	100%
Abu Dhabi National Leasing LLC	United Arab Emirates	Leasing	100%
Abu Dhabi National Properties PrJC	United Arab Emirates	Property Management	100%
NBAD Trust Company (Jersey) Limited	Channel Islands	Fund Management	100%
NBAD Private Bank (Suisse) SA	Switzerland	Banking	100%
Abu Dhabi National Islamic Finance Pvt.JSC	United Arab Emirates	Islamic Finance	100%
Ample China Holdings Limited	Hong Kong	Leasing	100%
Abu Dhabi Brokerage Egypt	Egypt	Brokerage	96%
National Bank of Abu Dhabi Malaysia Berhad	Malaysia	Banking	100%
NBAD Investment Management (DIFC) Limited ¹	United Arab Emirates	Fund Management	100%
NBAD Employee Share Options Limited	United Arab Emirates	Shares and Securities	100%
SAS 10 Magellan	France	Leasing	100%
National Bank of Abu Dhabi Representações Ltda	Brazil	Representative office	100%
NBAD Financial Markets (Cayman) Limited	Cayman Islands	Banking	100%

¹ under liquidation

(ii) Structured entities

A structured entity is established by the Group to perform a specific task. Structured entities are designed so that their activities are not governed by way of voting rights. In assessing whether the Group acts as a principal or has power over investees in which it has an interest, the Group considers factors such as the purpose and design of the investee, its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund. Whilst assessing control, the Group reviews all facts and circumstances to determine whether as a fund manager the Group is acting as agent or principal. If deemed to be a principal, the Group controls the fund and would consolidate them else as an agent the Group would account for them as investments in funds.

The Group's interest in investment funds which it manages is set out below:

Type of Structured Entity	Nature and purpose	Interest held by the Group
Investment Funds	Generate fees from managing assets on behalf of third-party investors	Investments in units issued by the fund amounting to AED 579,924 thousand (31 December 2013: AED 81,529 thousand)

Notes to the consolidated financial statements

3 Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iii) Joint Arrangements and Investments in Associates

An Associate is an investee over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Investment in associates are accounted under the equity method of accounting.

A joint arrangement is an arrangement of between the Group and other parties where the Group along with one or more parties has joint control by virtue of a contractual agreement. Joint arrangement may be a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to and record their respective share of the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement and thus are accounted under the equity method of accounting.

(iv) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in consolidated statement of profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value when control is lost.

(v) Transactions eliminated on consolidation

The carrying amount of the Bank's investment in each subsidiary and the equity of each subsidiary is eliminated on consolidation. All significant intra-group balances, and unrealised income and expenses arising from intra-group transactions are eliminated on consolidation.

(b) Financial assets and liabilities

(i) Recognition

The Group initially recognises loans and advances, customers' deposits, debt securities and subordinated notes on the date that they are originated. All other financial assets and liabilities are initially recognised on the consolidated statement of financial position when, the Group becomes a party to the contractual provisions of the instrument. These are initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

All *regular way* purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to or received from the counterparty. *Regular way* purchases or sales of financial assets are those that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Classification

(a) Fair value through profit or loss

(i) Designation at fair value through profit or loss

The Group designates financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

(ii) Held for trading

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

Fair value through profit or loss assets are not reclassified subsequent to their initial recognition.

Notes to the consolidated financial statements

3 Significant accounting policies (continued)

(b) Financial assets and liabilities (continued)

(ii) Classification (continued)

(b) Loans and receivables

Loans and receivables includes cash and balances with central banks, due from bank and financial institutions, finance lease receivables, reverse repurchase agreements and loans and advances. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

(c) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity.

(d) Available-for-sale

The Group has non-derivative financial assets designated as available-for-sale when these are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available for sale assets are intended to be held for an indefinite period of time and may be sold in future to manage liquidity requirements or in response to market fluctuation in interest rates or pricing of the financial assets.

(e) Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

(iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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 transferred assets or a portion of them. In such transactions, the transferred assets are not derecognised from the consolidated statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include repurchase transactions.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

(iv) Offsetting

As per IAS 32, financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intend either to settle 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 IFRS, or for gains and losses arising from a group of similar transactions.

Notes to the consolidated financial statements

3 Significant accounting policies (continued)

(b) Financial assets and liabilities (continued)

(v) Amortised cost measurement

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 rate / method" of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

(vi) Fair value measurement

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

When applicable, 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.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates 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, 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 recognized 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 supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the 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.

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

Notes to the consolidated financial statements

3 Significant accounting policies (continued)

(b) Financial assets and liabilities (continued)

(vii) Identification and measurement of impairment

An assessment is made at each reporting date and periodically during the year to determine whether there is any objective evidence that financial assets not carried at fair value through profit or loss, are impaired. Financial assets are impaired when objective evidence indicates 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 of the asset that can be estimated reliably.

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

The Group considers evidence of impairment at both specific and collective levels. All individually significant assets are assessed for specific impairment. All individually significant assets found not to be specifically impaired but are required to be collectively assessed are then assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

In assessing collective impairment the Group uses the higher of 1.5% of credit risk weighted asset computed as per Central Bank of UAE guidelines and a statistical modelling which incorporates historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement 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 modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the original effective interest rate. Impairment losses are recognised in the consolidated statement of profit or loss and reflected in an allowance account against such financial assets. 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.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition costs and current fair values out of other comprehensive income to the consolidated statement of profit or loss. When a subsequent event causes the amount of impairment loss on available-for-sale debt security to decrease, the impairment loss is reversed through the consolidated statement of profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity investment is recognised in other comprehensive income.

Impairment losses on unquoted equity instruments that are carried at cost because their fair value cannot be reliably measured, are measured as the difference between the carrying amount of the financial assets and the present values of estimated future cash flows discounted at the current market rate of return for similar financial assets. Such impairment losses shall not be reversed.

Notes to the consolidated financial statements

3 Significant accounting policies (continued)

(c) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash, balances with central banks and due from banks and financial institutions with original maturities of less than three months, which are subject to insignificant risk of changes in fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are non-derivative financial assets stated at amortised cost in the consolidated statement of financial position.

(d) Investments at fair value through profit or loss

These are financial assets classified as held for trading or designated as such upon initial recognition.

Held for trading financial assets includes debt securities, treasury bills, equity securities, short positions in securities and funds. They have been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. In addition, derivatives that are not effective accounting hedging instruments are carried at fair value through profit or loss.

Financial assets designated at fair value through profit or loss applies to groups of financial assets that are managed, and their performances are evaluated, on a fair value basis in accordance with a documented risk management or investment strategy.

These financial assets are initially recognised and subsequently measured at fair value with transaction costs taken directly to the consolidated statement of profit or loss. All related realised and unrealised gains or losses are included in net gain on investments.

(e) Due from banks and financial institutions

These are non-derivative financial assets that are stated at amortised cost, less any allowance for impairment.

(f) Reverse repurchase agreements

Assets purchased with a simultaneous commitment to resell at a specified future date are not recognised. The amount paid to the counterparty under these agreements is shown as reverse repurchase agreements in the consolidated statement of financial position. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement and charged to the consolidated statement of profit or loss using the effective interest rate method.

(g) Loans and advances

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

Loans and advances include loans and advances originated by the Bank which are not classified as held for trading or designated at fair value. Loans and advances are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the loans are sold or written off. These are initially measured at fair value (being the transaction price at inception) plus incremental direct transaction costs and subsequently measured at amortised cost using the effective interest rate method, adjusted for effective fair value hedges for the risk being hedged, net of interest suspended and provisions for impairment.

Notes to the consolidated financial statements

3 Significant accounting policies (continued)

(g) Loans and advances (continued)

Loans and advances include direct finance provided to customers such as overdrafts, credit cards, term loans, finance lease receivables and commercial bills.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances. In determining whether an arrangement is a lease, the Group ascertains the substance of the arrangement and assesses whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the assets.

(h) Islamic financing and investing contracts

The Bank engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Ijara, Murabaha, Mudaraba and Wakala. These are accounted in accordance with IAS 39 – Financial instrument: Recognition and Measurement.

(i) Definitions

Ijara

Ijara consists of Ijara muntahia bitamleek.

Ijara muntahia bitamleek is an agreement whereby the Group (the lessor) conveys to the customer (the lessee), in return for a specific rent, the right to use a specific asset for a specific period of time, against payment of fixed periodical and variable rental. Under this agreement, the Group purchases or constructs the asset and rents it to the customer. The contract specifies the leasing party and the amount and timing of rental payments and responsibilities of both parties during the term of the lease. The customer provides the Group with an undertaking to settle the rental amount as per the agreed schedule.

The Group retains the ownership of the assets throughout the entire lease term. At the end of the lease term, the Group sells the leased asset to the customer at a nominal value based on a sale undertaking by the Group.

Murabaha

An agreement whereby the Group sells to a customer a commodity and /or other assets, which the Group has purchased and acquired, based on promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin..

Mudaraba

A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any generated profits are distributed between the parties according to the profit shares that were pre-agreed upon in the contract. The Mudarib is responsible for all losses caused by his misconduct, negligence or violation of the terms and conditions of the Mudaraba; otherwise, losses are borne by Rab Al Mal.

Wakala

An agreement whereby the Group provides a certain sum of money to an agent (Wakkil) who invests it in Sharia's compliant transactions according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested).

Notes to the consolidated financial statements

3 Significant accounting policies (continued)

(h) Islamic financing and investing contracts (continued)

(ii) Revenue recognition

Ijara

Income from Ijara is recognised on a declining-value basis, until such time a reasonable doubt exists with regard to its collectability.

Murabaha

Income from Murabaha is recognised on a declining-value basis, until such time a reasonable doubt exists with regard to its collectability.

Mudaraba

Income or losses on Mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to the consolidated statement of profit or loss on their declaration by the Mudarib.

Wakala

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

(i) Non-trading investments

Included in non-trading investments are available-for-sale assets which are initially recognised at fair value plus incremental transaction costs directly attributable to the acquisition.

After initial recognition, these investments are re-measured at fair value. For investments which are not part of an effective hedge relationship, unrealised gains or losses are recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income, is included in the consolidated statement of profit or loss for the year. For investments which are part of an effective fair value hedge relationship, any unrealised gain or loss arising from a change in fair value is recognised directly in the consolidated statement of profit or loss to the extent of the changes in fair value being hedged.

Interest income is recognised on available-for-sale debt securities using the effective interest rate, calculated over the asset's expected life. Premiums and/or discounts arising on the purchase of debt investment securities are included in the calculation of their effective interest rates. Dividends on equity instruments are recognised in the statement of profit or loss when the right to receive payment has been established.

For the purpose of recognising foreign exchange gains and losses, an available-for-sale financial asset is treated as if it were carried at amortised cost in the foreign currency. Accordingly, for such a financial asset, exchange differences are recognised in the consolidated statement of profit or loss.

For unquoted equity investments where fair value cannot be reliably measured, these are carried at cost less provision for impairment in value. Upon de-recognition, the gain or loss on sale is recognised in the consolidated statement of profit or loss for the year.

Included in non-trading investments are held-to-maturity assets which are non-derivative assets with fixed or determinable payments and fixed maturity and that the Group has the positive intent and ability to hold them till maturity. These are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

Notes to the consolidated financial statements

3 Significant accounting policies (continued)

(i) Non-trading investments (continued)

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

(j) Investment properties

(i) Recognition and measurement

Investment properties are properties 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. Investment properties are measured at cost as per the cost model under IAS 40- Investment property. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When the use of a property changes such that it is reclassified as property and equipment, its original cost and the current carrying amount at the date of reclassification continue to be the cost and carrying amount of the asset for measurement and disclosures.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Any income or expenses on the investment properties are recognised in the consolidated statement of profit or loss in other operating income or other operating expense respectively.

(ii) Depreciation

Depreciation is recognised in the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of investment properties. The estimated useful lives of investment properties for the current period are as follows:

Buildings and villas	20 to 50 years
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Depreciation methods, useful lives and residual values are reassessed at every reporting date.

(iii) Impairment

The carrying amounts are reviewed at each reporting date for indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in the consolidated statement of profit or loss to the extent that carrying values do not exceed the recoverable amounts.

Notes to the consolidated financial statements

3 Significant accounting policies (continued)

(k) Property and equipment

(i) Recognition and measurement

All items of property and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Capital projects in progress are initially recorded at cost and regularly tested for impairment and upon completion are transferred to the appropriate category of property and equipment and thereafter depreciated.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within other operating income in the consolidated statement of profit or loss.

Subsequent expenditures are only capitalised when it is probable that the future economic benefits of such expenditures will flow to the Group. On-going expenses are charged to consolidated statement of profit or loss as incurred.

(ii) Depreciation

Depreciation is recognised in the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of all property and equipment. Freehold land and capital work in progress are not depreciated.

The estimated useful lives of assets for the current and comparative period are as follows:

Buildings and villas	20 to 50 years
Office furniture and equipment	1 to 5 years
Alterations to premises	4 years
Safes	10 to 20 years
Computer systems and equipment	3 to 7 years
Vehicles	3 years

Depreciation methods, useful lives and residual values are reassessed at every reporting date.

(iii) Capital work in progress

Capital work in progress assets are assets in the course of construction for production, supply or administrative purposes, are carried at cost, less any recognised impairment loss. Cost includes all direct cost attributable to design and construction of the property capitalised in accordance with Group's accounting policy. When the assets are ready for the intended use, the capital work in progress is transferred to the appropriate property and equipment category and is depreciated in accordance with the Group's policies.

(iv) Impairment

The carrying amounts are reviewed at each reporting date for indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in the consolidated statement of profit or loss to the extent that carrying values do not exceed the recoverable amounts.

Notes to the consolidated financial statements

3 Significant accounting policies *(continued)*

(l) Collateral pending sale

Real estate and other collaterals may be acquired as the result of settlement of certain loans and advances and are recorded as assets held for sale and reported in "Other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange. No depreciation is provided in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in the consolidated statement of profit or loss. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the consolidated statement of profit or loss. The Group's collateral disposal policy is in line with the respective regulatory requirement of the regions in which the Group operates.

(m) Due to banks and financial institutions, customers' deposits and euro commercial paper

Due to banks and financial institutions, customer deposits and euro commercial paper are financial liabilities and are initially recognised at their fair value minus the transaction costs and subsequently measured at their amortised cost using the effective interest rate method.

(n) Repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date are not derecognised. The liability to the counterparty for amounts received under these agreements is shown as repurchase agreements in the consolidated statement of financial position. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreement and charged to the consolidated statement of profit or loss using the effective interest rate method.

(o) Term borrowings and subordinated notes

Term borrowings and subordinated notes include convertible notes that can be converted into share capital at the option of the holder, where the number of shares issued do not vary with changes in their fair value, are accounted for as compound financial instruments. The equity component of the convertible notes is calculated as the excess of issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option.

Term borrowings and subordinated notes without conversion option are financial liabilities and are initially recognised at their fair value minus the transaction costs and subsequently measured at their amortised cost using the effective interest rate method and adjusted to the extent of fair value changes for the risks being hedged.

(p) Share option scheme

On the grant date fair value of options granted to staff is estimated and the cost is recognised as staff cost, with a corresponding increase in equity, over the period required for the staff to become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the number of share options for which the related service conditions are expected to be met; as such the amount ultimately recognised as an expense is based on the number of share options that do meet the related service and non-market performance conditions at the vesting date. These shares may contribute to the calculation of dilutive EPS once they are deemed as potential ordinary shares.

Notes to the consolidated financial statements

3 Significant accounting policies (continued)

(q) Interest

Interest income and expense are recognised in the consolidated statement of profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts. 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 liabilities at amortised cost on an effective interest rate basis.
- interest on available-for-sale investment securities on an effective interest rate basis.
- interest on held for trading securities and derivative financial instruments on an effective interest rate basis.

(r) Depositors' share of profit

Depositors' share of profit is amount accrued as expense on the funds accepted from banks and customers in the form of wakala deposits and recognised as expenses in the consolidated statement of profit or loss. The amounts are calculated in accordance with agreed terms and conditions of the wakala deposits and Sharia'a principles.

(s) Fee and commission

The Group earns fee and commission income from a diverse range of services provided to its customers. The basis of accounting treatment of fees and commission depends on the purposes for which the fees are collected and accordingly the revenue is recognised in consolidated statement of profit or loss. Fee and commission income is accounted for as follows:

- income earned from the provision of services is recognised as revenue as the services are provided;
- income earned on the execution of a significant act is recognised as revenue when the act is completed;
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in "Interest income".

Fee and commission expense relates mainly to transaction and service fees which are expensed as the services are received.

(t) Zakat

Zakat represents islamic business zakat payable by the Group on behalf of its shareholders to comply with the principles of Sharia'a and is approved by the Sharia'a Supervisory Board. The Group's appointed Zakat Committee is mandated to recommend zakat distribution.

Notes to the consolidated financial statements

3 Significant accounting policies (continued)

(u) Net gain on investments and derivatives

Net gain on investments and derivatives comprises realised and unrealised gains and losses on investments at fair value through profit or loss and derivatives, realised gains and losses on non-trading investments and dividend income.

Net gain or loss on investment at fair value through profit or loss and derivatives includes net trading income and net income from investments designated at fair value. Net trading income comprises of all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading.

Non-trading investment includes available for sale and held to maturity instruments.

Gains and losses arising from changes in fair value of available for sale assets are recognised in the statement of other comprehensive income and recorded in fair value reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets which are recognised directly in the consolidated statement of profit or loss. Where the investment is sold or realised, the cumulative gain or loss previously recognised in equity under fair value reserve is reclassified to the consolidated statement of profit or loss.

Held to maturity investments that are not close to their maturity are not ordinarily sold. However when they are sold or realised, the gain or loss is recognised in the consolidated statement of profit or loss.

Dividend income is recognised when the right to receive payment is established.

(v) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Group entities at spot exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rates at the reporting date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognised in consolidated statement of profit or loss.

(ii) Foreign operations

The activities of subsidiaries and branches based outside the UAE are not deemed an integral part of the head office operations, as they are financially and operationally independent of the head office. The assets and liabilities of the subsidiaries and overseas branches are translated into UAE Dirhams at rates of exchange at the reporting date. Income and expense items are translated at average rates, as appropriate. Exchange differences (including those on transactions which hedge such investments) arising from retranslating the opening net assets, are taken directly to foreign currency translation adjustment account in other comprehensive income.

Notes to the consolidated financial statements

3 Significant accounting policies (*continued*)

(w) Overseas income tax expense

Income tax expense is provided for in accordance with fiscal regulations of the respective countries in which the Group operates and is recognised in the consolidated statement of profit or loss. Income tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

(x) Derivative financial instruments and hedging

Derivatives are initially recognised, and subsequently measured at fair value with transaction costs taken directly to the consolidated statement of profit or loss. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative or using valuation techniques, mainly discounted cash flow models.

The method of recognising the resulting fair value gains or losses depends on whether the derivative is held for trading, or is designated as a hedging instrument and, if so, the nature of the risk being hedged. All gains and losses from changes in fair value of derivatives held for trading are recognised in the consolidated statement of profit or loss. When derivatives are designated as hedges, the Group classifies them as either: (i) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (ii) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; (iii) hedge of net investment which are accounted similarly to a cash flow hedge. Hedge accounting is applied to derivatives designated as hedging instruments in a fair value or cash flow, provided the criteria are met.

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristic and risks of the embedded derivative are not closely related to the economic characteristics and risk of the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented separately from host contract in the consolidated statement of financial position.

Notes to the consolidated financial statements

3 Significant accounting policies (continued)

(x) Derivative financial instruments and hedging (continued)

Hedge accounting

It is the Group's policy to document, at the inception of a hedge, the relationship between hedging instruments and hedged items, as well as risk management objective and strategy. The policy also requires documentation of the assessment, at inception and on an on-going basis, of the effectiveness of the hedge.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an on-going basis, as to whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. The Group makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

Fair value hedge

In relation to fair value hedges, any gain or loss from re-measuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the consolidated statement of profit or loss together with the changes in the fair value of the hedged item that are attributable to the hedged risk. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any adjustment up to that period to the hedged item for which effective interest rate method was used is amortised to the consolidated statement of profit or loss as a part of the recalculated effective interest rate of the then hedged item over its remaining life.

Cash flow hedge

In relation to effective cash flow hedges, the gain or loss on the hedging instrument is recognised initially in other comprehensive income and transferred to the consolidated statement of profit or loss in the period in which the hedged transaction impacts the consolidated statement of profit or loss. Gains or losses, if any, relating to the ineffective portion, are recognised immediately in the consolidated statement of profit or loss. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the consolidated statement of profit or loss.

Net investments hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of the changes in the fair value of the hedging instrument is recognised in other comprehensive income in the translation reserve. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in the consolidated statement of profit or loss. The amount recognised under other comprehensive income is reclassified to statement of profit or loss on disposal of the foreign operation.

Other derivatives

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting or are not designated as such are recognised immediately in the consolidated statement of profit or loss as a component of net gain on investments and derivatives or net foreign exchange gain.

(y) 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. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows, at a pre-tax rate, that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes to the consolidated financial statements

3 Significant accounting policies (continued)

(z) Employees' end of service benefit

Defined contribution plan

A defined contribution plan is a post - employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated statement of profit or loss in the periods during which services are rendered by employees.

Pension and national insurance contributions for eligible employees are made by the Bank to Pensions and Benefits Fund in accordance with the applicable laws of country where such contributions are made.

Defined benefit plan

A defined benefit plan is a post - employment benefit plan other than a defined contribution plan. The liability recognised in the statement of financial position in respect of defined benefit gratuity plans is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised past - service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high - quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. Net interest expense and other expenses related to defined benefit plans are recognised in Staff cost in consolidated statement of profit or loss. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately to profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(aa) Directors' remuneration

Pursuant to Article 118 of the Commercial Companies Law No. 8 of 1984 and in accordance with the Bank's Articles of Association, Directors' shall be entitled for remuneration which shall not exceed 10 % of the net profits after deducting depreciation, reserves and distribution of dividends not less than 5% of capital to shareholders.

(ab) Fiduciary activities

Assets held in a fiduciary capacity are not treated as assets of the Group as they are only held in trust where the Group acts as a custodian on customers' behalf. The Group has no liability or obligations towards the customer on these assets held in trust . Accordingly, these assets are not included in these consolidated financial statements.

(ac) Earnings per share

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

Notes to the consolidated financial statements

3 Significant accounting policies (continued)

(ad) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Certain financial guarantee contracts in the nature of credit default guarantees are not held for proprietary trading purposes and are treated as insurance contracts and accounted for under IFRS 4.

For other financial guarantee contracts, these are initially recognised at their fair value (which is the premium received on issuance). The received premium is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

(ae) Segment reporting

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

(af) Lease payments

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. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(ag) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2014, and have not been applied in preparing these consolidated financial statements:

IFRS - 15 *Revenue from contracts with customer*: establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC Customer loyalty Programmes. IFRS 15 is effective for annual period beginning on or after 1 January 2017, with early adoption permitted. The Group is assessing potential impact of this standard on its consolidated financial statements.

IFRS -9 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. IFRS 9 is effective for annual period beginning on or after 1 January 2018. However, early application of IFRS 9 is permitted.

The Group has started the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

Notes to the consolidated financial statements

4 Financial risk management

Introduction and overview

The Group is exposed to a variety of risks inherent in carrying out its business activities. Principal risks include credit, market (traded and non-traded interest rate and foreign currency related risks), liquidity and funding, capital, operational, and business continuity. The Group has institutionalized a risk management framework which seeks to effectively manage these risks.

This note presents information about the Group's exposure to each of the above risks, along with an overview of relevant frameworks, policies and processes for measuring and managing these risks.

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework and they are assisted by two board committees (Risk Management Committee and Audit Committee), and two management committees (Group Risk Committee ("GRC") and Group Assets and Liabilities Committee ("G-ALCO")).

- The Risk Management Committee (RMC), comprising of members from the Board, is responsible for recommending and setting the Group's risk strategy and policy guidelines, and subsequently monitoring adherence. RMC takes credit decisions above management's discretionary powers, defines risk limits within which the Group's management operates and also monitors the overall risks for the Group.
- The Audit Committee, a board level committee, exercises oversight to monitor compliance with regulatory guidelines and the Bank's internal policies and procedures.

The management committees are responsible for implementing the risk management framework. The major functions of the two management committees are given below:

- The GRC is accountable to the Board RMC in respect of all Risk Management facets within the Group. The primary function of the committee is to ensure that the Bank's policies and procedures incorporate sound risk management practices and that the same are implemented. It also reviews, and recommends to the Board, the risk appetite, risk limits, risk aspects of business strategy and planning, and approves risk policies & analytical models to ensure effective risk management.
- The G-ALCO is the driving force and key decision maker behind the structure and quality of the balance sheet. The G-ALCO is directly accountable to the Board RMC for ensuring that the risks within the Group Asset and Liability position are prudently managed by way of strong Bank policy and procedures and an appropriate risk framework. The G-ALCO must be constantly aware of and actively manage these risks and their potential impact on the Banks business and strategic objectives.

The Group manages risk using three lines of defence comprising of business units, control units and Internal Audit. Business units, as the first line of defence, identify and manage risk in their day-to-day activities by ensuring that activities are within the Group's risk appetite and are in compliance with all relevant internal policies and processes. Risk Group (comprising head office risk and risk functions embedded in business divisions) and Legal & Compliance division, as the second line of defence, establishes risk controls comprising of policies and processes while also providing oversight and independent challenge to the first line of defence. The Group Chief Risk Officer ("GCRO") has a direct reporting line to Board RMC to ensure the independence of Risk Group from business. Internal audit, as the third line of defence, provides assurance to management and the Board of the effectiveness of risk management practices employed by the first two lines of defence. The Group Chief Audit Officer has a direct reporting line to the Board Audit Committee.

Notes to the consolidated financial statements

4 Financial risk management (continued)

(a) Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's loans and advances, due from banks and financial institutions, reverse repurchase agreements and non-trading debt investments, derivative financial instruments and certain other assets.

For risk management purposes, credit risk arising on trading investments is managed independently, and reported as a component of market risk exposure.

Management of credit risk

The Group uses an internal risk rating system to assess the credit quality of corporate borrowers and counterparties. Each corporate borrower is assigned a rating, including classified accounts. The risk rating system has 11 grades, further segregated into 24 notches. Grades 1-8 are performing and Grades 9 -11 are non – performing. Non-performing grades are classified based on the below criteria:

Grade	Classification	Criteria	
		Corporate loans	Retail loans
9	Sub-standard loans	Arrears greater than 90 days and shows some loss due to adverse factors that hinder repayment	Arrears greater than 90 days
10	Doubtful loans	Based on available information, full recovery seems doubtful, leading to a loss on portion of these loans	Arrears greater than 120 days
11	Loss loans	Probability of no recovery; after all available courses of action are exhausted	Arrears greater than 180 days

The Performing loan portfolio of the Group based on the internal credit ratings is as follows:

Rating grade

Performing loans and advances

	2014 AED'000	2013 AED'000
1 – 4	126,477,638	118,072,923
5 – 6	23,930,098	23,540,201
7	24,611,025	26,411,070
8	1,465,622	2,276,844
Retail programme lending	18,302,587	13,824,433
	<u>194,786,970</u>	<u>184,125,471</u>

In addition, the Group manages credit risk by obtaining collateral where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. Credit risk in respect of derivative financial instruments is limited to those with positive fair values.

Credit risk arising from other financial instruments is managed by assigning limits, diversification of investment activities, limiting concentration of exposure to industry sectors, geographical locations and counterparties.

Notes to the consolidated financial statements

4 Financial risk management (continued)

(a) Credit risk (continued)

Impairment:

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. The carrying amount of financial assets represents the maximum credit exposure.

	Due from banks and financial institutions		Loans and advances		Non-trading investments	
	2014 AED'000	2013 AED'000	2014 AED'000	2013 AED'000	2014 AED'000	2013 AED'000
Individually impaired						
Substandard	-	-	2,271,333	1,869,337	-	-
Doubtful	718	718	1,649,271	1,834,684	3,342	20,055
Loss	-	-	3,364,751	3,209,921	-	-
	<u>718</u>	<u>718</u>	<u>7,285,355</u>	<u>6,913,942</u>	<u>3,342</u>	<u>20,055</u>
Gross amount	718	718	7,285,355	6,913,942	3,342	20,055
Interest suspended	-	-	(1,124,889)	(900,893)	-	-
Specific allowance for impairment	(718)	(718)	(3,122,770)	(3,352,083)	-	(17,043)
	<u>-</u>	<u>-</u>	<u>3,037,696</u>	<u>2,660,966</u>	<u>3,342</u>	<u>3,012</u>
Carrying amount	-	-	3,037,696	2,660,966	3,342	3,012
Past due but not impaired						
<i>Past due comprises:</i>						
Less than 30 days	-	-	153,436	483,780	-	-
31 – 60 days	-	-	151,313	79,627	-	-
61 – 90 days	-	-	177,448	76,433	-	-
More than 90 days	-	-	1,161,766	1,647,167	-	-
	<u>-</u>	<u>-</u>	<u>1,442,963</u>	<u>2,287,007</u>	<u>-</u>	<u>-</u>
Carrying amount	-	-	1,442,963	2,287,007	-	-
Neither past due nor impaired	<u>11,134,262</u>	<u>20,100,371</u>	<u>193,143,007</u>	<u>181,838,464</u>	<u>67,489,780</u>	<u>50,843,047</u>
Collective allowance for impairment	<u>-</u>	<u>-</u>	<u>(3,545,314)</u>	<u>(2,974,943)</u>	<u>-</u>	<u>-</u>
Carrying amount	<u><u>11,134,262</u></u>	<u><u>20,100,371</u></u>	<u><u>194,279,352</u></u>	<u><u>183,811,494</u></u>	<u><u>67,493,122</u></u>	<u><u>50,846,059</u></u>

Non trading investment includes investment in equity instruments which does not carry credit risk.

The category of neither past due nor impaired includes renegotiated loans amounting to AED 1,302 million (2013: AED 1,922 million).

Notes to the consolidated financial statements

4 Financial risk management (continued)

(a) Credit risk (continued)

Impaired loans and advances and non-trading investments

Impaired loans and advances and non-trading investments 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 agreements.

Past due but not impaired

Past due but not impaired are accounts where either contractual principal or interest are past due and when the accounts show weakness in the borrower's financial position and creditworthiness, and requires more than normal attention. Such weakness is specifically monitored to ensure that the quality of the asset does not further deteriorate. On this class of asset the Group believes that specific impairment is not appropriate at the current condition.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made material concessions that it would not otherwise consider. Once a loan is restructured, it remains in this category for a minimum period of twelve months, in order to establish satisfactory track record of performance under the restructuring agreement. The Bank determines the twelve-month period to commence from the date of signing of the agreement for restructuring. On this class of asset the Group believes that specific impairment may not be required. In the last twelve months, the Group has renegotiated the following exposures:

	2014 AED'000	2013 AED'000
Renegotiated loans	<u>1,301,787</u>	<u>1,925,914</u>

Movement of renegotiated loans during the year

	2014 AED'000	2013 AED'000
Balance at the beginning of the year	1,925,914	2,478,270
Upgraded to neither past due nor impaired during the year	(1,672,761)	(2,173,099)
Downgraded to individually impaired or past due but not impaired during the year	(3,946)	(92,100)
Additions during the year	<u>1,052,580</u>	<u>1,712,843</u>
Balance at the end of the year	<u>1,301,787</u>	<u>1,925,914</u>

Notes to the consolidated financial statements

4 Financial risk management (continued)

(a) Credit risk (continued)

Allowances for impairment

The Group establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss allowance. In assessing the collective loss allowance, the Group uses the higher of 1.5% of credit risk weighted assets computed as per the central bank guidelines or incurred but not identified model, established for groups of homogeneous assets with similar risk characteristics that are indicative of the debtor's ability to pay amounts due according to the contractual terms on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Individually assessed loans are required to be classified as impaired as soon as there is objective evidence that an impairment loss has been incurred. Objective evidence of impairment includes observable data such as when contractual payment of principal or interest is overdue and there is known difficulties in the cash flows of counterparties, credit rating downgrades or original terms of the contractual repayment are unable to be met.

Write-off policy

The Group writes off a loan or investment balance (and any related allowances for impairment losses) when it determines that the loans or investments are uncollectible. This is determined after all possible efforts of collecting the amounts have been exhausted.

Collateral

The Group holds various types of collateral against loans and advances and reverse repurchase agreement in the form of mortgage interests over property, other securities, cash deposits and guarantees. The Group accepts sovereign guarantees and guarantees from well reputed local or international banks, well established local or multinational large corporate and high net-worth private individuals. When calculating provisions, discount factors as defined by the Central Bank of the UAE are applied to market value of the collateral. Collateral generally is not held against due from banks and financial institutions, and no such collateral was held at 31 December 2014 or 2013.

An estimate of the collateral coverage against non-performing loans and advances (including Islamic financing) is shown below:

	2014 AED'000	2013 AED'000
Collateral value cover		
0 – 50%	2,996,388	3,447,621
50 – 100%	1,585,044	1,469,366
Above 100%	2,703,923	1,996,955
Total Gross non-performing loans	7,285,355	6,913,942

During the year 2014 and 2013, the Group repossessed an insignificant amount of collateral that was held as security against loans and advances.

The Group monitors concentrations of credit risk by industry sector, counterparty and geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

Notes to the consolidated financial statements

4 Financial risk management (continued)

(a) Credit risk (continued)

Concentrations by industry sector

	Loans and advances		Investments		Reverse repurchase agreements		Undrawn loan Commitments	
	2014 AED'000	2013 AED'000	2014 AED'000	2013 AED'000	2014 AED'000	2013 AED'000	2014 AED'000	2013 AED'000
<i>Concentration by industry sector:</i>								
Agriculture	177,690	149,633	-	-	-	-	243,878	195,098
Energy	16,458,515	23,152,760	11,453,093	7,198,499	-	-	3,695,326	4,892,973
Manufacturing	14,008,892	12,471,627	296,994	269,462	-	-	3,691,127	2,655,948
Construction	10,185,285	8,944,560	447,736	448,295	-	-	1,854,454	2,803,363
Real estate	35,291,197	32,532,656	11,425	104,724	-	-	4,740,885	3,898,450
Trading	9,078,453	4,906,106	5,925	6,874	-	-	1,322,361	891,004
Transport	15,677,618	9,171,985	2,733,929	919,524	-	-	1,176,451	2,508,926
Banks	24,108,739	29,469,792	26,292,582	17,862,248	15,097,818	16,753,185	84,478	360,499
Other financial institutions	14,454,564	12,938,183	11,898,976	8,089,318	746,559	2,179,014	2,449,395	845,374
Services	6,875,163	5,828,764	67,910	721,666	-	-	2,336,002	387,855
Government	23,435,214	22,891,901	27,632,632	17,424,117	-	-	17,200	4,311,461
Supranational	-	-	2,077,582	464,268	-	-	-	-
Personal loans for consumption	22,822,425	18,047,717	-	-	-	-	152,427	281,053
Personal loans others	9,402,258	10,509,675	-	-	-	-	166,621	91,452
Others	96,312	24,054	-	-	-	-	169,459	513,021
	<u>202,072,325</u>	<u>191,039,413</u>	<u>82,918,784</u>	<u>53,508,995</u>	<u>15,844,377</u>	<u>18,932,199</u>	<u>22,100,064</u>	<u>24,636,477</u>

Investments include both investments at fair value through profit or loss and non-trading investments.

The above numbers are presented on a gross basis and are not adjusted for provisions or interest in suspense if any.

Notes to the consolidated financial statements

4 Financial risk management (continued)

(a) Credit risk (continued)

Concentration by location:

	UAE AED'000	Europe AED'000	Arab countries AED'000	Americas AED'000	Asia AED'000	Others AED'000	Total AED'000
<i>As at 31 Dec 2014</i>							
Cash and balances with central banks	25,923,632	1,940,356	6,901,337	20,682,075	4,941	-	55,452,341
Investments at fair value through profit or loss	4,503,547	3,935,090	2,614,687	1,954,294	1,453,448	964,596	15,425,662
Due from banks and financial institutions	1,890,669	7,261,253	1,018,633	149,202	796,729	17,776	11,134,262
Reverse repurchase agreements	1,653,409	3,619,180	10,563,621	-	8,167	-	15,844,377
Derivative financial instruments	2,332,646	3,949,324	1,037,800	61,654	17,147	24,257	7,422,828
Loans and advances	117,589,832	37,545,083	17,478,795	10,978,644	17,123,565	1,356,406	202,072,325
Non trading investments	17,160,578	14,482,857	12,504,983	14,475,736	8,509,619	359,349	67,493,122
	<u>171,054,313</u>	<u>72,733,143</u>	<u>52,119,856</u>	<u>48,301,605</u>	<u>27,913,616</u>	<u>2,722,384</u>	<u>374,844,917</u>
<i>As at 31 Dec 2013</i>							
Cash and balances with central banks	15,804,776	403,249	3,255,405	15,511,688	85,936	-	35,061,054
Investments at fair value through profit or loss	1,421,734	270,319	436,340	494,924	22,576	-	2,645,893
Due from banks and financial institutions	5,723,665	8,691,565	3,258,516	1,396,271	1,005,495	24,859	20,100,371
Reverse repurchase agreements	1,151,361	5,063,937	12,123,856	224,038	369,007	-	18,932,199
Derivative financial instruments	1,520,780	3,893,319	422,852	219,583	23,459	66,013	6,146,006
Loans and advances	119,666,096	39,444,664	14,049,562	5,226,415	12,534,784	117,892	191,039,413
Non trading investments	19,061,724	12,568,051	14,663,172	1,061,763	2,481,997	1,026,395	50,863,102
	<u>164,350,136</u>	<u>70,335,104</u>	<u>48,209,703</u>	<u>24,134,682</u>	<u>16,523,254</u>	<u>1,235,159</u>	<u>324,788,038</u>

Concentration by location for investments is measured based on the location of the issuer of the security. Concentration by location for all others is measured based on the residential status of the borrower. The above numbers are presented on a gross basis and are not adjusted for provisions or interest in suspense if any.

Notes to the consolidated financial statements

4 Financial risk management (continued)

(a) Credit risk (continued)

Classification of trading securities and non-trading investments as per their external ratings:

	Non-trading investments		Investments at fair value through profit or loss	
	2014 AED'000	2013 AED'000	2014 AED'000	2013 AED'000
AAA	16,882,953	5,338,052	43,645	6,502
AA to A	41,206,783	36,743,655	11,067,470	1,075,535
BBB to B	6,669,819	5,349,027	2,202,910	312,123
Unrated	2,733,567	3,432,368	2,111,637	1,251,733
	<u>67,493,122</u>	<u>50,863,102</u>	<u>15,425,662</u>	<u>2,645,893</u>

Unrated investments primarily consist of investments in Government related entities and investments in equities and funds. Investments at fair value through profit or loss are neither past due nor impaired.

Classification of trading securities and non-trading investments as per their counterparties:

	Non-trading investments		Investments at fair value through profit or loss	
	2014 AED'000	2013 AED'000	2014 AED'000	2013 AED'000
Government sector	26,255,217	17,057,675	1,377,415	366,442
Supranational	237,073	457,766	1,840,510	6,502
Public sector	18,833,102	14,270,166	2,015,112	814,692
Banking sector	18,303,585	17,438,715	7,988,997	423,533
Corporate / private sector	3,864,145	1,638,780	2,203,628	1,034,724
	<u>67,493,122</u>	<u>50,863,102</u>	<u>15,425,662</u>	<u>2,645,893</u>

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed. Any delay in settlement is rare and monitored.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favourable to the Group. The positive market value is also referred to as the "replacement cost" since it is an estimate of what it would cost to replace transactions at prevailing market rates if a counterparty defaults. The majority of the Group's derivative contracts are entered into with other banks and financial institutions.

Notes to the consolidated financial statements

4 Financial risk management (continued)

(b) Liquidity risk

Liquidity risk arises from cash flows generated by assets and liabilities, including derivatives and other off-balance sheet commitments, not being matched in currency, size, and term, thereby creating financing needs which potentially cannot be met without incurring substantially higher costs or at any cost at all.

Liquidity risk is defined as the risk that the Group is unable to meet its financial obligations as and when they fall due or that it can only do so at an excessive cost.

Management of liquidity risk

The Group has defined the liquidity risk appetite at a level so as to ensure that the Group has a controlled liquidity risk position with adequate cash or cash-equivalents to be able to meet its financial obligations, in all foreseeable circumstances and without incurring substantial additional costs, for a rolling period of three months.

The liquidity risk appetite is also defined at a level to ensure continued compliance with current and proposed liquidity regulation from both domestic and international regulators, and aligned to support the Group's external credit rating objectives.

Liquidity limits are defined at the Group level and are cascaded down throughout the organisation to ensure that the Group complies with the defined Group Liquidity Risk appetite. International limits are cascaded to ensure compliance with any additional local regulatory requirements on liquidity management.

At Group level 10 Liquidity metrics have been defined which need to be consistently adhered to. These include Central Bank of the UAE Regulatory requirements as well as Basel III liquidity ratios.

All liquidity policies and procedures are subject to review and approval by G-ALCO.

Exposure to liquidity risk

The contractual asset and liability maturity mismatch report without considering the Group's retention history is detailed below.

Notes to the consolidated financial statements

4 Financial risk management (continued)

(b) Liquidity risk (continued)

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

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Unspecified maturity AED'000
Assets							
Cash and balances with central banks	55,452,341	51,914,495	3,537,846	-	-	-	-
Investments at fair value through profit or loss	15,425,662	2,546,859	3,643,831	6,097,025	572,182	2,565,765	-
Due from banks and financial institutions	11,134,262	10,475,464	658,798	-	-	-	-
Reverse repurchase agreements	15,844,377	14,525,319	1,319,058	-	-	-	-
Derivative financial instruments	7,422,828	1,546,297	941,943	1,393,080	1,099,799	2,441,709	-
Loans and advances	194,279,352	44,544,174	18,756,573	27,686,168	44,319,741	58,972,696	-
Non-trading investments	67,493,122	2,893,227	4,871,748	15,720,286	9,713,627	34,294,234	-
Other assets	6,370,981	4,778,236	1,592,745	-	-	-	-
Investment properties	177,533	-	-	-	-	-	177,533
Property and equipment	2,498,254	-	-	-	-	-	2,498,254
	376,098,712	133,224,071	35,322,542	50,896,559	55,705,349	98,274,404	2,675,787
Liabilities and equity							
Due to banks and financial institutions	36,679,504	35,865,125	796,028	18,351	-	-	-
Repurchase agreements	13,875,917	13,875,917	-	-	-	-	-
Euro commercial paper	5,484,176	3,540,073	1,944,103	-	-	-	-
Derivative financial instruments	10,953,124	1,455,819	1,154,224	1,124,491	1,622,594	5,595,996	-
Customers' deposits	243,184,652	229,147,733	11,634,192	1,400,368	785,906	216,453	-
Term borrowings	14,998,716	2,768,851	502,628	3,192,007	6,745,751	1,789,479	-
Other liabilities	11,442,600	8,581,950	2,860,650	-	-	-	-
Subordinated notes	1,516,641	-	-	1,037,047	-	479,594	-
Equity	37,963,382	-	-	-	-	-	37,963,382
	376,098,712	295,235,468	18,891,825	6,772,264	9,154,251	8,081,522	37,963,382
Undrawn commitments to extend credit	22,100,064	3,203,400	4,245,812	5,272,667	5,145,619	4,232,566	-
Financial guarantees	1,031,799	462,484	73,460	257,110	238,745	-	-

Notes to the consolidated financial statements

4 Financial risk management (continued)

(b) Liquidity risk (continued)

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

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Unspecified maturity AED'000
Assets							
Cash and balances with central banks	35,061,054	28,871,446	6,189,370	238	-	-	-
Investments at fair value through profit or loss	2,645,893	-	229,260	502,429	275,040	1,639,164	-
Due from banks and financial institutions	20,100,371	15,101,012	4,999,359	-	-	-	-
Reverse repurchase agreements	18,932,199	16,506,617	2,255,801	169,781	-	-	-
Derivative financial instruments	6,146,006	1,049,944	542,963	1,046,083	1,096,145	2,410,871	-
Loans and advances	183,811,494	48,870,198	25,831,591	20,204,500	30,472,213	58,432,992	-
Non-trading investments	50,846,059	4,602,465	11,166,081	3,503,638	5,497,222	26,076,653	-
Other assets	4,909,712	3,682,285	1,227,427	-	-	-	-
Investment properties	135,260	-	-	-	-	-	135,260
Property and equipment	2,473,608	-	-	-	-	-	2,473,608
	<u>325,061,656</u>	<u>118,683,967</u>	<u>52,441,852</u>	<u>25,426,669</u>	<u>37,340,620</u>	<u>88,559,680</u>	<u>2,608,868</u>
Liabilities and equity							
Due to banks and financial institutions	35,760,382	34,111,978	1,648,404	-	-	-	-
Repurchase agreements	1,352,121	1,352,121	-	-	-	-	-
Euro commercial paper	6,752,015	6,119,170	632,845	-	-	-	-
Derivative financial instruments	7,454,016	1,158,300	663,615	734,859	1,010,554	3,886,688	-
Customers' deposits	211,097,222	192,710,645	15,621,857	1,834,111	760,976	169,633	-
Term borrowings	18,690,168	-	3,480,688	4,834,299	5,857,284	4,517,897	-
Other liabilities	7,772,018	5,830,802	1,941,216	-	-	-	-
Subordinated notes	1,512,323	-	-	1,034,935	-	477,388	-
Equity	34,671,391	-	-	-	-	-	34,671,391
	<u>325,061,656</u>	<u>241,283,016</u>	<u>23,988,625</u>	<u>8,438,204</u>	<u>7,628,814</u>	<u>9,051,606</u>	<u>34,671,391</u>
Undrawn commitments to extend credit	24,636,477	3,240,431	3,655,904	2,835,771	3,440,087	11,464,284	-
Financial guarantees	4,785,514	9,091	440,760	3,822,857	512,806	-	-

Notes to the consolidated financial statements

4 Financial risk management (continued)

(b) Liquidity risk (continued)

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

Liabilities	Total AED'000	Gross nominal cash flows AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000
As at 31 December 2014							
Due to banks and financial institutions	36,679,504	36,694,823	35,876,995	799,385	18,443	-	-
Repurchase agreements	13,875,917	13,879,251	13,879,251	-	-	-	-
Euro commercial paper	5,484,176	5,490,308	3,541,736	1,948,572	-	-	-
Customers' deposits	243,184,652	244,135,771	229,315,983	11,869,634	1,712,236	943,853	294,065
Term borrowings	14,998,716	17,342,734	2,971,099	767,846	3,889,148	7,295,977	2,418,664
Subordinated notes	1,516,641	1,902,825	2,428	33,218	1,093,225	49,780	724,174
	<u>315,739,606</u>	<u>319,445,712</u>	<u>285,587,492</u>	<u>15,418,655</u>	<u>6,713,052</u>	<u>8,289,610</u>	<u>3,436,903</u>
Undrawn commitments to extend credit	22,100,064	22,100,064	19,906,564	1,432,581	459,905	301,014	-
Financial guarantees	1,031,799	1,031,799	1,031,799	-	-	-	-
As at 31 December 2013							
Due to banks and financial institutions	35,760,382	35,779,503	34,123,522	1,655,981	-	-	-
Repurchase agreements	1,352,121	1,352,444	1,352,444	-	-	-	-
Euro commercial paper	6,752,015	6,754,917	6,121,416	633,501	-	-	-
Customers' deposits	211,097,222	212,098,111	192,998,573	16,024,056	1,916,699	921,921	236,862
Term borrowings	18,690,168	20,189,520	259,103	3,802,574	4,063,423	6,471,213	5,593,207
Subordinated notes	1,512,323	2,001,734	2,761	34,763	1,111,505	52,997	799,708
	<u>275,164,231</u>	<u>278,176,229</u>	<u>234,857,819</u>	<u>22,150,875</u>	<u>7,091,627</u>	<u>7,446,131</u>	<u>6,629,777</u>
Undrawn commitments to extend credit	24,636,477	24,636,477	22,903,334	1,232,374	265,811	-	234,958
Financial guarantees	4,785,514	4,785,514	4,785,514	-	-	-	-

Notes to the consolidated financial statements

4 Financial risk management (continued)

(c) Market risk

Market risk is the risk that the Group's income and / or value of a financial instrument will fluctuate because of changes in market factors such as interest rates, credit spreads, foreign exchange rates and market prices of equity and commodity.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are held by the Wholesale - Global Markets Division, together with financial assets and financial liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in the Group Risk Committee (GRC) and Group Asset & Liability Committee (G-ALCO), which sets limits for each type of risk in aggregate and for specific portfolios. Risk Group is responsible for the development of detailed risk management policies (subject to review and approval by the GRC).

Exposure to market risks – trading portfolios

The principal analytical tool used to measure and control market risk exposure within the Group's trading portfolios which comprise of investments at fair value through profit or loss and trading derivatives is Value at Risk ("VaR"). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model uses historical simulation based on a 99% confidence level and assumes a 1-day holding period. Using market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

The Group uses VaR limits for foreign exchange, interest rate and credit spread. The overall structure of VaR limits is subject to review and approval by the GRC. VaR limits are allocated to trading portfolios.

VaR is driven by actual historical observations and hence, it is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation the VaR is further supplemented with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. Moreover the trading activity at Group and desk level is subject to Management Action Triggers ("MAT") that are limits on maximum losses that trigger actions from management.

Due to impracticability, the Group has not assessed the risk exposure for the comparative period and as a result not presented them in these consolidated financial statements.

The VaR at 31 December 2014 was as follows:

	As at AED'000	Average AED'000	Minimum AED'000	Maximum AED'000
VaR – Trading Book	8,315	12,115	5,332	25,123
Foreign exchange	1,809	2,388	247	7,174
Interest Rate	7,560	9,749	4,656	18,856
Credit	4,191	5,346	1,430	14,719
Diversification benefit	5,244	5,368	1,000	15,626

Equity and commodity risks are not currently captured in the VaR model. These are under regular monitoring by the Risk Group through a set of market risk sensitivities, notional limits, and management action triggers.

Notes to the consolidated financial statements

4 Financial risk management (continued)

(c) Market risk (continued)

Exposure to market risk – banking portfolios

Exposure to Market Risk in the banking portfolios which comprise of non-trading investments, reverse repurchase agreements and certain derivative instruments which are designated as hedging instruments arises primarily from the investment portfolios, interest rate gaps in the banking book, and the Group's overall FX positions.

The principal analytical tool used to measure and control the investment risk exposure within the Group is Value at Risk ("VaR"). The VaR model is the same as the one used for the trading portfolios. The Group uses VaR limits for controlling the overall investment risk, including foreign exchange, interest rate and credit spread. The overall structure of VaR limits is subject to review and approval by the GRC. VaR limits are allocated to different Investment portfolios.

The investment risk VaR at 31 December 2014 was as follows:

	As at AED'000	Average AED'000	Minimum AED'000	Maximum AED'000
VaR – Banking Book	81,943	89,736	72,958	117,435
Foreign exchange	1,455	2,812	1,058	6,953
Interest Rate	27,779	18,540	10,896	41,853
Credit	82,012	93,639	79,998	118,004
Diversification benefit	29,303	25,256	18,995	49,375

Interest rate risk

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities. Overall interest rate risk positions are managed by using derivative instruments to manage overall position arising from the Group's interest bearing financial instruments. The use of derivatives to manage interest rate risk is described in note 39.

The substantial portion of the Group's assets and liabilities are re-priced within one year. Accordingly there is a limited exposure to interest rate risk.

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The Group assumes a fluctuation in interest rates of 50 basis points (2013: 50 basis points) and estimates the following impact on the net profit for the year and equity at that date:

	Net profit for the year		Equity	
	2014 AED'000	2013 AED'000	2014 AED'000	2013 AED'000
Fluctuation in yield	215,762	184,125	79,434	89,071

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 278,229 million (2013: AED 258,499 million) interest bearing assets and AED 247,779 million (2013: AED 212,949 million) interest bearing liabilities with interest re-pricing less than one year, for assessing the impact on net profit. The impact on equity includes the impact on net profit and the interest rate sensitivity on the available for sale portfolio. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Notes to the consolidated financial statements

4 Financial risk management (continued)

(c) Market risk (continued)

The Group's interest rate gap and sensitivity position based on contractual re-pricing arrangements at 31 December 2014 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Non interest bearing AED'000
Assets							
Cash and balances with central banks	55,452,341	37,940,584	3,537,846	-	-	-	13,973,911
Investments at fair value through profit or loss	15,425,662	5,320,282	3,544,230	3,500,216	572,182	939,742	1,549,010
Due from banks and financial institutions	11,134,262	10,013,326	659,516	-	-	-	461,420
Reverse repurchase agreements	15,844,377	14,525,319	1,319,058	-	-	-	-
Derivative financial instruments	7,422,828	-	-	-	-	-	7,422,828
Loans and advances	194,279,352	179,263,873	10,626,271	785,660	1,964,399	1,176,727	462,422
Non-trading investments	67,493,122	6,994,356	4,484,108	13,612,369	8,897,148	32,882,201	622,940
Other assets	6,370,981	-	-	-	-	-	6,370,981
Investment properties	177,533	-	-	-	-	-	177,533
Property and equipment	2,498,254	-	-	-	-	-	2,498,254
	<u>376,098,712</u>	<u>254,057,740</u>	<u>24,171,029</u>	<u>17,898,245</u>	<u>11,433,729</u>	<u>34,998,670</u>	<u>33,539,299</u>
Liabilities and equity							
Due to banks and financial institutions	36,679,504	34,087,388	796,028	18,351	-	-	1,777,737
Repurchase agreements	13,875,917	13,875,917	-	-	-	-	-
Euro commercial paper	5,484,176	3,540,073	1,944,103	-	-	-	-
Derivative financial instruments	10,953,124	-	-	-	-	-	10,953,124
Customers' deposits	243,184,652	179,848,560	10,415,527	1,391,507	744,030	162,356	50,622,672
Term borrowings	14,998,716	2,768,851	502,628	3,192,007	6,745,751	1,789,479	-
Other liabilities	11,442,600	-	-	-	-	-	11,442,600
Subordinated notes	1,516,641	-	-	1,037,047	-	479,594	-
Equity	37,963,382	-	-	-	-	-	37,963,382
	<u>376,098,712</u>	<u>234,120,789</u>	<u>13,658,286</u>	<u>5,638,912</u>	<u>7,489,781</u>	<u>2,431,429</u>	<u>112,759,515</u>
On statement of financial position gap		19,936,951	10,512,743	12,259,333	3,943,948	32,567,241	(79,220,216)
Off statement of financial position gap		26,624,636	(4,083,326)	4,324,836	(759,154)	(26,106,992)	-
Total interest rate sensitivity gap		<u>46,561,587</u>	<u>6,429,417</u>	<u>16,584,169</u>	<u>3,184,794</u>	<u>6,460,249</u>	<u>(79,220,216)</u>
Cumulative interest rate sensitivity		<u>46,561,587</u>	<u>52,991,004</u>	<u>69,575,173</u>	<u>72,759,967</u>	<u>79,220,216</u>	<u>-</u>

Notes to the consolidated financial statements

4 Financial risk management (continued)

(c) Market risk (continued)

The Group's interest rate gap and sensitivity position based on contractual re-pricing arrangements at 31 December 2013 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Non interest bearing AED'000
Assets							
Cash and balances with central banks	35,061,054	16,482,684	6,189,370	238	-	-	12,388,762
Investments at fair value through profit or loss	2,645,893	62,702	317,790	414,085	267,687	691,313	892,316
Due from banks and financial institutions	20,100,371	17,629,495	819,059	-	-	-	1,651,817
Reverse repurchase agreements	18,932,199	16,506,617	2,255,801	169,781	-	-	-
Derivative financial instruments	6,146,006	-	-	-	-	-	6,146,006
Loans and advances	183,811,494	162,209,209	16,997,622	919,257	2,355,855	1,016,878	312,673
Non-trading investments	50,846,059	9,818,138	9,210,369	1,920,173	4,671,573	25,054,459	171,347
Other assets	4,909,712	-	-	-	-	-	4,909,712
Investment properties	135,260	-	-	-	-	-	135,260
Property and equipment	2,473,608	-	-	-	-	-	2,473,608
	<u>325,061,656</u>	<u>222,708,845</u>	<u>35,790,011</u>	<u>3,423,534</u>	<u>7,295,115</u>	<u>26,762,650</u>	<u>29,081,501</u>
Liabilities and equity							
Due to banks and financial institutions	35,760,382	31,800,769	1,648,404	-	-	-	2,311,209
Repurchase agreements	1,352,121	1,352,121	-	-	-	-	-
Euro commercial paper	6,752,015	6,119,170	632,845	-	-	-	-
Derivative financial instruments	7,454,016	-	-	-	-	-	7,454,016
Customers' deposits	211,097,222	150,201,063	15,209,719	2,246,251	760,975	168,343	42,510,871
Term borrowings	18,690,168	1,469,200	3,480,688	3,365,099	5,857,284	4,517,897	-
Other liabilities	7,772,018	-	-	-	-	-	7,772,018
Subordinated notes	1,512,323	-	1,034,935	-	-	477,388	-
Equity	34,671,391	-	-	-	-	-	34,671,391
	<u>325,061,656</u>	<u>190,942,323</u>	<u>22,006,591</u>	<u>5,611,350</u>	<u>6,618,259</u>	<u>5,163,628</u>	<u>94,719,505</u>
On statement of financial position gap		31,766,522	13,783,420	(2,187,816)	676,856	21,599,022	(65,638,004)
Off statement of financial position gap		3,971,888	1,026,808	11,403,116	1,156,501	(17,558,313)	-
Total interest rate sensitivity gap		<u>35,738,410</u>	<u>14,810,228</u>	<u>9,215,300</u>	<u>1,833,357</u>	<u>4,040,709</u>	<u>(65,638,004)</u>
Cumulative interest rate sensitivity		<u>35,738,410</u>	<u>50,548,638</u>	<u>59,763,938</u>	<u>61,597,295</u>	<u>65,638,004</u>	<u>-</u>

Notes to the consolidated financial statements

4 Financial Risk Management (continued)

(c) Market risk (continued)

Foreign exchange risk

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

Currency	Net spot position (short)/long AED'000	Forward position (short)/long AED'000	Total 2014 (short)/long AED'000	Total 2013 (short)/long AED'000
US Dollar	17,872,952	(7,852,715)	10,020,237	(2,917,259)
UK Sterling Pound	1,611,470	(1,399,036)	212,434	181,579
Euro	7,456,348	(7,267,167)	189,181	40,402
Kuwaiti Dinar	(271,131)	(255,120)	(526,251)	380,512
Omani Riyal	1,270,239	(1,212,732)	57,507	515,231
Saudi Riyal	33,840	(2,361,431)	(2,327,591)	1,228,574
Japanese Yen	95,043	(54,602)	40,441	(10,040)
Swiss Franc	771,049	(300,583)	470,466	(9,705)
Qatari Riyal	252,309	1,108,760	1,361,069	1,795,810
Bahraini Dinar	37,665	42,178	79,843	479,635
Egyptian Pound	185,029	190,848	375,877	30,612
Jordanian Dinar	934,806	(668,384)	266,422	277,737
Malaysian Ringgit	(232,119)	365,575	133,456	(9,215)

As AED, SAR and QAR are pegged against US Dollar, the Group's risk exposure to these currencies is limited to that extent. Exposure to other foreign currencies is insignificant.

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

(d) Operational risk

Operational risk is defined as the risk of losses resulting from inadequate or failed processes, people & systems or from external events, this includes legal and technology risk and excludes strategic and reputation risk.

Operational risks arise across all businesses in the Group. The primary responsibility to ensure that risks are managed and monitored resides with the businesses within the Group. Group's businesses are supported by Embedded risk functions and Group Operational Risk Management as 'second line of defence' to ensure robust risk management.

Further, there are reviews conducted by Group Internal Audit as the 'third line of defence'. The results of internal audit reviews are discussed with the management of the respective divisions and summaries are submitted to the Audit Committee.

Notes to the consolidated financial statements

4 Financial Risk Management *(continued)*

(d) Operational risk *(continued)*

The Group has an established Operational Risk framework consisting of policies and procedures to identify, assess, monitor, control, report and to manage risks and to notify, identify and rectify incidents. The Operational Risk framework also provides the interrelation with other risk categories. Where appropriate, risk is mitigated by way of insurance.

Typically, Operational Risk events are classified as:

- Internal fraud: Risk of unauthorized activity and fraud perpetrated by employees
- External fraud: Risk of fraud or breach of system security by an external party
- Employee practices & workplace safety: Risk of failures in employee relations, diversity and discrimination, and health and safety risks across the Group
- Damage to physical assets: Risk of impact to the Group due to natural disasters
- Clients, Products & Business Practices: Risk of failing in assessing client suitability, fiduciary responsibilities, improper business practices, flawed products and advisory activities.
- Business Disruption & System failures: Risk of not planning and testing business continuity and disaster recovery for systems
- Execution delivery and process management: Risk of failed transaction execution, customer intake and documentation, vendor management and monitoring and reporting.

The Board has oversight responsibilities for operational risk management across the Group. These responsibilities are delegated and exercised through the Group Risk Committee, which is the senior management forum responsible for the oversight of Operational Risk.

Key responsibilities of Group Risk Committee with regards to Operational risk include to ensure:

- Approval of the Group Operational Risk Management Framework and oversight over its implementation
- Approve large incidents as per the Operational Risk management approval matrix
- Approve the strategy and direction for Operational Risk across the group.

Notes to the consolidated financial statements

4 Financial Risk Management (continued)

(e) Capital management

The Group is committed to an integrated and disciplined approach to capital management which is central to the way in which the Group manages capital risk. Capital risk is the risk that the Group has insufficient capital resources to meet minimum regulatory requirements in jurisdictions that the Group operates, to support its credit ratings, and to successfully execute its strategic plans.

The principles and key elements of Group's capital management framework are outlined in the capital management policy. Fundamental to this framework is the Group's capital risk appetite, which is an important dimension of the Group's overall risk appetite. Capital risk appetite is defined by way of parameters such as target external credit ratings, risk weighted assets, total capital adequacy and tier 1 capital adequacy ratios, and leverage ratio. The framework ensures that the Group remains adequately capitalized by prudently managing balance sheet positions, risk levels and capital requirements at both the consolidated entity and line of business levels. Internal Capital Adequacy Assessment Process (ICAAP) and associated stress test are also integral to the Group's capital management framework.

The Risk Management Committee of the Board provides ultimate oversight and approval of capital management, including capital management policy, capital plans and capital adequacy assessments. The Group Asset and Liability Committee provides senior management oversight, including the review and discussion of capital management policies, issues and activities and, along with the Group Risk Committee, the capital required to support the execution of our strategy at Group and line of business levels. The Group Treasury function manages compliance with the Group's capital management objectives and reviews actual/ forecast capital demand and resources on a periodic basis, taking into account the regulatory, economic and commercial environment.

The Groups regulatory capital base is computed in accordance with Central Bank of the UAE (CBUAE) Basel II guidelines. It comprises of Tier 1 capital, Tier 2 capital and deductions. During the year, the Central Bank of the UAE amended its guidelines for calculating market and operational risk. As a result, the Group's risk weighted assets for the year ended 31 December 2013 increased by AED 6,757 million in Market risk and AED 5,270 million in Operational risk.

Tier 1 capital is comprised of paid up share capital, general & legal reserves, share premium and hybrid Tier 1 instruments approved by the CBUAE. Tier 1 capital includes the following significant adjustments:

- Cumulative foreign currency translation reserves;
- Own shares held

Tier 2 capital mainly comprises the following:

- Collective impairment provision to the extent of 1.25% of net credit risk weighted assets;
- Hedging reserve and valuation reserves for financial instrument subject to regulatory cap;
- Subordinated debt instruments complying with regulatory conditions; subject to haircut regulations in last 5 years to maturity.

Deductions from capital base are excluded from both Tier 1 and Tier 2 capital (50:50) in compliance with regulations. Deductions from Tier 1 and Tier 2 capital; mainly comprise the following:

- Investments in unconsolidated subsidiaries and associates;
- Investments in securitisation without a credit rating by a rating agency recognised within regulatory framework

Notes to the consolidated financial statements

4 Financial risk management (continued)

(e) Capital management (continued)

The Group's regulatory capital adequacy ratio, set by the Central Bank of the UAE at a minimum level of 12% (2013: 12%), of which Tier 1 is to be 8% (2013: 8%) is analysed into two tiers as follows:

	Basel II 2014 AED'000	Basel II 2013 AED'000
Tier 1 capital		
Ordinary share capital	4,968,645	4,424,078
Retained earnings	6,611,812	5,789,626
Statutory and special reserve	4,736,112	4,305,556
General reserve and share option scheme	17,325,759	15,310,226
Foreign currency translation reserve	(112,143)	(89,413)
Convertible notes - equity component	108,265	108,265
Government of Abu Dhabi Tier 1 capital notes	4,000,000	4,000,000
Deductions from Tier 1 capital	(17,647)	(22,244)
Total	37,620,803	33,826,094
Tier 2 capital		
Fair value reserve	146,220	370,374
Qualifying subordinated liabilities	687,004	891,361
Allowance for collective impairment	2,582,619	2,236,326
Deductions from Tier 2 capital	(17,647)	(22,244)
Total	3,398,196	3,475,817
Total regulatory capital base	41,018,999	37,301,911
<i>Risk weighted assets:</i>		
Credit risk	209,665,272	181,696,396
Market risk	23,611,281	19,394,322
Operational risk	16,936,730	15,809,707
Risk weighted assets	250,213,283	216,900,425
Tier 1 capital ratio	15.04%	15.60%
Capital adequacy ratio	16.39%	17.20%

The Bank and its overseas branches and subsidiaries have complied with all externally imposed capital requirements for all periods presented.

Notes to the consolidated financial statements

5 Use of estimates and judgements

In the process of applying the Group's accounting policies, IFRS require the management to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent and would result in relevant and reliable information. The management, based on guidance in IFRS and the IASB's Framework for the Preparation and Presentation of Financial Statements has made these estimates and judgements. Listed below are those estimates and judgement which could have the most significant effect on the amounts recognised in the consolidated financial statements.

Key sources of estimation uncertainty

(i) Impairment charge on loans and advances and non-trading investments

Impairment losses are evaluated as described in accounting policy 3(b) (vii) and 4(a).

The Group evaluates impairment on loans and advances and non-trading investments on an ongoing basis and a comprehensive review on a quarterly basis to assess whether an impairment charge should be recognised in the consolidated statement of profit or loss. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment charge required. In estimating these cash flows, management makes judgements about counterparty's financial situation and other means of settlement and the net realisable value of any underlying collateral. Such estimates are based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such impairment charges.

(ii) Collective impairment charge

Collective impairment charge is evaluated as described in accounting policy 3(b) (vii) and 4(a) .

In addition to specific impairment charge against individually impaired assets, the Group also maintains a collective impairment allowance against portfolios of loans and advances with similar economic characteristics which have not been specifically identified as impaired. In assessing the need for collective impairment charge, management considers concentrations, credit quality, portfolio size and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical and current economic conditions.

(iii) Impairment charge on property and equipment and investment properties

Impairment losses are evaluated as described in accounting policy 3(j) (iii) and 3(k)(iv).

In determining the net realisable value, the Group uses the selling prices determined by external independent valuer's companies, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The selling prices are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction.

(iv) Contingent liability arising from litigations

Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

(v) Share option scheme

The fair value of the share option scheme is determined using the Black-Scholes model. The model inputs comprise share price, exercise price, share price volatility, contractual life of the option, dividend yield and risk-free interest rate.

Notes to the consolidated financial statements

5 Use of estimates and judgements *(continued)*

Key sources of estimation uncertainty (continued)

(vi) Valuation of financial instruments

The valuation techniques of financial instruments may require certain unobservable inputs to be estimated by the management. These are discussed in detail in note 6.

(vii) Defined benefit plan

The present value of the defined benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost(income) for obligations include the discount rate. Any changes in these assumptions would impact the carrying amount of the defined benefit obligation.

The Group determines the appropriate discount at the end of each year. This is the interest rate that should be used to determine the present value of the estimated future cash flows expected to be required to settle the future obligations. In determining the appropriate discount rate, the Group considers interest rate of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have the terms to maturity approximating the terms of related benefit obligation.

Other key assumptions for defined benefit obligations are based in part on current market conditions. Additional information on these assumptions are disclosed in note 21.

Critical accounting judgements in applying the Group's accounting policies include:

(a) Financial asset and liability classification

The Group's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

In classifying financial assets as "fair value through profit or loss", "held-to-maturity" or "available-for-sale", the Group has determined it meets the description as set out in accounting policy 3(b) (ii).

(b) Qualifying hedge relationships

In designating financial instruments as qualifying hedge relationships, the Group has determined that it expects the hedge to be highly effective over the life of the hedging relationship.

(c) Determination of fair value hierarchy of financial instruments

The Group's determination of fair value hierarchy of financial instruments is discussed in note 6.

(d) Structured entities

For all funds managed by the Group, the investors are able to vote by simple majority to remove the Group as fund manager, and the Group's aggregate economic interest in each fund is not material. As a result, the Group has concluded that it acts as agent for the investors in these funds, and therefore has not consolidated these funds.

(e) Operating segments

In preparation of the segment information disclosure, the management has made certain assumptions to arrive at the segment reporting. These assumptions would be reassessed by the management on a periodic basis. Operating segments are detailed in note 41.

Notes to the consolidated financial statements

6 Financial assets and liabilities

(a) Valuation control framework

The Group has an established control framework with respect to the measurement of fair value. This framework includes a Valuation Committee that reports to the Group Risk Committee. The Group also has control functions to support this framework (Product Control, Independent Price Verification, Model Validation and Group Market Risk) that are independent of front office management. Specific controls include:

- Independence in valuation process between risk taking units and control units;
- System for valuations;
- Verification of observable pricing;
- Review and approval process for new models and changes to models;
- Analysis and investigation of significant daily valuation movements; and
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments.

The fair values of dues from banks and financial institutions, reverse repurchase agreement, dues to banks and financial institutions, repurchase agreements and customers' deposits which are predominantly short term in tenure and issued at market rates, are considered to reasonably approximate their book value.

The Group estimates that the fair value of its loans and advances portfolio is not materially different from its book value since the majority of loans and advances carry floating market rates of interest and are frequently re-priced. For loans considered impaired, expected cash flows, including anticipated realisation of collateral, were discounted using an appropriate rate and considering the time to collect, the net result of which is not materially different from the carrying value.

(b) Determination of fair values

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. Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

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

Level 3: Valuation techniques using unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable input have a significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices of similar instruments after making adjustments based on unobservable inputs that are necessary to reflect fair value of the instrument.

Notes to the consolidated financial statements

6 Financial assets and liabilities (*continued*)

(c) Valuation techniques

All financial assets and liabilities are measured at amortised cost except for derivatives, investment at fair value through profit or loss and available-for-sale investments which are measured at fair value by reference to published price quotations in an active market or from prices quoted by counterparties or through use of valuation techniques.

Fair value of financial assets and liabilities that are traded in active market are based on quoted market price or dealer price quotations. For all other financial instruments, the Group determines fair value using valuation techniques, such as discounted cash flow models, benchmarking against similar instruments for which observable market prices exist, Black-Scholes model or other valuation models. Each valuation technique models the behaviour of underlying market factors. These market factors include interest rates, credit spreads and other inputs used in estimating discount rates, bond prices, foreign exchange rates, equity and equity index prices, volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common financial instruments, such as interest rate and currency swaps that use only observable market data. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses third party valuation models, which are developed from recognised valuation models. These valuation models require expert judgement for the selection of the most appropriate valuation model to be used including input market data and underlying assumptions for the determination of fair value.

Model inputs and parameters can be calibrated against historical data and market prices for plain vanilla instruments, published forecasts and current or recent observed transactions in similar instruments. This calibration process is inherently subjective and it yields ranges of possible inputs and estimates of fair value, and expert judgement is required to select the most appropriate point in the range.

(d) Fair Value adjustment

Credit Valuation Adjustments

The Group modelled the CVA adjustment in 2014 taking into account trades subject to collateral and netting agreements. The methodology for CVA calculation relies on three components: a standard loss given default assumption of 60% is used for the exposures, the probability of default of the counterparty is implied from credit spreads or credit rating, the expected positive exposure is calculated using simulation methodology or simplified add-on approach. The methodology does not account for wrong way risk.

Model-related adjustments

Model related adjustments are applied when either model inputs are overly simplified or the model has limitations deriving the fair value of a position. These adjustments are required to correct existing model weaknesses or deficiencies that were highlighted during the model review process.

Notes to the consolidated financial statements

6 Financial assets and liabilities (continued)

(e) Fair value of financial instruments

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2014:

	Designated at fair value through profit or loss AED'000	Held for trading AED'000	Available for sale AED'000	Held to maturity AED'000	Loans and receivables AED'000	Amortised cost AED'000	Carrying amount AED'000
Cash and balances with central banks	-	-	-	-	55,452,341	-	55,452,341
Investments at fair value through profit or loss	16,630	15,409,032	-	-	-	-	15,425,662
Due from banks and financial institutions	-	-	-	-	11,134,262	-	11,134,262
Reverse repurchase agreements	-	-	-	-	15,844,377	-	15,844,377
Derivative financial instruments	240,300	7,182,528	-	-	-	-	7,422,828
Loans and advances	-	-	-	-	194,279,352	-	194,279,352
Non-trading investments	-	-	61,957,514	5,535,608	-	-	67,493,122
Other assets	-	-	-	-	6,220,564	-	6,220,564
	256,930	22,591,560	61,957,514	5,535,608	282,930,896	-	373,272,508
Due to banks and financial institutions	-	-	-	-	-	36,679,504	36,679,504
Repurchase agreements	-	-	-	-	-	13,875,917	13,875,917
Euro commercial paper	-	-	-	-	-	5,484,176	5,484,176
Derivative financial instruments	4,153,336	6,799,788	-	-	-	-	10,953,124
Customers' deposits	-	-	-	-	-	243,184,652	243,184,652
Term borrowings	-	-	-	-	-	14,998,716	14,998,716
Other liabilities ¹	-	2,270,053	-	-	-	8,325,861	10,595,914
Subordinated notes	-	-	-	-	-	1,516,641	1,516,641
	4,153,336	9,069,841	-	-	-	324,065,467	337,288,644

¹ Other liabilities that are held for trading are classified as level 1 in the fair value hierarchy.

Notes to the consolidated financial statements

6 Financial assets and liabilities (continued)

(e) Fair value of financial instruments (continued)

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2013:

	Designated at fair value through profit or loss AED'000	Held for trading AED'000	Available for sale AED'000	Held to maturity AED'000	Loans and receivables AED'000	Amortised cost AED'000	Carrying amount AED'000
Cash and balances with central banks	-	-	-	-	35,061,054	-	35,061,054
Investments at fair value through profit or loss	18,892	2,627,001	-	-	-	-	2,645,893
Due from banks and financial institutions	-	-	-	-	20,100,371	-	20,100,371
Reverse repurchase agreements	-	-	-	-	18,932,199	-	18,932,199
Derivative financial instruments	395,054	5,750,952	-	-	-	-	6,146,006
Loans and advances	-	-	-	-	183,811,494	-	183,811,494
Non-trading investments	-	-	47,539,835	3,306,224	-	-	50,846,059
Other assets	-	-	-	-	4,766,676	-	4,766,676
	413,946	8,377,953	47,539,835	3,306,224	262,671,794	-	322,309,752
Due to banks and financial institutions	-	-	-	-	-	35,760,382	35,760,382
Repurchase agreements	-	-	-	-	-	1,352,121	1,352,121
Euro commercial paper	-	-	-	-	-	6,752,015	6,752,015
Derivative financial instruments	2,990,863	4,463,153	-	-	-	-	7,454,016
Customers' deposits	-	-	-	-	-	211,097,222	211,097,222
Term borrowings	-	-	-	-	-	18,690,168	18,690,168
Other liabilities ¹	-	826,076	-	-	-	6,162,812	6,988,888
Subordinated notes	-	-	-	-	-	1,512,323	1,512,323
	2,990,863	5,289,229	-	-	-	281,327,043	289,607,135

¹ Other liabilities that are held for trading are classified as level 1 in the fair value hierarchy.

Notes to the consolidated financial statements

6 Financial assets and liabilities (continued)

(e) Fair value of financial instruments (continued)

The Group's financial assets and financial liabilities that are classified as loans and receivables and at amortised cost, are categorised under Level 3 in the fair value hierarchy, as there is no active market for such assets and liabilities. The Bank considers these to have a fair value approximately equivalent to their net carrying value as majority of such financial instrument carry variable interest rates and relatively short tenor of maturity.

(f) Financial instrument measured at fair value - hierarchy

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
As at 31 December 2014				
Financial assets held for trading	12,506,693	2,902,339	-	15,409,032
Designated at fair value through profit and loss	-	16,630	-	16,630
Available-for-sale financial assets	57,290,896	4,652,747	13,871	61,957,514
Derivative financial instruments (Assets)	1,785	7,421,043	-	7,422,828
Derivative financial instruments (Liabilities)	(6,520)	(10,946,604)	-	(10,953,124)
	<u>69,792,854</u>	<u>4,046,155</u>	<u>13,871</u>	<u>73,852,880</u>

As at 31 December 2013

Financial assets held for trading	2,503,051	123,950	-	2,627,001
Designated at fair value through profit and loss	-	18,892	-	18,892
Available-for-sale financial assets	41,788,765	5,737,477	13,593	47,539,835
Derivative financial instruments (Assets)	8,518	6,137,488	-	6,146,006
Derivative financial instruments (Liabilities)	(3,616)	(7,450,400)	-	(7,454,016)
	<u>44,296,718</u>	<u>4,567,407</u>	<u>13,593</u>	<u>48,877,718</u>

Certain available-for-sale investment securities have been disclosed under Level 3 of the fair value hierarchy as management has recorded these at cost in the absence of observable market data. Management has deemed cost to be a close approximation of their fair value.

There were no transfers between the fair value hierarchies for any financial asset or liability except for two corporate bonds amounting to AED 24 million (2013: AED Nil) which were transferred from Level 1 to Level 2 due to lack of direct pricing inputs.

The following table shows a reconciliation from the beginning balances to the ending balances for instruments measured at fair value and classified as Level 3:

	2014 AED'000	2013 AED'000
Available-for-sale financial assets		
Balance as at 1 January	13,593	20,027
Purchases	-	-
Settlements and other adjustments	278	(6,434)
	<u>13,871</u>	<u>13,593</u>
Balance as at 31 December		

Notes to the consolidated financial statements

7 Cash and balances with central banks

	2014 AED'000	2013 AED'000
Cash on hand	1,488,410	1,362,040
Central Bank of the UAE		
cash reserve deposits	11,269,355	9,642,776
certificates of deposits	3,500,000	5,000,000
other balances	9,903,969	-
Balances with other central banks		
cash reserve deposits	2,466,507	862,644
other deposits and balances	26,824,100	18,193,594
	<u>55,452,341</u>	<u>35,061,054</u>

Cash reserve deposits are not available for the day to day operations of the Group.

8 Investments at fair value through profit or loss

	2014 AED'000	2013 AED'000
Managed portfolios	1,354,939	760,766
Debt instruments	13,876,652	1,753,577
Equity instruments	194,071	131,550
	<u>15,425,662</u>	<u>2,645,893</u>

Equity instruments include investments designated at fair value through profit or loss amounting to AED 16,630 thousand (2013: AED 18,892 thousand).

9 Due from banks and financial institutions

	2014 AED'000	2013 AED'000
Current, call and notice deposits	965,667	2,615,082
Margin deposits	7,107,875	3,578,048
Fixed deposits	3,034,927	13,826,021
Wakala placements	25,793	81,220
	<u>11,134,262</u>	<u>20,100,371</u>

10 Reverse repurchase agreements

The Group enters into reverse repurchase agreements in the normal course of business in which the third party transfers financial assets to the Group for short term financing. The carrying amount of financial assets at the reporting date amounted to AED 15,844 million (2013: AED 18,932 million).

No allowances for impairment have been recognised against reverse repurchase agreements during the year (2013: nil).

Notes to the consolidated financial statements

10 Reverse repurchase agreements (continued)

At 31 December 2014, the fair value of financial assets accepted as collateral that the Group is permitted to sell or re-pledge in the absence of default was AED 16,564 million (2013: AED 19,494 million).

At 31 December 2014, the fair value of financial assets accepted as collateral that have been sold or re-pledged was AED 3,774 million (2013: AED 832 million). The Group is obliged to return equivalent securities.

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

11 Loans and advances

	2014 AED'000	2013 AED'000
Gross loans and advances	202,072,325	191,039,413
Less: interest suspended	(1,124,889)	(900,893)
Less: allowance for impairment	(6,668,084)	(6,327,026)
Net loans and advances	<u>194,279,352</u>	<u>183,811,494</u>

An analysis of gross loans and advances by counterparty at the reporting date is shown below:

	2014 AED'000	2013 AED'000
Government sector	23,435,215	22,891,901
Public sector	41,284,684	45,152,321
Banking sector	24,108,739	29,469,792
Corporate / private sector	81,019,004	64,968,008
Personal / retail sector	32,224,683	28,557,391
Gross loans and advances	<u>202,072,325</u>	<u>191,039,413</u>

An analysis of gross loans and advances by product as at the reporting date is shown below:

	2014 AED'000	2013 AED'000
Overdrafts	14,101,326	15,568,408
Term loans	117,061,464	112,749,750
Trade related loans	24,409,304	25,445,907
Real estate and mortgage loans	30,957,049	25,206,419
Personal loans	12,165,978	9,489,203
Credit cards	1,811,662	1,339,618
Vehicle financing loans	1,565,542	1,240,108
Gross loans and advances	<u>202,072,325</u>	<u>191,039,413</u>

Notes to the consolidated financial statements

11 Loans and advances (continued)

The movement in the allowance for impairment during the year is shown below:

	2014 AED'000	2013 AED'000
At 1 January	6,327,026	5,517,723
Charge for the year		
Collective provision	574,433	547,305
Specific provision	1,152,484	1,289,775
Recoveries	(473,901)	(320,847)
Write-backs during the year	(411,158)	(349,366)
Amounts written off	(500,800)	(357,564)
At 31 December	6,668,084	6,327,026

The Group provides lending against investment in equity securities and funds. The Group is authorised to liquidate these instruments if their coverage falls below the certain agreed threshold. The carrying value of such loans is AED 9,977 million (2013: AED 10,359 million) and the fair value of instruments held as collateral against such loans is AED 23,324 million (2013: AED 21,741 million). During the year, the Group has liquidated insignificant amount of collaterals (2013: AED Nil) due to fall in the coverage ratio.

Islamic financing

Included in the above loans and advances are the following Islamic financing contracts:

	2014 AED'000	2013 AED'000
Ijara	5,807,880	5,647,451
Murabaha	2,880,632	1,404,778
Mudaraba	3,984	9,156
Others	8,591	5,178
Total Islamic financing contracts	8,701,087	7,066,563
Less: allowance for impairment	(56,664)	(48,390)
Less: suspended profit	(720)	(825)
	8,643,703	7,017,348

The movement in the allowance for impairment during the year is shown below:

	2014 AED'000	2013 AED'000
At 1 January	48,390	39,580
Charge for the year		
Collective provision	7,826	(2,058)
Specific provision	13,772	14,077
Recoveries / write-backs during the year	(7,621)	(3,129)
Amounts written off and other adjustments	(5,703)	(80)
At 31 December	56,664	48,390

Notes to the consolidated financial statements

11 Loans and advances (continued)

Islamic financing (continued)

The gross Ijara and the related present value of minimum Ijara payments are as follows:

	2014 AED'000	2013 AED'000
Gross Ijara		
Less than one year	2,632,533	2,273,907
Between one and five years	3,841,470	3,812,312
More than five years	2,289,811	2,205,013
	<u>8,763,814</u>	<u>8,291,232</u>
Less: deferred income	(2,955,934)	(2,643,781)
Net Ijara	<u>5,807,880</u>	<u>5,647,451</u>

	2014 AED'000	2013 AED'000
Net present value of minimum lease payments		
Less than one year	829,612	753,813
Between one and five years	3,098,557	3,077,951
More than five years	1,879,711	1,815,687
	<u>5,807,880</u>	<u>5,647,451</u>

Investment in finance lease

Included in the above loans and advances are the following investment in finance leases:

	2014 AED'000	2013 AED'000
Gross investment in finance leases	6,842,737	6,165,771
Unearned finance income	(685,394)	(663,652)
Net investment in finance leases	<u>6,157,343</u>	<u>5,502,119</u>
Less: allowance for impairment	(172,167)	(146,301)
Less: interest suspended	(20,666)	(23,778)
Investment in finance leases	<u>5,964,510</u>	<u>5,332,040</u>

Notes to the consolidated financial statements

11 Loans and advances (continued)

Investment in finance lease (continued)

	2014 Gross investment in lease AED'000	2013 Gross investment in lease AED'000	2014 Present value of minimum lease payments AED'000	2013 Present value of minimum lease payments AED'000
Within one year	8,166	36,907	8,003	36,108
One to five years	1,245,993	938,301	1,184,914	882,331
More than five years	5,588,578	5,190,563	4,964,426	4,583,680
	<u>6,842,737</u>	<u>6,165,771</u>	<u>6,157,343</u>	<u>5,502,119</u>
Unearned finance income	(685,394)	(663,652)	-	-
Net investment in finance leases	<u>6,157,343</u>	<u>5,502,119</u>	<u>6,157,343</u>	<u>5,502,119</u>

The movement in allowance for impairment against finance lease receivables during the year is shown below:

	2014 AED'000	2013 AED'000
At 1 January	146,301	75,737
Charge for the year		
Specific provision net of write-backs	5,262	12,049
Collective provision	20,604	58,515
	<u>172,167</u>	<u>146,301</u>
At 31 December	<u>172,167</u>	<u>146,301</u>

12 Non-trading investments

	2014 AED'000	2013 AED'000
Available-for-sale investments	61,957,514	47,539,835
Held-to-maturity investments	5,535,608	3,306,224
	<u>67,493,122</u>	<u>50,846,059</u>

Notes to the consolidated financial statements

12 Non-trading investments (continued)

An analysis of available-for-sale investments by type at the reporting date is shown below:

	2014 AED'000			2013 AED'000		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity investments	22,188	13,687	35,875	146,918	14,107	161,025
Debt investments	66,643,904	226,277	66,870,181	48,570,548	2,120,693	50,691,241
Funds	586,882	184	587,066	10,505	331	10,836
	<u>67,252,974</u>	<u>240,148</u>	<u>67,493,122</u>	<u>48,727,971</u>	<u>2,135,131</u>	<u>50,863,102</u>
Less:						
Allowance for impairment	-	-	-	-	(17,043)	(17,043)
	<u>67,252,974</u>	<u>240,148</u>	<u>67,493,122</u>	<u>48,727,971</u>	<u>2,118,088</u>	<u>50,846,059</u>

Debt instruments under repurchase agreements included in quoted available-for-sale investments at 31 December 2014 amounted to AED 10,126 million (2013 : AED 1,545 million).

13 Other assets

	2014 AED'000	2013 AED'000
Interest receivable	2,898,304	2,260,724
Acceptances	2,405,047	1,175,506
Sundry debtors and other receivables	1,049,143	1,455,047
Deferred tax asset	18,487	18,435
	<u>6,370,981</u>	<u>4,909,712</u>

The Group does not perceive any significant credit risk on interest receivable and acceptances.

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. After acceptance, the instrument becomes an unconditional liability of the bank and is therefore recognised as a financial liability in the consolidated statement of financial position. However every acceptance has a corresponding contractual right of reimbursement from the customer which is recognised as a financial asset.

Notes to the consolidated financial statements

14 Investment properties

	Land and buildings AED'000
Cost	
At 1 January 2013	143,987
Additions and transfers	-
At 31 December 2013	143,987
Additions and transfers	228,521
Deletions	(174,259)
At 31 December 2014	198,249
Accumulated depreciation	
At 1 January 2013	3,926
Charge for the year	4,801
At 31 December 2013	8,727
Charge for the year	2,015
Additions and transfers	19,501
Deletions	(9,527)
At 31 December 2014	20,716
Carrying amounts	
At 31 December 2013	135,260
At 31 December 2014	177,533

The Group estimates that the fair value of the investment properties approximates its carrying amounts as at the reporting date (2013: AED 259 million).

The Group has repossessed properties with current carrying value of AED 145 million in lieu of settlement of debt. The Group has also reclassified certain properties that are on lease having carrying value of AED 32 million (2013: AED Nil) from properties & equipment. During the year, certain investment properties were sold resulting in a gain of AED 56 million.

The fair values of the Group's investment properties are categorised under level 3 of the fair value hierarchy.

Notes to the consolidated financial statements

15 Property and equipment

	Land, building and alterations AED'000	Computer systems and equipment AED'000	Furniture, equipment, safes and vehicles AED'000	Capital work -in- progress AED'000	Total AED'000
Cost					
At 1 January 2013	2,312,581	629,952	318,228	355,032	3,615,793
Additions	82,022	48,391	32,392	166,732	329,537
Allocations from CWIP	251,045	114,133	4,180	(370,386)	(1,028)
Disposals, transfers and write offs ¹	(13,723)	(3,874)	(14,741)	-	(32,338)
At 31 December 2013	2,631,925	788,602	340,059	151,378	3,911,964
Additions	29,675	61,990	37,436	173,862	302,963
Allocations from CWIP	19,305	55,988	4,370	(79,663)	-
Disposals, transfers and write offs ¹	(82,225)	(19,115)	(15,373)	-	(116,713)
At 31 December 2014	2,598,680	887,465	366,492	245,577	4,098,214
Accumulated depreciation and impairment losses					
At 1 January 2013	694,532	359,035	215,738	-	1,269,305
Charge for the year	55,087	104,705	41,672	-	201,464
Disposals, transfers and write offs ¹	(16,742)	(1,890)	(13,781)	-	(32,413)
At 31 December 2013	732,877	461,850	243,629	-	1,438,356
Charge for the year	59,153	122,163	39,693	-	221,009
Disposals, transfers and write offs ¹	(25,845)	(17,058)	(16,502)	-	(59,405)
At 31 December 2014	766,185	566,955	266,820	-	1,599,960
Carrying amounts					
At 31 December 2013	1,899,048	326,752	96,430	151,378	2,473,608
At 31 December 2014	1,832,495	320,510	99,672	245,577	2,498,254

¹ adjusted for foreign exchange translation impact

Notes to the consolidated financial statements

16 Due to banks and financial institutions

	2014 AED'000	2013 AED'000
<i>Banks and financial institutions</i>		
Current, call and notice deposits	1,712,526	1,319,319
Margin	804,430	699,620
Fixed deposits	20,427,596	21,291,836
Wakala deposit	350,000	2,120,000
	<u>23,294,552</u>	<u>25,430,775</u>
<i>Central banks</i>		
Current and call deposits	94,176	1,254,455
Fixed and certificate of deposits	13,290,776	9,075,152
	<u>13,384,952</u>	<u>10,329,607</u>
	<u>36,679,504</u>	<u>35,760,382</u>

Due to banks and financial institutions are denominated in various currencies and carry a rate of interest in the range of 0% to 9.25% (2013: 0% to 9.75%).

17 Repurchase agreements

The Group enters into repurchase agreements in the normal course of business by which it transfers recognised financial assets directly to third parties.

The carrying value that is also the fair value of financial assets collateralised at the reporting date amounted to AED 10,129 million (2013: AED 1,545 million) and their associated financial liabilities amounted to AED 13,876 million (2013: AED 1,352 million). The net difference between the fair value of the financial assets collateralised and the carrying value of the repurchase agreement is a shortage AED 3,747 million (2013: excess of AED 193 million). The shortage is covered by re-pledging financial assets received as collateral against reverse repurchase agreements.

18 Euro commercial paper

The Bank established a USD 2,000,000 thousand Euro commercial Paper Programme (the "ECP Programme") for the issuance of Euro commercial paper under an agreement dated 13 September 2006 with Citibank, N.A.

The notes outstanding as at the reporting date amounted to AED 5,484,176 thousand (2013: AED 6,752,015 thousand). They are denominated in various currencies, bear interest in the range of 0.05% to 0.90% (2013: 0.07% to 0.56%) and have maturity periods of less than 12 months.

The Group has not had any defaults of principal, interests, or other breaches with respect to its Euro commercial paper during 2014.

Notes to the consolidated financial statements

19 Customers' deposits

By account:

	2014 AED'000	2013 AED'000
Current accounts	56,575,565	47,737,536
Savings accounts	11,709,702	10,337,386
Margin accounts	1,088,714	2,025,215
Notice and time deposits	160,099,600	133,385,706
Certificates of deposit	13,711,071	17,611,379
	<u>243,184,652</u>	<u>211,097,222</u>

By counterparty:

	2014 AED'000	2013 AED'000
Government sector	69,576,013	45,937,851
Public sector	38,591,210	39,509,384
Corporate / private sector	72,003,241	65,797,925
Personal / retail sector	63,014,188	59,852,062
	<u>243,184,652</u>	<u>211,097,222</u>

By location:

	2014 AED'000	2013 AED'000
UAE	168,406,055	144,824,093
Europe	30,150,816	20,275,167
Arab countries	29,396,480	28,534,630
Americas	7,349,566	7,082,352
Asia	7,545,397	10,061,023
Others	336,338	319,957
	<u>243,184,652</u>	<u>211,097,222</u>

Islamic customers' deposits

Included in the above customers' deposits are the following Islamic customer deposits:

	2014 AED'000	2013 AED'000
Wakala deposits	3,320,410	2,086,069
Mudaraba deposits	360,627	268,706
	<u>3,681,037</u>	<u>2,354,775</u>

Notes to the consolidated financial statements

20 Term borrowings

	2014 AED'000	2013 AED'000
Club loan and other facilities	-	1,469,200
Other term notes	14,998,716	17,220,968
	<u>14,998,716</u>	<u>18,690,168</u>

During the year, the Bank has issued AUD 400 million notes. The notes mature in March 2019 and carry a fixed coupon that is paid semi-annually in arrears. The Bank has hedged its currency and interest rate exposure on these notes.

Term borrowings include USD 500 million convertible notes. The notes mature in March 2018 and carry a fixed coupon that is paid semi-annually in arrears. The value of the conversion option at inception was AED 108,265 thousand and as such has been classified as a part of equity under convertible note – equity component reserve.

The following term notes are outstanding at 31 December:

Currency	Interest	Maturity	2014 AED'000	2013 AED'000
USD	4.50 per cent (fixed)	Sep 2014	-	3,171,498
HKD	3.80 per cent (fixed)	Sep 2014	-	191,646
HKD	3.90 per cent (fixed)	Oct 2014	-	117,543
USD	4.25 per cent (fixed)	Mar 2015	2,768,851	2,826,292
MYR	4.75 per cent (fixed)	Jun 2015	502,628	538,807
USD	3.25 per cent (fixed)	Mar 2017	2,778,700	2,786,429
HKD	3.40 per cent (fixed)	Sep 2017	151,281	151,754
USD	3.71 per cent (fixed)	Sep 2017	112,604	113,361
HKD	4.32 per cent (fixed)	Sep 2017	149,422	151,417
AUD	5.00 per cent (fixed)	Mar 2018	918,622	964,439
USD	1.00 per cent (fixed)	Mar 2018	1,728,180	1,689,885
AUD	4.75 per cent (fixed)	Mar 2019	1,248,555	-
USD	3.00 per cent (fixed)	Aug 2019	2,691,018	2,630,247
HKD	4.45 per cent (fixed)	Sep 2019	159,375	158,707
MYR	4.90 per cent (fixed)	Dec 2020	492,505	522,025
HKD	3.95 per cent (fixed)	Apr 2022	156,233	149,569
JPY	2.60 per cent (fixed)	Jul 2026	369,707	398,847
HKD	3.94 per cent (fixed)	Jul 2027	180,995	168,777
MXN	0.50 per cent (fixed)	Mar 2028	32,261	28,511
USD	4.37 per cent (fixed)	Aug 2032	279,248	233,498
USD	4.10 per cent (fixed)	Sep 2032	108,290	90,952
USD	4.80 per cent (fixed)	Sep 2036	76,843	63,049
USD	5.01 per cent (fixed)	May 2042	93,398	73,715
			<u>14,998,716</u>	<u>17,220,968</u>

The Bank has hedged the interest rate and foreign currency exposure on term borrowings. The nominal value hedges are AED 15.16 billion (2013: AED 17.59 billion) and the risks being hedged have a net positive fair value of AED 22.03 million (2013: net negative fair value of AED 144.26 million). The Group has not had any defaults of principal, interests, or other breaches with respect to its term borrowings during 2014 and 2013.

Notes to the consolidated financial statements

21 Other liabilities

	2014 AED'000	2013 AED'000
Interest payable	2,375,884	1,898,591
Acceptances (note 13)	1,877,159	841,139
Provision employees' end of service benefits	462,620	448,018
Accounts payable, sundry creditors and other liabilities	6,615,847	4,491,890
Overseas income tax	111,090	92,380
	<u>11,442,600</u>	<u>7,772,018</u>

Employees end of Service benefits

Defined benefit obligations

The Group provides for end of service benefits for its eligible employees. An actuarial valuation has been carried out as at December 31, 2014 to ascertain present value of the defined benefit obligation. A registered actuary in the UAE was appointed to evaluate the same. The present value of the defined benefit obligation, and the related current and past service cost, were measured using the Projected Unit Credit Method.

The following key assumptions were used to value the liabilities:

Discount rate	3.25% per annum
Salary increase rate	3.00% per annum

Demographic assumptions for mortality, withdrawal and retirement were used in valuing the liabilities and benefits under the plan. Because of the nature of the benefit, which is a lump sum payable on exit due to any cause, a combined single decrement rate has been used.

A shift in the in the discount rate assumption by +/- 25 basis points would impact the liability by AED 7,409 thousand and AED 6,361 thousand respectively. Similarly, a shift in the salary increment assumption by +/- 50 basis points would impact the liability by AED 12,895 thousand and AED 12,256 thousand respectively.

The movement in the employees defined benefit obligation was as follows:

	2014 AED'000	2013 AED'000
Balance at 1 January	448,018	445,738
Net charge during the year	90,702	76,905
Paid during the year	(76,100)	(74,625)
	<u>462,620</u>	<u>448,018</u>
Balance at 31 December	<u>462,620</u>	<u>448,018</u>

Notes to the consolidated financial statements

21 Other liabilities (continued)

Defined contribution plan

The Group pays contributions for its eligible employees which are treated as defined contribution plans. The charge for the year in respect of these contributions is AED 73,039 thousand (2013: AED 65,872 thousand). As at the reporting date, pension payable of AED 673 thousand has been classified under other liabilities (2013: AED 2,522 thousand).

Overseas income tax

The Group has provided for overseas income tax in accordance with management's estimate of the total amount payable based on tax rates enacted or substantially enacted as at the reporting date. Where appropriate the Group has made payments of tax on account in respect of these estimated liabilities.

The overseas income tax charge for the year is calculated based upon the adjusted net profit for the year. The movement in the provision was as follows:

	2014 AED'000	2013 AED'000
At 1 January	92,380	96,554
Charge for the year	271,109	215,166
Overseas income tax paid, net of recoveries	(252,399)	(219,340)
	<u>111,090</u>	<u>92,380</u>
At 31 December	<u>111,090</u>	<u>92,380</u>

22 Subordinated notes

Liability component

15 March 2006 issue
10 December 2012 issue

Equity component

15 March 2006 issue
28 February 2008 issue
Less: conversion of 15 March 2006 issue
Less: buy back of 28 February 2008 issue
Transfer to general reserve

	2014 AED'000	2013 AED'000
15 March 2006 issue	1,037,047	1,034,936
10 December 2012 issue	479,594	477,387
	<u>1,516,641</u>	<u>1,512,323</u>
15 March 2006 issue	-	72,926
28 February 2008 issue	-	52,984
Less: conversion of 15 March 2006 issue	-	(40,502)
Less: buy back of 28 February 2008 issue	-	(31,564)
Transfer to general reserve	-	(53,844)
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

Notes to the consolidated financial statements

22 Subordinated notes (continued)

15 March 2006 issue:

The Bank issued AED 2.5 billion subordinated convertible notes due on 15 March 2016 in accordance with the approval of the Extraordinary General Meeting held on 22 November 2005. The notes bear an interest rate equal to 3 month EIBOR plus 0.25% paid quarterly.

The above mentioned notes are presented in the consolidated statement of financial position as follows:

	2014 AED'000	2013 AED'000
Proceeds from issue of convertible notes	2,500,000	2,500,000
Less: amount classified as equity	(72,926)	(72,926)
Carrying amount of liability component on initial recognition	2,427,074	2,427,074
Add: cumulative accreted interest	27,846	25,735
Less: converted liability component	(1,347,973)	(1,347,973)
Carrying amount of liability bought back	(69,900)	(69,900)
Carrying amount of liability component	1,037,047	1,034,936

The effective interest rate as at 31 December 2014 was 3 month EIBOR plus 0.301% (2013: 3 month EIBOR plus 0.301%).

10 December 2012 issue:

On 10 December 2012, the Bank issued MYR 500 million subordinated notes due on 9 December 2027. The notes bear an interest rate equal to 4.75% and will be paid on a semi-annual basis. The Bank has hedged the currency and interest rate exposure on these notes. The nominal value hedge is AED 524.71 million (2013: AED 560.16 million) and the risks being hedged has a negative fair value of AED 43.22 million (2013: negative fair value of AED 80.64 million). The effective interest rate as at 31 December 2014 was 4.79% (2013: 4.79%).

The Group has not had any defaults of principal, interests, or other breaches with respect to its subordinated notes during 2014 and 2013.

23 Capital and reserves

Share capital

The authorised share capital of the Bank comprise 4,736 million ordinary shares of AED 1 each (2013: 4,306 million shares of AED 1 each). The issued and fully paid share capital at 31 December 2014 is comprised of 4,736 million ordinary shares of AED 1 each (2013: 4,306 million ordinary shares of AED 1 each).

Notes to the consolidated financial statements

23 Capital and reserves (continued)

Reconciliation of Share capital

	2014 AED'000	2013 AED'000
As at 1 January	4,305,556	3,874,558
Shares issued under Share option scheme	-	39,584
	<u>4,305,556</u>	<u>3,914,142</u>
Bonus shares issued during the period	430,556	391,414
	<u>4,736,112</u>	<u>4,305,556</u>
Treasury shares held (note 25)	(12,940)	(25,086)
	<u>4,723,172</u>	<u>4,280,470</u>

Statutory reserve

The UAE Commercial Companies Law No. (8) of 1984 (as amended) and Article 56 of the Bank's Articles of Association require that a minimum of 10% of the annual net profit to be transferred to a statutory reserve until it equals 50% of the paid-up share capital. The statutory reserve is not available for distribution to the shareholders.

Special reserve

Transfers to the special reserve are made in accordance with Union Law No. (10) of 1980 and Article 56 of the Bank's Articles of Association under which not less than 10% of the annual net profit is to be transferred to this reserve until it equals 50% of the paid-up share capital. The special reserve is not available for distribution to the shareholders.

Dividends

The following dividends were paid by the Group during the year ended 31 December:

	2014 AED'000	2013 AED'000
Cash dividend AED 0.40 per ordinary share (2013: 0.35 per ordinary share)	1,712,848	1,359,504
10% bonus shares (2013: 10% bonus shares) issued	<u>430,556</u>	<u>391,414</u>

Proposed dividends:

On 28 January 2015, a cash dividend of AED 0.40 per ordinary share and 10% bonus share (2013: proposed cash dividend of AED 0.40 per ordinary share and 10% bonus shares) was proposed by the Board of Directors in respect of 2014 which is subject to the approval of the shareholders at the Annual General Meeting.

Other reserves

Other reserves include the following:

(i) General reserve

The general reserve is available for distribution to the shareholders at the recommendation of the Board of Directors. On 11 March 2014 the AGM approved the transfer of AED 2.4 billion (31 December 2013: AED 2.1 billion) to general reserve.

Notes to the consolidated financial statements

23 Capital and reserves (continued)

Other reserves (continued)

(ii) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of non-trading investments, until the investment is derecognised or impaired, and cash flow hedge reserve.

	2014 AED'000	2013 AED'000
<i>Revaluation reserve – available-for-sale investments</i>		
At 1 January	787,157	699,317
Net unrealised gains during the year	380,315	371,735
Net cumulative realised gains recognised in the consolidated statement of profit or loss during the year	(835,852)	(283,895)
At 31 December	331,620	787,157
<i>Hedging reserve – cash flow hedge</i>		
At 1 January	35,896	-
Changes in fair value	(42,584)	35,896
At 31 December	(6,688)	35,896
Total at 31 December	324,932	823,053

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions.

(iii) Foreign currency translation reserve

Foreign currency translation reserve represents the exchange differences arising from translation of the net investment in foreign operations.

24 Government of Abu Dhabi Tier 1 capital notes

Under the Government of Abu Dhabi 2009 Bank capitalisation programme, the Bank issued regulatory Tier 1 capital notes (the "Notes") in the amount of AED 4 billion. The Notes are perpetual, subordinated, unsecured and carry a fixed coupon during the initial period and are paid semi-annually in arrears. During the year, the initial phase has lapsed, as a result, the Notes now attract a coupon rate of 6 month EIBOR plus 2.3% margin. The Bank may elect not to pay a coupon at its own discretion. The note holder does not have a right to claim the coupon and an election by the Bank not to service coupon is not considered an event of default. In addition, there are certain circumstances under which the Bank is prohibited from making a coupon payment on a relevant coupon payment date.

If the Bank makes a non - payment election or a non - payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Notes except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until two consecutive coupon payments have been paid in full.

The issuance was approved in the shareholders Extraordinary General Meeting held on 11 March 2009. During the year, a coupon payment election was made by the Bank in the amount of AED 187.5 million (2013: AED 240 million).

Notes to the consolidated financial statements

25 Share option scheme

The Bank had introduced in 2008 a share based payment scheme (the "Scheme") for selected employees which would vest over three years and can be exercised within the next three years after the vesting period. The key vesting condition is that the option holder is in continued employment with the Bank until the end of vesting period. The options lapse six years after their date of grant irrespective of whether they are exercised or not.

The Group has established a subsidiary to issue shares when the vested option is exercised by the employee. The Bank had issued and transferred 39,584 thousand shares to the subsidiary. These shares are treated as treasury shares until exercised by the option holders.

As at the reporting date 14,490 thousand (2013: 17,482 thousand) options were exercised by the option holders resulting in an increase in the total share capital by AED 14,490 thousand (2013: AED 17,482 thousand) and share premium by AED 101,865 thousand (2013: AED 143,608 thousand).

The numbers of share options are as follows:

	2014 Number of options in thousands	2013 Number of options in thousands
Outstanding at 1 January	23,950	38,883
Granted during the year	24,505	-
Net forfeited during the year	(634)	(332)
Exercised during the year	(14,490)	(17,482)
Expired during the year	(53)	-
Bonus share adjustment	-	2,881
Outstanding at 31 December	33,278	23,950

The average exercise price of options exercised during 2014 was AED 8.03 (2013: AED 9.21). The options outstanding as at 31 December 2014 have an exercise price per share ranging between AED 7.54 to 11.44 (2013: AED 8.73).

Reconciliation of treasury shares held under the Scheme

	2014 AED'000	2013 AED'000
As at 1 January	25,086	-
Shares issued under the Scheme	-	39,584
Options exercised by staff during the period	(14,490)	(17,482)
Bonus shares issued during the period	2,344	2,984
As at 31 December	12,940	25,086

Notes to the consolidated financial statements

26 Interest income

	2014 AED'000	2013 AED'000
<i>Interest from</i>		
Central banks	204,813	144,287
Banks and financial institutions	179,446	366,510
Reverse repurchase agreements	102,801	112,274
Investments at fair value through profit or loss	234,139	57,676
Non-trading investments	1,879,110	1,412,752
Loans and advances	6,034,303	5,992,023
	<u>8,634,612</u>	<u>8,085,522</u>

27 Interest expense

	2014 AED'000	2013 AED'000
<i>Interest to</i>		
Banks and financial institutions	177,035	129,603
Repurchase agreements	9,236	6,478
Euro commercial paper	19,505	18,680
Customers' deposits	751,824	782,736
Certificates of deposit	249,085	221,488
Term borrowings	689,424	694,224
Subordinated notes	39,540	28,444
	<u>1,935,649</u>	<u>1,881,653</u>

28 Income from Islamic financing contracts

	2014 AED'000	2013 AED'000
Ijara	223,266	271,348
Murabaha	106,564	56,826
Mudaraba	7,062	517
	<u>336,892</u>	<u>328,691</u>

29 Depositors' share of profits

	2014 AED'000	2013 AED'000
Wakala deposits	14,355	21,706
Mudaraba deposits	3,482	1,197
	<u>17,837</u>	<u>22,903</u>

Notes to the consolidated financial statements

30 Net fee and commission income

	2014 AED'000	2013 AED'000
Fee and commission income		
Trade finance	518,650	420,632
Collection services	76,515	42,515
Brokerage income	147,079	66,714
Asset management and investment services	187,667	116,280
Investments, derivatives and risk participation	146,065	178,826
Retail and corporate lending	801,845	657,013
Cards and e-services	852,798	670,077
Accounts related services	94,890	89,597
Commission on transfers	73,638	33,291
Others	103,373	80,283
Total fee and commission income	<u>3,002,520</u>	<u>2,355,228</u>
Fee and commission expense		
Brokerage commission	35,459	32,780
Handling charges	6,110	4,799
Credit card charges	569,755	417,633
Retail and corporate lending	51,068	33,748
Others	29,536	14,098
Total fee and commission expense	<u>691,928</u>	<u>503,058</u>
Net fee and commission income	<u>2,310,592</u>	<u>1,852,170</u>

Asset management and investment service fees include fees earned by the Group on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers.

Notes to the consolidated financial statements

31 Net foreign exchange gain

	2014 AED'000	2013 AED'000
Trading and retranslation gain on foreign exchange and related derivatives ¹	(105,120)	136,747
Dealings with customers	301,205	253,128
	<u>196,085</u>	<u>389,875</u>

¹ Due to effective hedging strategies, the offsetting impact of hedging instruments is reflected in the net gains from sale of non-trading investments (note 32).

32 Net gain on investments and derivatives

	2014 AED'000	2013 AED'000
Net realised and unrealised gains on investments at fair value through profit or loss and derivatives ¹	(78,806)	22,168
Net gain from sale of non-trading investments	835,852	283,895
Dividend income	7,356	4,959
	<u>764,402</u>	<u>311,022</u>

Interest income on debt instruments classified as investments at fair value through profit or loss as well as debt instruments classified as non-trading investments is presented within interest income.

¹ Includes credit value adjustment of AED 72 million.

33 Other operating income

	2014 AED'000	2013 AED'000
Gain on buy back of issued subordinated notes	-	268,955
Gain on sale of investment properties	56,353	-
Others	69,267	66,309
	<u>125,620</u>	<u>335,264</u>

34 General, administration and other operating expenses

	2014 AED'000	2013 AED'000
Staff costs	2,532,726	2,187,719
Other general and administration expenses	907,387	808,601
Depreciation	223,024	206,265
Donations and charity	32,896	27,803
	<u>3,696,033</u>	<u>3,230,388</u>

Notes to the consolidated financial statements

35 Net impairment charge

	2014 AED'000	2013 AED'000
Collective provision for loans and advances	574,433	547,305
Specific provision for loans and advances	1,152,484	1,289,775
Write back of provisions for loans and advances	(411,158)	(349,366)
Recovery of loan loss provisions	(473,901)	(320,847)
Write-off of impaired financial assets	43,635	30,743
Recovery of loans previously written off	(6,627)	(5,641)
Other recoveries	-	(405)
(Write back) / impairment of		
- other financial assets	3,603	-
- non financial assets	(14,342)	14,342
	<u>868,127</u>	<u>1,205,906</u>

36 Overseas income tax expense

In addition to adjustments relating to deferred taxation, the charge for the year is calculated based upon the adjusted net profit for the year at rates of tax applicable in respective overseas locations.

The charge to the consolidated statement of profit or loss for the year was as follows:

	2014 AED'000	2013 AED'000
Charge for the year	271,109	215,166
Adjustments relating to deferred taxation	579	2,973
	<u>271,688</u>	<u>218,139</u>

Reconciliation of Group's tax on profit based on accounting and profit as per the tax laws is as follows:

	2014 AED'000	2013 AED'000
Profit before taxation ¹	<u>1,016,862</u>	<u>789,738</u>
Tax calculated at domestic tax rates applicable to profits in the respective countries	245,925	195,999
Tax effects of:		
- Income not subject to tax	(6,951)	(22,688)
- Expenses not deductible for tax purpose	27,888	46,240
- Utilisation of previously unrecognised tax losses	(1,338)	-
- Effect of tax offsets not recognised as deferred tax assets	(2,804)	(2,717)
- Deductible temporary difference now recognised as deferred tax assets	(2,556)	(5,438)
- Adjustment pertaining to prior years	11,524	6,743
Total tax charge	<u>271,688</u>	<u>218,139</u>

¹ Profit before taxation amount consists of only those entities that are under taxable jurisdictions.

Notes to the consolidated financial statements

37 Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following amounts maturing within three months of the date of the acquisition / placement:

	2014 AED'000	2013 AED'000
Cash and balances with central banks	51,166,206	29,912,204
Due from banks and financial institutions	2,960,720	6,573,919
Cash and cash equivalents	<u>54,126,926</u>	<u>36,486,123</u>

38 Commitments and contingencies

	2014 AED'000	2013 AED'000
Letters of credit	56,212,240	31,470,088
Letters of guarantee	64,839,308	50,947,669
Undrawn commitments to extend credit	22,100,064	24,636,477
Financial guarantees	1,031,799	4,785,514
	<u>144,183,411</u>	<u>111,839,748</u>

Credit risk characteristics of these unfunded facilities closely resemble the funded facilities as described in note 4.

Capital and operating lease commitments at the reporting date is shown below:

	2014 AED'000	2013 AED'000
Commitments for future capital expenditure	159,799	48,836
Commitments for future operating lease payments for premises	114,117	151,918
	<u>273,916</u>	<u>200,754</u>
Total commitments and contingencies	<u>144,457,327</u>	<u>112,040,502</u>

Notes to the consolidated financial statements

38 Commitments and contingencies (continued)

Letters of credit and guarantee commit the Group to make payments on behalf of customers contingent upon the production of documents or the failure of the customer to perform under the terms of the contract.

Commitments to extend credit represent contractual commitments to extend loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and may require a payment of a fee. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

Commitments for operating lease payments are payable as follows:

	2014 AED'000	2013 AED'000
Less than one year	37,454	53,355
Between one and five year	61,566	77,570
More than five year	15,097	20,993
Total commitments	114,117	151,918

Financial guarantee contracts includes credit default agreements entered with banks and financial institutions amounting to AED 606 million (2013: AED 4,665 million) which are primarily denominated in US Dollars.

Concentration by industry:

Financial guarantee contracts mainly pertain to the banks and financial institutions.

Concentration by location:

	Undrawn loan Commitments		Financial guarantees	
	2014 AED'000	2013 AED'000	2014 AED'000	2013 AED'000
UAE	12,352,565	18,189,528	-	-
Europe	1,845,477	804,083	606,045	202,015
Arab countries	2,962,213	1,449,932	2,199	43,541
Americas	2,353,289	3,079,356	423,555	240,266
Asia	2,124,435	1,113,578	-	2,830,492
Others	462,085	-	-	1,469,200
	22,100,064	24,636,477	1,031,799	4,785,514

Notes to the consolidated financial statements

39 Derivative financial instruments

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. Derivatives are financial instruments that derive their value from the price of underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities and equity or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risks. Derivative financial instruments include forwards, futures, swaps and options. These transactions are primarily entered with Banks and financial institutions.

Forwards and futures

Currency forwards represent commitments to purchase foreign and/or domestic currencies, including non-deliverable spot transactions (i.e. the transaction is net settled). Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk for futures contracts is negligible, as they are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

Swaps

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross - currency interest rate swaps). No exchange of principal takes place, except for certain cross currency swaps. The Group's credit risk represents the potential loss if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of risk. Options may be either exchange - traded or negotiated between the Bank and a customer over the counter (OTC).

Derivatives are measured at fair value by reference to published price quotations in an active market. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models like counterparty prices or valuation techniques such as discounted cash flows, market prices, yield curves and other reference market data.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to their fair values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

Notes to the consolidated financial statements

39 Derivative financial instruments (continued)

31 December 2014

	Notional amounts by term to maturity							
	Positive market value	Negative market value	Notional amount	Less than three months	From three months to one year	From one year to three years	From three years to five years	Over five years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Held for trading:								
<i>Interest rate derivatives</i>								
Swaps	4,083,652	3,618,413	492,193,642	46,689,605	122,982,587	124,502,492	112,422,485	85,596,473
Forwards & Futures	14,148	7,178	45,397,661	-	45,397,661	-	-	-
Options & Swaptions	228,215	235,093	199,324,256	161,251,128	7,568,951	6,996,723	4,417,348	19,090,106
<i>Foreign exchange derivatives</i>								
Forwards	2,253,794	2,390,280	261,772,444	147,620,304	92,573,183	20,454,029	1,124,928	-
Options	231,895	187,576	43,924,361	7,121,106	15,373,524	19,222,732	1,242,976	964,023
<i>Other derivatives contracts</i>	370,824	361,248	2,702,980	594,307	1,079,996	818,752	209,925	-
	<u>7,182,528</u>	<u>6,799,788</u>	<u>1,045,315,344</u>	<u>363,276,450</u>	<u>284,975,902</u>	<u>171,994,728</u>	<u>119,417,662</u>	<u>105,650,602</u>
Held as fair value hedges:								
<i>Interest rate derivatives</i>								
Swaps	237,833	4,151,288	54,625,157	3,410,218	5,959,527	31,198,306	1,403,677	12,653,429
	<u>237,833</u>	<u>4,151,288</u>	<u>54,625,157</u>	<u>3,410,218</u>	<u>5,959,527</u>	<u>31,198,306</u>	<u>1,403,677</u>	<u>12,653,429</u>
Held as cash flow hedges								
<i>Interest rate derivatives</i>								
Forwards	2,467	2,048	2,499,033	2,499,033	-	-	-	-
	<u>2,467</u>	<u>2,048</u>	<u>2,499,033</u>	<u>2,499,033</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>7,422,828</u>	<u>10,953,124</u>	<u>1,102,439,534</u>	<u>369,185,701</u>	<u>290,935,429</u>	<u>203,193,034</u>	<u>120,821,339</u>	<u>118,304,031</u>

Notes to the consolidated financial statements

39 Derivative financial instruments *(continued)*

31 December 2013

	Notional amounts by term to maturity							
	Positive market value	Negative market value	Notional amount	Less than three months	From three months to one year	From one year to three years	From three years to five years	Over five years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<i>Held for trading:</i>								
<i>Interest rate derivatives</i>								
Swaps	4,140,108	2,811,469	413,332,300	62,481,971	99,606,886	133,815,365	60,036,301	57,391,777
Forwards & Futures	17,866	15,189	180,128,175	5,656,420	112,361,784	62,109,971	-	-
Options & Swaptions	145,307	134,545	81,607,486	15,059,300	41,590,791	4,996,405	3,314,952	16,646,038
<i>Foreign exchange derivatives</i>								
Forwards	1,362,812	1,413,680	189,421,730	119,753,860	60,172,442	8,073,591	1,421,837	-
Options	45,770	45,770	5,186,561	1,327,350	3,717,360	141,851	-	-
<i>Other derivatives contracts</i>	39,089	42,500	2,267,565	765,432	849,002	492,331	160,800	-
	<u>5,750,952</u>	<u>4,463,153</u>	<u>871,943,817</u>	<u>205,044,333</u>	<u>318,298,265</u>	<u>209,629,514</u>	<u>64,933,890</u>	<u>74,037,815</u>
<i>Held as fair value hedges:</i>								
<i>Interest rate derivatives</i>								
Swaps	372,571	2,822,204	48,818,379	1,752,810	6,142,491	4,578,404	10,405,136	25,939,538
	<u>372,571</u>	<u>2,822,204</u>	<u>48,818,379</u>	<u>1,752,810</u>	<u>6,142,491</u>	<u>4,578,404</u>	<u>10,405,136</u>	<u>25,939,538</u>
<i>Held as cash flow hedges</i>								
<i>Interest rate derivatives</i>								
Forwards	22,483	168,659	10,378,603	5,908,694	4,469,909	-	-	-
	<u>22,483</u>	<u>168,659</u>	<u>10,378,603</u>	<u>5,908,694</u>	<u>4,469,909</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>6,146,006</u>	<u>7,454,016</u>	<u>931,140,799</u>	<u>212,705,837</u>	<u>328,910,665</u>	<u>214,207,918</u>	<u>75,339,026</u>	<u>99,977,353</u>

Notes to the consolidated financial statements

39 Derivative financial instruments *(continued)*

The positive / negative fair value in respect of derivatives represents the gain / loss respectively, arising on fair valuation of the trading and hedging instrument. These amounts are not indicative of any current or future losses, as a similar positive / negative amount has been adjusted to the carrying value of the hedged loans and advances, non-trading investments, term borrowings and subordinated notes.

As at December 31, 2014, the Group received cash collateral of AED 661,805 thousand (2013: AED 411,380 thousand) against positive fair value of derivative assets from certain counterparties. Correspondingly, the Group placed cash collateral of AED 7,160,295 thousand (2013: AED 3,490,049 thousand) against the negative fair value of derivative liabilities.

Derivative related credit risk:

This is limited to the positive fair value of instruments that are favourable to the Group. These transactions are primarily entered with banks and financial institutions.

Derivatives held for trading

The Group uses derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate and credit risks or initiates positions with the expectation of profiting from favourable movement in prices, rates or indices. The instruments used mainly include interest rate and currency swaps and forward contracts. The fair values of those derivatives are shown in the table above.

Derivatives held as fair value hedge

The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management strategy by taking offsetting positions in order to reduce its own exposure to fluctuations in exchange and interest rates. The Group uses interest rate swaps, to hedge against the changes in fair value arising from specifically identified interest bearing assets such as loans and advances, non-trading investments, term borrowings and subordinate notes. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

Derivatives held as cash flow hedge

The Group uses forward contracts to hedge the foreign currency risk arising from its financial instruments. The Group has substantially matched the critical terms of the derivatives to have an effective hedge relationship.

40 Related parties

Identity of related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise major shareholders, directors and key management personnel of the Group. Key management personnel comprise of those executive committee members "EXCO" of the Group who are involved in the strategic planning and decision making of the Group. The terms of these transactions with related parties are approved by the Group's management and are made on terms agreed by the Board of Directors or management.

Parent and ultimate controlling party

Pursuant to the provisions of Law No. 16 of 2006, Abu Dhabi Investment Council (the "Council") was established which holds 69.96% (2013: 70.18%) of the issued share capital of the Bank.

During the year, a coupon payment election of AED 187.5 million (2013: AED 240 million) was made by the Bank in relation to the AED 4,000 million (2013: AED 4,000 million) Government of Abu Dhabi Tier 1 capital notes.

Notes to the consolidated financial statements

40 Related parties (continued)

Compensation of directors and key management personnel

	2014 AED'000	2013 AED'000
Key management compensation		
Short term employment benefits	79,875	78,408
Post employment benefits	2,010	1,734
Termination benefits	1,524	1,492
Share based payments	8,224	24,012
	<u> </u>	<u> </u>
Directors' remuneration	<u>7,917</u>	<u>7,520</u>

Terms and conditions

Loans and deposits are granted and accepted in various currency denominations and for various time periods. Interest rates earned on such loans and advances extended to related parties during the year have ranged from 0.05% to 10.75% per annum (2013: 0.05% to 10.75% per annum) and interest rates incurred on customers' deposits placed by related parties during the year have ranged from nil to 3.80% per annum (2013: nil to 3.80% per annum).

Fees and commissions earned on transactions with related parties during the year have ranged from 0.125% to 2.00% (2013: 0.20% to 1.00%).

Collaterals against lending to related parties range from being nil to fully secure.

Directors and key management AED'000	Major shareholder AED'000	Others AED'000	2014 Total AED'000	2013 Total AED'000
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Balances with related parties at the reporting date are shown below:

Financial assets	1,020,730	3,292,223	68,366,923	72,679,876	80,392,433
Financial liabilities	298,639	2,835,699	86,999,239	90,133,577	66,831,350
Contingent liabilities	368,446	3,859,157	39,312,828	43,540,431	42,009,286

Transactions carried out during the year with related parties are shown below:

Interest income	26,913	306,788	1,864,208	2,197,909	2,334,605
Interest expense	210	168,134	252,706	421,050	380,386
Fee and commission income	4,310	1,753	69,344	75,407	72,314

Others comprise Government of Abu Dhabi entities.

No allowances for impairment have been recognised against loans and advances extended to related parties or contingent liabilities issued in favour of related parties during the year (2013: AED nil).

Notes to the consolidated financial statements

41 Segmental information

The new operating structure adopted mid last year has been developed consisting of three key Business segments across Geographic segments that are driving the business strategy, customer value propositions, products and channel development and customer relationships in addition to supporting the delivery of the Group's financial performance. The structure is simplified and is coherent with its mission of being core to its chosen customers.

Business segments

- **Global Wholesale**

Global Wholesale comprises of Global Banking and Global Markets. The business provides corporate, wholesale and investment clients with strategic advice and bespoke innovative solutions catering for their different needs. Global Banking Division offers an array of financial services ranging from relationship lending and financing, syndication, corporate finance, specialised financing, structured finance, leasing, securities services, transactional banking, merchant banking, debt capital market services and special asset advisory. Global Markets Division covers lines of business in relation to institutional and corporate coverage, risk solutions, repos management and investments, commodities, E-commerce and foreign exchange trading.

- **Global Wealth**

Global Wealth enfoldes high net worth individuals and other clients with sophisticated investment needs. The business furnishes variety of products related to private banking, assets management including local and global funds as well as discretionary portfolios management, custody, brokerage, business development and tailored wealth solutions (such as trust & estate planning, financial planning, segregated mandates, structured lending, real estate and private equity investments).

- **Global Retail and Commercial**

The Global Retail and Commercial ("GRC") targets the retail and commercial customer segments together with their associated operations and administration. The GRC is structured on the basis of the differing needs of the Group's broad customer base covering Mass, affluent, commercial and Islamic Banking.

- **Head Office**

The Group provides centralized human resources, information technology, finance, investor relations, risk management, corporate communications, property, legal, internal audit, compliance, procurement, treasury operations and administrative support to all of its businesses units.

Notes to the consolidated financial statements

41 Segmental information *(continued)*

Geographic segments

The Group will be managing its various business segments through a network of branches, subsidiaries and representative offices within the three defined geographic segments which are UAE, Gulf and International.

- **UAE**
NBAD local network is currently available in all the seven emirates constituting the United Arab Emirates.
- **Gulf**
NBAD presence in the Gulf region is run through its branches in Bahrain, Kuwait and Oman; the segment is extended to include Jordan.
- **International**
NBAD international network is carried out via its operational presence in Brazil, China, Egypt, France, Hong Kong, Lebanon, Libya, Malaysia, Sudan, Switzerland, the United Kingdom and the United States of America.

The accounting policies of the reportable segments are the same as described in notes 2 and 3. Transactions between segments, and between branches within a segment, are conducted at estimated market rates or rates agreed by management. Interest is charged or credited to branches and business segments either at contracted or pool rates, both of which approximate the replacement cost of funds.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before taxation, as included in the internal management reports that are reviewed by the Group's Chief Executive. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Notes to the consolidated financial statements

41 Segmental information *(continued)*

	Business Segment					Geographic Segment			
	Global Wholesale AED'000	Global Wealth AED'000	Global Retail and Commercial AED'000	Head Office AED'000	Total AED'000	UAE AED'000	Gulf AED'000	International AED'000	Total AED'000
<i>As at and for the year ended 31 December 2014</i>									
Net Interest income	3,339,902	679,249	2,200,734	798,133	7,018,018	5,761,008	209,922	1,047,088	7,018,018
Net Non-interest income	1,618,840	383,670	1,143,105	251,084	3,396,699	2,794,631	79,527	522,541	3,396,699
Operating income	<u>4,958,742</u>	<u>1,062,919</u>	<u>3,343,839</u>	<u>1,049,217</u>	10,414,717	<u>8,555,639</u>	<u>289,449</u>	<u>1,569,629</u>	10,414,717
General administration and other operating expenses	1,060,461	330,653	1,737,593	567,326	3,696,033	3,031,279	133,070	531,684	3,696,033
Net impairment charge	431,767	24,399	337,268	74,693	868,127	661,214	56,773	150,140	868,127
Profit before taxation	<u>3,466,514</u>	<u>707,867</u>	<u>1,268,978</u>	<u>407,198</u>	5,850,557	<u>4,863,146</u>	<u>99,606</u>	<u>887,805</u>	5,850,557
Overseas taxation	141,196	81,916	48,576	-	271,688	(2,600)	13,848	260,440	271,688
Net profit for the year	<u>3,325,318</u>	<u>625,951</u>	<u>1,220,402</u>	<u>407,198</u>	5,578,869	<u>4,865,746</u>	<u>85,758</u>	<u>627,365</u>	5,578,869
Segment total assets	<u>261,296,810</u>	<u>32,970,181</u>	<u>89,274,399</u>	<u>47,425,533</u>	430,966,923	<u>306,428,311</u>	<u>9,557,187</u>	<u>80,198,525</u>	396,184,023
					(54,868,211)				(20,085,311)
Inter segment balances									
Total assets					376,098,712				376,098,712
Segment total liabilities	<u>255,606,075</u>	<u>31,809,342</u>	<u>85,680,449</u>	<u>19,907,675</u>	393,003,541	<u>272,185,956</u>	<u>8,239,621</u>	<u>77,795,064</u>	358,220,641
Inter segment balance					(54,868,211)				(20,085,311)
Total liability					338,135,330				338,135,330

Notes to the consolidated financial statements

41 Segmental information *(continued)*

	Business Segment					Geographic Segment			
	Global Wholesale AED'000	Global Wealth AED'000	Global Retail and Commercial AED'000	Head Office AED'000	Total AED'000	UAE AED'000	Gulf AED'000	International AED'000	Total AED'000
<i>As at and for the year ended 31 December 2013</i>									
Net Interest income	3,175,844	442,479	2,231,765	659,569	6,509,657	5,505,896	168,364	835,397	6,509,657
Net Non-interest income	1,370,013	216,369	863,038	438,911	2,888,331	2,401,390	55,890	431,051	2,888,331
Operating income	<u>4,545,857</u>	<u>658,848</u>	<u>3,094,803</u>	<u>1,098,480</u>	9,397,988	<u>7,907,286</u>	<u>224,254</u>	<u>1,266,448</u>	9,397,988
General administration and other operating expenses	847,600	266,229	1,536,427	580,132	3,230,388	2,634,947	125,883	469,558	3,230,388
Net impairment charge	762,655	15,171	397,045	31,035	1,205,906	968,734	22,107	215,065	1,205,906
Profit before taxation	<u>2,935,602</u>	<u>377,448</u>	<u>1,161,331</u>	<u>487,313</u>	4,961,694	<u>4,303,605</u>	<u>76,264</u>	<u>581,825</u>	4,961,694
Overseas taxation	107,413	45,877	64,849	-	218,139	-	12,538	205,601	218,139
Net profit for the year	<u>2,828,189</u>	<u>331,571</u>	<u>1,096,482</u>	<u>487,313</u>	4,743,555	<u>4,303,605</u>	<u>63,726</u>	<u>376,224</u>	4,743,555
Segment total assets	<u>231,403,160</u>	<u>28,169,942</u>	<u>85,408,361</u>	<u>50,786,523</u>	395,767,986	<u>256,508,915</u>	<u>7,961,645</u>	<u>76,499,179</u>	340,969,739
Inter segment balances					(70,706,330)				(15,908,083)
Total assets					325,061,656				325,061,656
Segment total liabilities	<u>219,034,101</u>	<u>26,957,642</u>	<u>88,724,557</u>	<u>26,380,295</u>	361,096,595	<u>225,766,985</u>	<u>6,663,181</u>	<u>73,868,182</u>	306,298,348
Inter segment balance					(70,706,330)				(15,908,083)
Total liability					290,390,265				290,390,265

Notes to the consolidated financial statements

42 Earnings per share

Earnings per share is calculated by dividing the net profit for the year after deduction of Tier 1 capital notes payment by the weighted average number of ordinary shares in issue during the year as set out below:

	2014	2013
Basic earnings per share:		
Net profit for the year (AED'000)	5,578,869	4,743,555
Less: payment on Tier 1 capital notes (AED'000)	(187,495)	(240,000)
	<u>5,391,374</u>	<u>4,503,555</u>
Net profit after payment of Tier 1 capital notes (AED'000)		
	<u>5,391,374</u>	<u>4,503,555</u>
Weighted average number of ordinary shares:		
Ordinary shares as at 1 January of the year ('000)	4,280,470	3,874,558
Effect of bonus shares issued during 2014 ('000)	428,212	428,212
Effect of bonus shares issued during 2013 ('000)	-	388,430
Weighted average number of shares exercised under the share options scheme ('000)	8,173	11,462
	<u>4,716,855</u>	<u>4,702,662</u>
Weighted average number of ordinary shares ('000)		
	<u>4,716,855</u>	<u>4,702,662</u>
Basic earnings per share (AED)	<u>1.14</u>	<u>0.96</u>
Diluted earnings per share:		
Net profit after payment of Tier 1 capital notes (AED'000)	5,391,374	4,503,555
Add: interest on convertible notes (AED'000)	44,547	26,592
	<u>5,435,921</u>	<u>4,530,147</u>
Net profit for the year for calculating diluted earnings per share (AED'000)		
	<u>5,435,921</u>	<u>4,530,147</u>
Weighted average number of ordinary shares ('000)	4,716,855	4,702,662
Effect of dilutive potential ordinary shares issued ('000)	117,655	75,843
Weighted average number of dilutive shares under share options scheme ('000)	11,244	7,940
	<u>4,845,754</u>	<u>4,786,445</u>
Weighted average number of ordinary shares in issue for diluted earnings per share ('000)		
	<u>4,845,754</u>	<u>4,786,445</u>
Diluted earnings per share (AED)	<u>1.12</u>	<u>0.95</u>

Notes to the consolidated financial statements

43 Fiduciary activities

The Group held assets under management in trust or in a fiduciary capacity for its customers at 31 December 2014 amounting to AED 10,274 million (2013: AED 7,906 million). Furthermore, the Group provides custodian services for some of its customers.

The underlying assets held in a custodial or fiduciary capacity are excluded from these consolidated financial statements of the Group.

44 Special Purpose Entities

The Group has created Special Purpose Entities (SPEs) with defined objectives to carry on fund management and investment activities on behalf of customers. The equity and investments managed by the SPEs are not controlled by the Group and the Group does not obtain benefits from the SPEs' operations, apart from commissions and fee income. In addition, the Group does not provide any guarantees or assume any liabilities of these entities. Consequently, the SPEs' assets, liabilities and results of operations are not included in these consolidated financial statements of the Group. The SPEs are as follows:

Legal name	Activities	Country of incorporation	Holding 2014
NBAD Nominees Limited*	Shares registration	England	-
NBAD Fund Managers (Guernsey) Limited*	Equity / Asset Management	Bailiwick of Guernsey	-
NBAD Global Growth Fund PCC Limited*	Equity / Asset Management	Bailiwick of Guernsey	-
One share PLC	Investment Company	Republic of Ireland	100%
NBAD Private Equity 1	Fund Management	Cayman Island	58%
NBAD (Cayman) Limited	Fund Management	Cayman Island	100%
NBAD Global Multi-Strategy Fund	Fund Management	Cayman Island	100%

* Liquidated during the period

45 Comparative figures

Certain comparative figures have been reclassified where appropriate to conform to the presentation and accounting policy changes adopted in these consolidated financial statements. The significant account policy changes made during the year are stated below:

During the year, the Group has changed its accounting policy for Zakat and Directors' remuneration. Based on the previous accounting policy, Zakat was charged to the consolidated statement of profit or loss as an expense which as per the new accounting policy will now form part of the consolidated statement of changes in equity as transactions with the owners of the Group. As a result, net profit increased by AED 18.07 million (2013: AED 17.6 million). There is no other impact of this change on these consolidated financial statements.

Conversely, based on the previous accounting policy, directors' remuneration was a part of consolidated statement of other comprehensive income which as per the new accounting policy will form part of the consolidated statement of profit or loss as an expense. There is no impact on the current year net profit (2013: AED 7.15 million) as a result of this policy change. However, both the closing and opening retained earnings and other liabilities balance of 2013 have been restated as shown in consolidated statement of changes in equity and consolidated statement of financial position respectively.