بنك دبي الإسلامي
Dubai Islamic Bank

Basel II – Pillar III Disclosures

(For the year ended 31 December 2014)

1. Overview and Introduction

The Central Bank of the United Arab Emirates ("CBUAE") issued guidelines for implementation of Basel II Capital Accord for the banks in UAE in November 2009. The CBUAE Basel II framework clearly addresses the importance of developing and using better risk management techniques in monitoring and managing banks' risks.

The Basel II Accord is based on the following three pillars:

- **Pillar I** - defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk. The requirement of capital has to be covered by the banks' own regulatory funds.

- **Pillar II** - addresses a bank's Internal Capital Adequacy Assessment Program ("ICAAP") for assessing overall capital adequacy in relation to risks. Pillar II also introduces the Supervisory Review and Evaluation Process ("SREP"), which is used as a tool to assess the internal capital adequacy of any bank.

- **Pillar III** - complements the other two pillars and focuses on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy. The aim of these disclosures is to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess specific information in the scope of application of Basel II, capital, particular risk exposures and risk assessment processes, and the capital adequacy of the bank.

  In compliance with the above mentioned CBUAE guidelines and Basel II Accord; these disclosures were prepared and include information about Dubai Islamic Bank PJSC and its subsidiaries (collectively referred to as the "Bank") relating to the financial group's structure, capital structure, capital adequacy requirements, risk management objectives and policies, and various supporting quantitative and qualitative disclosures.

  Many of these disclosures requirements have already been disclosed in the audited consolidated financial statements for the year ended 31 December 2014, which covers in detail the risk and capital management processes of the Bank and its compliance with the Basel II Accord. The following Pillar III disclosures provide qualitative and quantitative information in addition to the consolidated financial statements for the year ended 31 December 2014 in order to meet the disclosure requirements of Pillar III.

Future Developments

The regulation and supervision of financial institutions is currently undergoing a period of significant change in response to the global financial crisis. Increased capital requirements and regulatory focus on Liquidity Risk have been announced by the Basel Committee in December 2010, commonly known as Basel III. The discussion between UAE banks and CBUAE is in progress for smooth implementation of any new disclosure requirements.

Implementation of Basel II guidelines

The Bank has been in compliance with Basel II Pillar I since December 2007, as per allowed by CBUAE guidelines[1] circular for Standardized Approach for Credit, Market and Operational Risk.

[1] Further as per Basel Pillar II framework, the Bank assigns capital on risks other than Pillar I risk categories. Details on Pillar II methodologies are contained in section No. 4.9 "Capital Management policies and Stress Testing" of this report.

2. Bank Structure

The Bank consists of Dubai Islamic Bank P.J.S.C. and its subsidiaries. As of 31 December 2014, the Bank's interest held directly or indirectly in its subsidiaries is as follows:

	Name of subsidiary	Principal activity	Place of incorporation and operation	Percentage of equity	
				2014	2013
1.	DIB Capital Limited (under liquidation)	Investments and financial services	DIFC, U.A.E.	**95.5%**	95.5%
2.	Dubai Islamic Bank Pakistan Ltd.	Banking	Pakistan	**100.0%**	100.0%
3.	Tamweel P.S.C (formerly Tamweel P.J.S.C)	Financing	U.A.E	**86.5%**	86.5%
4.	Dubai Islamic Financial Services L.L.C.	Brokerage services	U.A.E.	**95.5%**	95.5%
5.	Deyaar Development P.J.S.C.	Real estate development	U.A.E	**44.9%**	44.9%
6.	Dar al Shariah Financial & Legal Consultancy L.L.C.	Financial and legal advisory	U.A.E.	**60.0%**	60.0%
7.	Al Tanmyah Services L.L.C.	Labour services	U.A.E.	**99.5%**	99.5%
8.	Al Tatweer Al Hadith Real Estate	Real estate development	Egypt	**100.0%**	100.0%
9.	Al Tameer Modern Real Estate Investment	Real estate development	Egypt	**100.0%**	100.0%
10.	Al Tanmia Modern Real Estate Investment	Real estate development	Egypt	**100.0%**	100.0%
11.	Naseej Fabric Manufacturing L.L.C.	Textile Manufacturing	U.A.E.	**99.0%**	99.0%
12.	DIB Printing Press L.L.C.	Printing	U.A.E.	**99.5%**	99.5%
13.	Levant One Investment Limited	Investments	U.A.E.	**100.0%**	100.0%
14.	Petra Limited	Investments	Cayman Islands	**100.0%**	100.0%
15.	Al Islami Real Estate Investments Ltd.	Investments	U.A.E.	**100.0%**	100.0%
16.	Emirates Automotive Leasing Company	Trading in motor vehicles	U.A.E.	**100.0%**	100.0%

In addition to the above subsidiaries, the following Special Purpose Vehicles ("SPV") were formed by the Bank to manage specific transactions, including funds, and are expected to be closed upon completion of transactions:

	Name of SPV	Principal activity	Place of incorporation and operation	Ownership interest and voting power	
				2014	2013
17.	HoldInvest Real Estate Sarl	Investments	Luxembourg	**100.0%**	100.0%
18.	France Invest Real Estate SAS	Investments	France	**100.0%**	100.0%
19.	SARL Barbanniers	Investments	France	**100.0%**	100.0%
20.	SCI le Sevine	Investments	France	**100.0%**	100.0%
21.	Findi Real Estate SAS	Investments	France	**100.0%**	100.0%
22.	PASR Einudzwanzigste Beteiligunsverwaltung GMBH	Investments	Austria	**100.0%**	100.0%
23.	Al Islami German Holding Co. GMBH	Investments	Germany	**100.0%**	100.0%
24.	Rhein Logistics GMBH	Investments	Germany	**100.0%**	100.0%
25.	Jef Holdings BV	Investments	Netherlands	**100.0%**	100.0%
26.	Zone Two Real Estate Management Co.	Investments	Cayman Islands	**100.0%**	100.0%
27.	Zone One Real Estate Management Co.	Investments	Cayman Islands	**100.0%**	100.0%
28.	Al Islami Trade Finance FZ L.L.C.	Investments	U.A.E.	**100.0%**	100.0%
29.	DIB Lease One Ltd.	Investments	Bahamas	**100.0%**	100.0%
30.	DIB Lease One (Dublin) Ltd.	Investments	Ireland	**100.0%**	100.0%
31.	Gulf Atlantic FZ L.L.C.	Investments	U.A.E.	**100.0%**	100.0%
32.	Al Islami Oceanic Shipping Co FZ L.L.C.	Investments	U.A.E.	**100.0%**	100.0%
33.	Sequia Investments L.L.C.	Investments	U.A.E.	**99.0%**	99.0%
34.	Blue Nile Investments L.L.C.	Investments	U.A.E.	**99.0%**	99.0%

In addition to the registered ownership described above, the remaining equity in the entities 33 and 34 are also beneficially held by the Bank through nominee arrangements.

3. Capital Structure and Requirements

The Bank's regulatory capital is calculated as per the guidelines issued by CBUAE and is composed of:

Tier 1 Capital - includes share capital, tier 1 sukuks, statutory reserve, donated land reserve, general reserve, additional paid in capital, treasury shares, retained earnings, exchange translation reserve and non-controlling interests.

Tier 2 Capital - includes collective impairment allowance and investment fair value reserve relating to unrealized gain/loss on equity instruments measured as fair value through other comprehensive income ("FVTOCI").

Deductions from Tier 1 and Tier 2 - significant minority investments in banking, securities and other financial entities, where control does not exist, are excluded from the capital.

The detailed breakdown of the capital structure of the Bank as of 31 December 2014 is as follows:

	2014 AED'000	2013 AED'000
Tier 1 Capital		
Share capital	**3,953,751**	3,953,751
Tier 1 sukuk	**3,673,000**	3,673,000
Other reserves	**5,508,795**	5,508,795
Retained earnings	**1,871,363**	1,027,396
Non-controlling interest	**314,081**	317,373
	15,320,990	14,480,315
Less:		
Treasury shares	**(14,678)**	(13,099)
Cumulative deferred exchange losses	**(280,383)**	(280,833)
Total Tier 1 Capital	**15,025,929**	14,186,383
Tier 2 Capital		
Investment fair value reserve	**(567,806)**	(563,850)
Collective impairment allowance	**1,090,159**	902,348
Total Tier 2 Capital	**522,353**	338,498
Deductions from capital	**(625,780)**	(570,260)
Total capital base	**14,922,502**	13,954,621

The Bank's capital adequacy ratios as of 31 December 2014 were calculated by using the standardized approach as follows:

Risk weighted assets	**2014 AED'000**	2013 AED'000
Credit Risk	**91,782,080**	70,199,816
Market Risk	**1,111,599**	1,804,650
Operational Risk	**7,444,754**	4,526,311
Total risk weighted assets	**100,338,433**	76,530,777
Capital Adequacy Ratios:		
Capital adequacy ratio	**14.9%**	18.2%
Tier 1 capital adequacy ratio	**14.7%**	18.2%

3. Capital Structure and Requirements (continued)

3.1 Capital Adequacy

The Bank's Capital Adequacy ratio as at 31 December 2014 is 14.9% and Tier 1 capital adequacy ratio is 14.7% against the regulatory requirement of minimum of 12% and 8%, respectively. The Bank ensures adherence to CBUAE requirements by implementing high internal limits.

The banking subsidiaries of the Bank are regulated by their local banking supervisors who set and monitor their capital adequacy requirements. CBUAE monitors the capital adequacy requirements of the Bank at a financial group level.

3.1.1. Credit Risk Weighted Assets

The details of Credit Risk Weighted Assets as of **31 December 2014** are as follows:

	Gross Exposure[2] AED'000	**Risk Weighted Assets AED'000**
Claims on sovereigns	**23,207,394**	**2,541,429**
Claims on non-commercial public sector enterprises (PSEs)	**1,937,238**	**62,321**
Claims on banks	**48,518,572**	**2,565,063**
Claims on corporates and government related entities (GRE)	**83,115,333**	**43,761,246**
Claims included in the regulatory retail portfolio	**26,111,993**	**15,613,739**
Claims secured by residential property	**11,761,566**	**6,687,097**
Claims secured by commercial real estate	**7,235,025**	**6,369,819**
Past due financing assets	**9,113,983**	**5,422,885**
Higher-risk categories	**1,047,591**	**1,571,387**
Other assets	**9,332,588**	**7,187,095**
Total	**221,381,284**	**91,782,080**

The details of Credit Risk Weighted Assets as of 31 December 2013 are as follows:

	Credit Converted Equivalent Exposure[3] AED'000	Risk Weighted Assets AED'000
Claims on sovereigns	29,146,119	304,874
Claims on non-central government public sector entities	7,635,849	4,108,284
Claims on banks	10,845,170	2,893,014
Claims on corporates	23,593,646	23,714,728
Claims included in the regulatory retail portfolio	15,194,620	11,787,608
Claims secured by residential property	10,673,564	6,438,618
Claims secured by commercial real estate	5,608,605	5,569,977
Past due financing assets	6,183,062	7,400,802
Higher-risk categories	1,170,229	1,755,343
Other assets	7,967,494	6,226,568
Total	118,018,358	70,199,816

[2] As per CBUAE instructions and the revised CAR Returns template issued early first quarter of 2014 the Gross Exposure which includes the Off balance sheet gross exposure is being reported in 2014.

[3] The Credit Converted Equivalent Exposure was reported prior to 2014 which comprised of the Net Off balance sheet exposure after Credit Conversion Factor (CCF) applied; as compared to the Gross Exposure reported in 2014..

3. Capital Structure and Requirements (continued)

3.1. Capital Adequacy (continued)

3.1.1. Market Risk Weighted Assets

Market risk weighted assets subject to capital charge are based on the following risks:

- Profit rate risk;
- Equity exposure risk; and
- Foreign exchange risk.

The scope of capital charges on market risk weighted assets is restricted to 'trading book' only for the profit rate risk and equity positions. Foreign exchange risk is applicable to the Bank's overall positions.

As of 31 December 2014, the capital requirement for Market[4] Risk as per standardized approach was as follows:

	2014 AED'000	2013 AED'000
Profit rate risk	**-**	1,306
Equity exposure risk	**-**	126
Foreign exchange risk	**133,392**	142,940
	---------------	---------------
Total capital requirement for market risk	**133,392**	144,372
	========	========

3.1.2. Operational Risk Weighted Assets

In accordance with Basel II guidelines operational risk charge is computed by multiplying the beta factors of respective banking business activities, subject to and as required by the Standardised Approach. The total capital requirement for Operational[5] Risk as at 31 December 2014 is AED 893 million.

4. Risk Management Objectives and Policies

4.1 Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his responsibilities.

The Group is exposed to various risks including:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

[4] Market Risk is reported as per Basel II guidelines Standardised Approach only for Foreign exchange risk compared to overall including profit rate risk and equity positions reported prior to third quarter of 2014.

[5] Operational Risk is currently reported as per Basel II guidelines Standardised Approach compared to Basic Indicator Approach used prior to 2014.

4. Risk Management Objectives and Policies (continued)

4.1 Introduction (continued)

4.1.1 Risk management structure

The Board of Directors, supported by the Risk Management Committee and Risk Management Department, is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors
The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and policies.

Board Risk Management Committees
The Board Risk Management Committee has the overall responsibility for the development of the risk strategies, frameworks, policies and limits, and for recommending these strategies and policies to the Board of Directors. It is responsible for the fundamental risk issues, and manages and monitors relevant risk decisions.

Risk Management Committee
The day-to-day management of risk has been delegated to Risk Management Committee. It has the overall responsibility to support the Board Risk Management Committee for the development and formulation of the risk strategy, frameworks, policies and limits. It is responsible for ensuring the compliance with all risk limits, monitoring risk exposures and implementing the regulatory guidelines issued by the regulatory bodies (e.g. The Central Bank of the U.A.E.).

Risk Management Department
The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure risk remains within the acceptable range as approved by the Board Risk Management Committee and the Board of Directors. The department is responsible for credit administration, portfolio management, credit risk, market risk, operational risk and overall risk control.

Asset and Liability Management Committee
Asset and Liability Management Committee ("ALCO") is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Group Internal Audit Department
Risk management processes throughout the Group are audited periodically by the Group Internal Audit Department which examines both the adequacy of the procedures and the Group compliance with the procedures. Internal Audit Department comments on the results of their assessments with management, and reports its findings and recommendations to the Board Audit Committee.

4.1.2 Risk measurement and reporting systems

The Group measures risks using conventional qualitative and quantitative methods for credit, market, liquidity and operational risks. Further, the Group also uses quantitative analysis and methods to support revisions in business and risk strategies as and when required. These analysis and methods reflect both the expected loss likely to arise in normal course of business or unexpected losses in an unforeseen event based on simple statistical techniques and probabilities derived from historical experience. The Group also runs stress scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Board Risk Management Committee on recommendation from management. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries.

Information compiled from all the businesses is examined and processed in order to analyse the risk profile and identify early risks. This information is presented and explained to the management, management committees, the Risk Management Committee, and Board Risk Management Committee. Specialized reports are presented to the pertinent heads of business and are delivered with a frequency suited to the volatility of the risk. The report includes aggregate credit exposure, limit exceptions, liquidity, operational loss incidents and other risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the provision for impairment losses on a quarterly basis.

4. Risk Management Objectives and Policies (continued)

4.1 Introduction (continued)

4.1.3 Risk mitigation

As part of its overall risk management, the Group uses various methods to manage exposures resulting from changes in credit risks, liquidity risks, market risks (including profit rate risk, foreign exchange risk, and equity price risk), and operational risks.

The Group seeks to manage its credit risk exposures through diversification of financing and investing activities to avoid undue concentration of risk with individuals and groups of customers in specific locations or businesses. The Group actively uses collateral to reduce its credit risks.

In order to guard against liquidity risk, management has diversified funding sources and assets are managed with overall Group liquidity in consideration maintaining a healthy balance of liquid assets (i.e. cash and cash equivalents).

The market risks are managed on the basis of predetermined asset allocation across various asset categories and continuous appraisal of market conditions for movement and expectation of foreign currencies rate, bench mark profit rates and equity houses.

To manage all other risks, the Group has developed a detailed risk management framework to identify and apply resources to mitigate the risks.

4.1.4 Risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group performance to developments affecting a particular industry or geographical location.

4.2 Credit risk

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk measurement

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. Whilst some of the models for assessment of Real Estate projects are internally developed, others for the Corporate, Contracting and SME businesses have been acquired from Moody's and calibrated to the Group's internal rating scale. The models are housed with the Moody's Risk Analyst rating tool.

The rating tools are kept under review and upgraded as necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events.

Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of securities for facilities provided, which is a common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for Islamic financing and investing assets are:

- Mortgages over residential and commercial properties;
- Corporate guarantees;
- Charges over business assets such as premises, machinery, vehicles and inventory; and
- Charges over financial instruments such as deposits and equity investments.

4. Risk Management Objectives and Policies (continued)

4.2 Credit risk (continued)

Islamic derivative financial instruments

Credit risk arising from Islamic derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees and letters of credit which require that the Bank makes payments in the event that the customer fails to fulfil certain obligations to other parties. This exposes the Group to a similar risk to Islamic financing and investing assets and these are mitigated by the same control processes and policies.

4.2.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk by class of financial asset, including Islamic derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2014 AED'000	Gross maximum exposure 2013 AED'000
Balances with central banks	**14,170,729**	20,971,972
Due from banks and financial institutions	**4,316,452**	9,606,168
Islamic financing and investing assets	**79,123,646**	60,643,911
Investment in Islamic sukuk measured at amortised cost	**16,118,782**	11,642,553
Other investments measured at fair value	**2,036,697**	2,029,657
Receivables and other assets	**4,884,293**	4,824,003
	120,650,599	109,718,264
Contingent liabilities	**10,652,364**	10,299,246
Commitments	**19,426,065**	14,753,643
Total	**150,729,028**	134,771,153

4.2.2 Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The Group's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2014 AED'000	2013 AED'000
The U.A.E.	**135,944,178**	127,462,317
Other Gulf Cooperation Council (GCC) countries	**5,608,659**	1,378,244
South Asia	**5,817,890**	2,931,962
Europe	**2,605,740**	2,370,057
Africa	**73,415**	304,512
Other	**679,146**	324,061
Total	**150,729,028**	134,771,153

4. Risk Management Objectives and Policies (continued)

4.2 Credit risk (continued)

4.2.2 Risk concentrations of the maximum exposure to credit risk (continued)

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	Gross Maximum Exposure 2014 AED'000	Gross Maximum Exposure 2013 AED'000
Financial Institutions	**29,807,638**	39,060,030
Real estate	**38,321,076**	31,206,907
Manufacturing and services	**23,787,186**	21,296,628
Consumer financing	**20,423,545**	16,538,771
Consumer home finance	**12,622,521**	11,702,178
Government	**13,585,917**	5,287,423
Trade	**12,181,145**	9,679,216
Total	**150,729,028**	134,771,153

4.2.3 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial Islamic financing and investing facilities, charges over real estate properties, inventory, leased assets and trade receivables, and

- For retail Islamic financing and investing facilities, charge over assets and mortgages over properties.

The Group also obtains guarantees from parent companies for Islamic financing and investing assets granted to their subsidiaries, but the benefits are not included in the above table.

4. Risk Management Objectives and Policies (continued)

4.2 Credit risk (continued)

4.2.3 Gross Credit Risk Exposures as per Standardized Approach

The gross credit exposure as per standardized approach with the effect of CRM as of **31 December 2014** is detailed below:

December 2014		Credit Risk Mitigation (CRM)			
AED'000	**On & Off Balance Sheet Gross[6] Outstanding**	**Exposure Before Credit Risk Mitigation (CRM)**	**After CRM**	**Net exposure after CCF**	**Risk Weighted Assets**
Claims on sovereigns	**23,207,394**	**24,523,896**	**-**	**22,981,331**	**2,541,429**
Claims on non-commercial public sector enterprises (PSEs)	**1,937,238**	**1,937,238**	**-**	**1,708,235**	**62,321**
Claims on banks	**48,518,572**	**48,518,572**	**-**	**6,351,069**	**2,565,063**
Claims on corporates and government related enterprises (GRE)	**83,115,333**	**83,106,662**	**2,526,268**	**44,253,026**	**43,761,246**
Claims included in the regulatory retail portfolio	**26,111,993**	**26,084,336**	**791,479**	**20,013,414**	**15,613,739**
Claims secured by residential property	**11,761,566**	**11,761,566**	**144,753**	**11,528,792**	**6,687,097**
Claims secured by commercial real estate	**7,235,025**	**6,897,004**	**-**	**6,442,196**	**6,369,819**
Past due financing assets	**9,113,983**	**4,908,652**	**-**	**4,908,652**	**5,422,885**
Higher-risk categories	**1,047,591**	**1,047,591**	**-**	**1,047,591**	**1,571,387**
Other assets	**9,332,588**	**9,332,588**	**-**	**9,332,588**	**7,187,095**
Total	**221,381,284**	**218,118,104**	**3,462,501**	**128,566,894**	**91,782,080**

[6] As per CBUAE instructions and the revised CAR Returns template issued early first quarter of 2014 the On and Off Balance Sheet Gross Exposure is being reported as compared to the Credit Converted Equivalent Exposure reported prior to 2014 therefore the comparative figure for 2013 is not available.

4. Risk Management Objectives and Policies (continued)

4.2 Credit risk (continued)

4.2.3 Gross Credit Risk Exposures as per Standardized Approach (continued)

The gross credit exposures as per standardized approach in terms of rated/unrated assets as of **31 December 2014** is detailed below:

AED'000	Rated	Unrated	Total Gross[7] Outstanding	Exposure Before CRM	After CRM[8]	Net exposure after CCF	Risk Weighted Assets
Claims on sovereigns	3,096,959	20,110,435	23,207,394	24,523,896	-	22,981,331	2,541,429
Claims on non-commercial public sector enterprises (PSEs)	1,937,238	-	1,937,238	1,937,238	-	1,708,235	62,321
Claims on banks	32,747,409	15,771,163	48,518,572	48,518,572	-	6,351,069	2,565,063
Claims on corporates and government related enterprises	6,219,624	76,895,709	83,115,333	83,106,662	2,526,268	44,253,026	43,761,246
Claims included in the regulatory retail portfolio	-	26,111,993	26,111,993	26,084,336	791,479	20,013,414	15,613,739
Claims secured by residential property	-	11,761,566	11,761,566	11,761,566	-	11,528,792	6,687,097
Claims secured by commercial real estate	-	7,235,025	7,235,025	6,897,004	144,753	6,442,196	6,369,819
Past due financing assets	-	9,113,983	9,113,983	4,908,652	-	4,908,652	5,422,885
Higher-risk categories	-	1,047,591	1,047,591	1,047,591	-	1,047,591	1,571,387
Other assets	-	9,332,588	9,332,588	9,332,588	-	9,332,588	7,187,095
Total	44,001,231	177,380,053	221,381,284	218,118,104	3,462,501	128,566,894	91,782,080

[7] As per CBUAE instructions and the revised CAR Returns template issued early first quarter of 2014 the On and Off Balance Sheet Gross Exposure is being reported as compared to the Credit Converted Equivalent Exposure reported prior to 2014 therefore the comparative figure for 2013 is not available.

[8] Also currently using the Comprehensive Credit Risk Mitigation Approach for the treatment of collateral against exposures therefore the comparative figure for 2013 is not available.

4. Risk Management Objectives and Policies (continued)

4.2 Credit risk (continued)

4.2.4 Analysis of credit quality

	Balances with central banks and due from banks and financial institutions	Islamic financing and investing assets	Investments in Islamic sukuk and other investments at fair value	Receivables and other assets	Contingent liabilities and commitments	Total
2014	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Individually impaired	**-**	**5,345,694**	**-**	**854,291**	**-**	**6,199,985**
Non-impaired exposures						
Neither past due nor impaired	**18,487,181**	**69,962,649**	**18,155,479**	**4,023,804**	**30,078,429**	**140,707,542**
Past due by less than 30 days	**-**	**1,121,639**	**-**	**6,198**	**-**	**1,127,837**
Past due by more than 30 days but less than 90 days	**-**	**1,446,672**	**-**	**-**	**-**	**1,446,672**
Past due by more than 90 days	**-**	**1,246,992**	**-**	**-**	**-**	**1,246,992**
Gross amount	**18,487,181**	**73,777,952**	**18,155,479**	**4,030,002**	**30,078,429**	**144,529,043**
Total gross maximum exposure	**18,487,181**	**79,123,646**	**18,155,479**	**4,884,293**	**30,078,429**	**150,729,028**
Provisions for impairment	**-**	**(5,147,044)**	**-**	**-**	**-**	**(5,147,044)**
Net carrying amount	**18,487,181**	**73,976,602**	**18,155,479**	**4,884,293**	**30,078,429**	**145,581,984**
2013						
Individually impaired						
Gross amount	-	5,654,003	-	852,011	-	6,506,014
Non-impaired exposures						
Neither past due nor impaired	30,578,140	49,068,511	13,672,210	3,895,828	25,052,889	122,267,578
Past due by less than 30 days	-	2,930,687	-	76,164	-	3,006,851
Past due by more than 30 days but less than 90 days	-	1,502,313	-	-	-	1,502,313
Past due by more than 90 days	-	1,488,397	-	-	-	1,488,397
Gross amount	30,578,140	54,989,908	13,672,210	3,971,992	25,052,889	128,265,139
Total gross maximum exposure	30,578,140	60,643,911	13,672,210	4,824,003	25,052,889	134,771,153
Provisions for impairment	-	(4,573,273)	-	-	-	(4,573,273)
Net carrying amount	30,578,140	56,070,638	13,672,210	4,824,003	25,052,889	130,197,880

4. Risk Management Objectives and Policies (continued)

4.2 Credit risk (continued)

4.2.4 Analysis of credit quality (continued)

Credit risk exposure of the Group's financial assets for each internal risk rating

	Moody's equivalent grades	Total 2014 AED'000	Total 2013 AED'000
Low risk			
Risk rating class 1	Aaa	**22,779,218**	24,150,142
Risk rating classes 2 and 3	Aa1-A3	**26,242,519**	25,849,242
Fair risk			
Risk rating class 4	Baa1-Baa3	**32,048,440**	27,434,591
Risk rating classes 5 and 6	Ba1-B3	**53,669,668**	38,663,362
Risk rating class 7	Caa1-Caa3	**9,256,043**	11,429,696
High risk			
Risk rating classes 8 to11		**6,733,140**	7,244,120
		150,729,028	134,771,153
		========	=========

It is the Group policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of financing exposures across all lines of business, geographic regions and products. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group rating policy. The attributable risk ratings are assessed and updated regularly.

The details of non performing financing and investing assets by economic activity and geography are as below:

By economic activity as of 31 December 2014

AED'000	Overdue by less than 90 days	Overdue by 90 days and above	Total	Specific provision	Total Impaired Assets
Manufacturing and services	**6,882**	**148,839**	**155,720**	**(129,549)**	**26,171**
Real estate	**1,991,294**	**1,204,604**	**3,195,898**	**(1,990,259)**	**1,205,638**
Trade	**191,198**	**4,449**	**195,647**	**(187,102)**	**8,544**
Financial institutions	**845,657**	**42,108**	**887,765**	**(330,161)**	**557,605**
Retail and consumer Financing	**51,641**	**929,465**	**981,106**	**(878,196)**	**102,910**
Consumer home finance	**19,776**	**1,156,773**	**1,176,549**	**(541,608)**	**634,941**
	--------------	--------------	--------------	--------------	--------------
Total	**3,106,448**	**3,486,238**	**6,592,686**	**(4,056,876)**	**2,535,810**
General and collective provision					**(1,090,169)**

					1,445,641
					========

4. Risk Management Objectives and Policies (continued)

4.2 Credit risk (continued)

4.2.4 Analysis of credit quality (continued)

By economic activity as of
31 December 2013

AED'000	Overdue by less than 90 days	Overdue by 90 days and above	Total	Specific provision	Total Impaired Assets
Manufacturing and services	-	89,271	89,271	(89,271)	-
Real estate	1,938,818	1,726,264	3,665,082	(2,180,376)	1,484,706
Trade	64,103	144,207	208,310	(112,134)	96,176
Financial institutions	133,049	1,109,820	1,242,869	(224,103)	1,018,766
Retail and consumer Financing	41,453	545,319	586,772	(585,921)	851
Consumer home finance	-	1,350,096	1,350,096	(479,120)	870,976
Total	2,177,423	4,964,977	7,142,400	(3,670,925)	3,471,475
General and collective provision					(902,348)
					2,569,127

By geography as of
31 December 2014

AED'000	**Overdue by less than 90 days**	**Overdue by 90 days and above**	**Total**	**Specific provision**	**Total Impaired Assets**
United Arab Emirates	**3,015,978**	**3,391,238**	**6,407,217**	**(3,901,810)**	**2,505,407**
GCC excluding UAE	**85,496**	**-**	**85,496**	**(85,824)**	**(328)**
Asia	**-**	**95,000**	**95,000**	**(64,125)**	**30,875**
Others	**4,974**	**-**	**4,974**	**(5,117)**	**(143)**
Total	**3,106,448**	**3,486,238**	**6,592,686**	**(4,056,876)**	**2,535,810**
General and collective provision					**(1,090,169)**
					1,445,642

By geography as of
31 December 2013

AED'000	Overdue by less than 90 days	Overdue by 90 days and above	Total	Specific provision	Total Impaired Assets
United Arab Emirates	2,091,297	4,857,757	6,949,054	(3,601,317)	3,347,737
GCC excluding UAE	86,126	-	86,126	(15,328)	70,798
Asia	-	96,693	96,693	(44,296)	52,397
Others	-	10,527	10,527	(9,984)	543
Total	2,177,423	4,964,977	7,142,400	(3,670,925)	3,471,475
General and collective provision					(902,348)
					2,569,127

4. Risk Management Objectives and Policies (continued)

4.2 Credit risk (continued)

4.2.4 Analysis of credit quality (continued)

Movements in the provision for impairment during the years ended 31 December 2014

	AED'000
Balance at 1 January 2014	**4,573,273**
Charge for the year	**1,106,021**
Release to the profit or loss	**(545,372)**
Foreign exchange effect	**2,889**
Other movements	**10,233**
Balance at 31 December 2014	**5,147,044**
Gross amount of Islamic financing and investing assets, determined to be impaired	**5,345,694**

Movements in the provision for impairment during the years ended 31 December 2013

	AED'000
Balance at 1 January 2013	3,699,422
Charge for the year	1,153,085
Release to the profit or loss	(301,455)
Write-back during the year	6,802
Foreign exchange effect	(3,799)
Other movements	19,218
Balance at 31 December 2013	4,573,273
Gross amount of Islamic financing and investing assets, determined to be impaired	5,654,003

4. Risk Management Objectives and Policies (continued)

4.2 Credit risk (continued)

4.2.5 Impairment assessment

The main considerations for the impairment assessment include whether any payments of principal or profit are overdue by more than 90 days (in line with the U.A.E. Central Bank guidelines) or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant Islamic financing or investing asset on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on Islamic financing and investing assets where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is reviewed by credit risk management to ensure alignment with the Group overall policy.

Acceptances and contingent liabilities are assessed and provisions made in a similar manner as for Islamic financing and investing assets.

4.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains statutory deposits with the central banks. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group.

The high quality of the asset portfolio ensures its liquidity and coupled with the Group's own funds and "evergreen" customer deposits help form a stable funding source. Even under adverse conditions, the Group has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies.Guidelines are established for the cumulative negative cash flow over successive time bands.

4. Risk Management Objectives and Policies (continued)

4.3 Liquidity risk and funding management (continued)

4.3.1 Liquidity risk management process

The Group liquidity risk management process, as carried out within the Group and monitored by a separate team in Group Treasury department, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are financed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of Islamic financing and investing exposures maturities.

Based on the internal guidelines, the liquidity ratios at the end of each quarter during the year were as follows:

	March	June	September	December
2014	**37%**	**27%**	**24%**	**16%**
2013	42%	35%	29%	36%

4.3.2 Funding approach

Sources of liquidity are regularly reviewed by management to maintain a wide diversification by currency, geography, provider, product and term.

4.3.3 Non-derivative cash flows

The table below summarises the maturity profile of the gross cash flows of the Group financial assets and liabilities as at 31 December 2014. The amounts disclosed in the table are the contractual gross cash flows, whereas the Group manages the inherent liquidity risk based on expected gross cash flows.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the management expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

2014	**On demand AED'000**	**Less than 3 months AED'000**	**3 months to 1 year AED'000**	**1 to 5 years AED'000**	**Over 5 years AED'000**	**Total AED'000**
Balances with central banks	**2,300,712**	**7,522,336**	**6,224,545**	**281,987**	**-**	**16,329,580**
Due from banks and financial institutions	**3,240,037**	**845,283**	**231,712**	**-**	**-**	**4,317,032**
Islamic financing and investing assets, net	**3,262,845**	**8,800,025**	**11,351,899**	**43,684,798**	**24,855,977**	**91,955,544**
Investment in Islamic sukuk measured at amortised cost	**9,020**	**1,834**	**203,603**	**13,707,308**	**5,655,798**	**19,577,563**
Other investments measured at fair value	**-**	**-**	**989,105**	**1,097,114**	**-**	**2,086,219**
Receivables and other assets	**78,462**	**793,924**	**1,362,637**	**3,289,773**	**-**	**5,524,796**
Total assets	**8,891,076**	**17,963,402**	**20,363,501**	**62,060,980**	**30,511,775**	**139,790,734**

4. Risk Management Objectives and Policies (continued)

4.3 Liquidity risk and funding management (continued)

4.3.3 Non-derivative cash flows (continued)

2014	**On demand**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Customers' deposits	**19,597,390**	**14,389,262**	**40,531,803**	**21,916,808**	**117,684**	**96,552,947**
Due to banks and other financial institutions	**240,048**	**3,617,129**	**85,928**	**-**	**-**	**3,943,105**
Sukuk issued	**-**	**-**	**28,411**	**3,437,448**	**-**	**3,465,859**
Payables and other liabilities	**1,342,836**	**2,534,206**	**2,261,644**	**710,749**	**-**	**6,849,435**
Zakat payable	**-**	**-**	**194,481**	**-**	**-**	**194,481**
Total liabilities	**21,180,274**	**20,540,597**	**43,102,267**	**26,065,005**	**117,684**	**111,005,827**

2013	On demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Balances with central banks	2,570,699	5,860,116	9,997,346	-	-	18,428,161
Due from banks and financial institutions	4,729,651	8,864,985	-	-	-	13,594,636
Islamic financing and investing assets, net	4,282,666	6,941,699	9,398,187	31,854,046	19,160,096	71,636,694
Investment in Islamic sukuk measured at amortised cost	17,866	23,752	1,658,968	9,594,802	2,280,515	13,575,903
Other investments measured at fair value	-	-	1,062,508	997,269	-	2,059,777
Receivables and other assets	76,164	664,119	1,141,272	3,645,867	-	5,527,422
Total assets	11,677,046	22,354,671	23,258,281	46,091,984	21,440,611	124,822,593
Customers' deposits	14,437,148	11,241,126	34,935,859	22,035,867	70,895	82,720,895
Due to banks and other financial institutions	1,498,918	558,018	90,082	-	-	2,147,018
Sukuk issued	-	-	28,411	3,494,270	-	3,522,681
Payables and other liabilities	7,437,205	1,429,319	2,660,428	548,205	-	12,075,157
Zakat payable	-	-	165,588	-	-	165,588
Total liabilities	23,373,271	13,228,463	37,880,368	26,078,342	70,895	100,631,339

Assets available to meet all of the liabilities and to cover outstanding commitments include cash and balances with central banks, Islamic financing and investing assets, other investments at fair value and items in the course of collection.

4. Risk Management Objectives and Policies (continued)

4.3 Liquidity risk and funding management (continued)

4.3.4 Islamic derivative maturity profile

The Group's Islamic derivatives will be settled on the following basis:

- Unilateral promise to buy/sell currencies: This mainly comprise promises to either buy or sell a specified currency at a specific price and date in the future.
- Islamic profit rate swaps: The transactions are settled by executing the purchase or sale of commodity under "Murabaha Sale Agreement".

The following table shows analysis of the Group's Islamic derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the consolidated financial position to the contractual maturity date. The amounts disclosed in the table are the contractual gross cash flows.

4.3.4 Islamic derivative maturity profile (continued)

	Less than 3 months	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**
2014					
Unilateral promise to buy/sell currencies	**3,947,203**	**13,494,667**	**12,109,024**	**-**	**29,550,894**
Islamic profit rate swaps	**-**	**-**	**8,107,518**	**-**	**8,107,518**
	3,947,203	**13,494,667**	**20,216,542**	**-**	**37,658,412**

	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
2013					
Unilateral promise to buy/sell currencies	5,343,890	4,360,833	-	-	9,704,723
Islamic profit rate swaps	-	-	4,714,778	665,000	5,379,778
	5,343,890	4,360,833	4,714,778	665,000	15,084,501

4. Risk Management Objectives and Policies (continued)

4.3 Liquidity risk and funding management (continued)

4.3.5 Contingent liabilities and commitments

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments:

2014	**Less than 3 months AED'000**	**3 months to 1 year AED'000**	**1 to 5 years AED'000**	**Over 5 years AED'000**	**Total AED'000**
Contingent liabilities:					
Letters of guarantee	**127,737**	**3,273,484**	**2,740,395**	**1,929,532**	**8,071,148**
Letters of credit	**913,737**	**859,575**	**804,208**	**3,695**	**2,581,215**
	1,041,474	**4,133,059**	**3,544,603**	**1,933,227**	**10,652,363**
Capital expenditure commitments	**2,733**		**603,082**	**-**	**605,815**
Total	**1,044,207**	**4,133,059**	**4,147,685**	**1,933,227**	**11,258,178**

2013					
Contingent liabilities:					
Letters of guarantee	138,280	1,609,837	3,048,051	2,190,034	6,986,202
Letters of credit	1,141,222	1,673,715	483,181	14,926	3,313,044
	1,279,502	3,283,552	3,531,232	2,204,960	10,299,246
Capital expenditure commitments	3,598	-	900,007	-	903,605
Total	1,283,100	3,283,552	4,431,239	2,204,960	11,202,851

4.4 Market risk

Market risk arises from changes in market rates such as profit rates, foreign exchange rates and equity prices, as well as in their correlation and implied volatilities. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, foreign exchange rates or equity prices. The Group is exposed to diverse financial instruments including securities, foreign currencies, equities and commodities.

The Group pays considerable attention to market risk. The Group uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises the following elements:

- Limits to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by senior management; and
- Independent mark-to-market valuation, reconciliation of positions and tracking of stop-losses for trading positions on a timely basis.

The policies and procedures and the trading limits are set to ensure the implementation of the Group's market risk policy in day-to-day operations. These are reviewed periodically to ensure they remain in line with the Group's general market risk policy. The Chief Risk Officer of the Group ensures that the market risk management process is always adequately and appropriately staffed. In addition to its internal procedures and systems, the Group is required to comply with the guidelines and regulations of the Central Bank of the U.A.E.

4. Risk Management Objectives and Policies (continued)

4.4 Market risk (continued)

4.4.1 Profit margin risk

The Group is not significantly exposed to risk in terms of repricing of its customer deposits since, in accordance with Islamic Sharia'a, the Group does not provide contractual rates of return to its depositors or investment account holders. The return payable to depositors and investment account holders is based on the principle of the Mudaraba by which the depositors and investment account holders agree to share the profit or loss made by the Group's Mudaraba asset pool over a given period.

4.4.2 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk through risk management strategies.

The effective profit rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Group's consolidated statement of profit or loss.

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in profit rates on the net income for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December 2014.

Currency	**Increase in basis points**	**Sensitivity of profit on Islamic financing and investing assets 2014 AED'000**	Sensitivity of profit on Islamic financing and investing assets 2013 AED'000
AED	**50**	**98,523**	49,168
USD	**50**	**37,368**	10,283
QAR	**50**	**31**	-
SAR	**50**	**1,607**	-

4.4.3 Foreign exchange risk

The Group has significant income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Group presentation currency, the U.A.E. Dirham.

The table below summarises the Group exposure to foreign currency exchange rate risk at 31 December 2014. Included in the table are the Group financial instruments at their carrying amounts, categorised by currency.

4. Risk Management Objectives and Policies (continued)

4.4 Market risk (continued)

4.4.3 Foreign exchange risk (continued)

2014	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Other AED'000	Total AED'000
Financial Assets:							
Cash and balances with central banks	15,739,791	332,587	-	-	-	245,027	16,317,405
Due from banks and financial institutions	1,707,875	1,191,600	947,208	9,419	25,473	434,877	4,316,452
Islamic financing and investing assets, net	59,017,514	12,396,273	583,618	-	-	1,979,197	73,976,602
Investment in Islamic sukuk measured at amortised cost	446,030	14,989,905	-	-	-	682,847	16,118,782
Other investments at fair value	683,383	1,039,500	164,971	4,540	112,935	31,368	2,036,697
Receivables and other assets	3,460,721	1,328,806	10,561	-	11,696	72,509	4,884,293
Total	81,055,314	31,278,671	1,706,358	13,959	150,104	3,445,825	117,650,231
Financial Liabilities:							
Customers' deposits	84,067,777	3,905,317	1,331,659	54,065	210,742	2,775,908	92,345,468
Due to banks and other financial institutions	1,359,724	2,190,145	-	33	256,986	132,765	3,939,653
Sukuk issued	-	2,847,175	-	-	-	-	2,847,175
Payables and other liabilities	4,987,122	630,803	631,499	1,810	120,573	99,372	6,471,179
Total	90,414,623	9,573,440	1,963,158	55,908	588,301	3,008,045	105,603,475
Net on balance sheet	(9,354,247)	21,705,231	(256,801)	(41,949)	(438,197)	437,781	12,051,818
Unilateral promise to buy/sell currencies	12,282,613	(12,649,951)	97,304	39,008	368,646	(139,171)	(1,551)
Currency position - long/(short)	2,928,366	9,055,280	(159,497)	(2,941)	(69,551)	298,610	12,050,267

4. Risk Management Objectives and Policies (continued)

4.4 Market risk (continued)

4.4.3 Foreign exchange risk (continued)

2013	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Other AED'000	Total AED'000
Financial Assets:							
Cash and balances with central banks	22,162,134	419,130	-	-	-	131,700	22,712,964
Due from banks and financial institutions	2,341,955	6,738,868	435,328	21,974	36,119	31,924	9,606,168
Islamic financing and investing assets, net	49,629,618	4,978,111	17	168	4,152	1,458,572	56,070,638
Investment in Islamic sukuk measured at amortised cost	574,802	10,309,443	-	-	-	758,308	11,642,553
Other investments at fair value	717,229	1,035,893	178,389	3,881	29,831	64,434	2,029,657
Receivables and other assets	4,770,382	21,911	965	-	13,270	17,475	4,824,003
Total	80,196,120	23,503,356	614,699	26,023	83,372	2,462,413	106,885,983
Financial Liabilities:							
Customers' deposits	72,248,919	4,028,724	491,400	45,628	179,512	2,066,358	79,060,541
Due to banks and other financial institutions	1,448,016	1,038,067	-	35	76	143,812	2,630,006
Sukuk issued	-	2,807,603	-	-	-	-	2,807,603
Payables and other liabilities	4,484,240	7,413,698	90,582	315	1,637	64,594	12,055,066
Total	78,181,175	15,288,092	581,982	45,978	181,225	2,274,764	96,553,216
Net on balance sheet	2,014,945	8,215,264	32,717	(19,955)	(97,853)	187,649	10,332,767
Unilateral promise to buy/sell currencies	5,318,606	(5,501,055)	73,467	15,387	23,388	70,207	-
Currency position - long/(short)	7,333,551	2,714,209	106,184	(4,568)	(74,465)	257,856	10,332,767

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

4.4 Market risk (continued)

4.4.3 Foreign exchange risk (continued)

Sensitivity analysis - impact of fluctuation of various currencies on net income and equity

The tables below indicate the extent to which the Group was exposed to currency risk at 31 December 2014 on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against the AED with all other variables held constant on the consolidated statement of profit or loss (due to the changes in the fair values of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated available-for-sale equity instruments). A negative amount in the table reflects a potential net reduction in consolidated statement of profit or loss and equity, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

Currency	**Increase in currency rate in %**	**Effect on profit or loss 2014**	Effect on profit or loss 2013
		AED'000	AED'000
GBP	**+2**	**(59)**	(92)
EURO	**+2**	**(1,391)**	(1,489)

Currency	**Decrease in currency rate in %**	**Effect on profit or loss 2014**	Effect on profit or loss 2013
		AED'000	AED '000
GBP	**-2**	**59**	92
EURO	**-2**	**1,391**	1,489

4.4.4 Foreign investment

The Group has significant income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Group presentation currency, the U.A.E. Dirham.

The table below indicates the change in recorded profit before tax and equity had the result for the year ended 31 December 2014 been translated at exchange rates against the AED adjusted, with all other variables held constant, by the assumed changes below. The sensitivity analyses do not take account of actions by the Group that might be taken to mitigate the effect of such changes.

Currency	**Increase in currency rate in %**	**Effect on profit or loss 2014**	**Effect on other comprehensive income 2014**	Effect on profit or loss 2013	Effect on other comprehensive income 2013
		AED'000	**AED'000**	AED'000	AED'000
Pak Rupees	**+5**	**1,133**	**20,636**	(1,005)	(25,034)
Egypt Sterling	**+5**	**1,075**	**8,975**	373	8,406

4. Risk Management Objectives and Policies (Continued)

4.4 Market risk (continued)

4.4.4 Foreign investment (continued)

Currency	**Increase in currency rate in %**	**Effect on profit or loss 2014**	**Effect on other comprehensive income 2014**	Effect on profit or loss 2013	Effect on other comprehensive income 2013
		AED'000	**AED'000**	AED'000	AED'000
Pak Rupees	**-5**	**(1,025)**	**(18,671)**	(2,277)	(47,316)
Egypt Sterling	**-5**	**(254)**	**(8,122)**	(338)	(7,609)

4.4.5 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments held as fair value through other comprehensive income (FVTOCI) at 31 December 2014) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market indices	**Change in market Indices**	**Effect on profit or loss 2014**	**Effect on other comprehensive income 2014**	Effect on profit or loss 2013	Effect on other comprehensive income 2013
	%	**AED'000**	**AED'000**	AED'000	AED'000
Dubai Financial Market	**± 5%**	**-**	**19,724**	39	18,916
Abu Dhabi Exchange	**± 5%**	**-**	**3,916**	-	5,191
Bahrain Stock Exchange	**± 5%**	**-**	**3,178**	-	3,132
Other	**± 5%**	**-**	**4,735**	-	8,361

4.5 Operational risk

Operational risk is the potential exposure to financial or other damage arising from inadequate or failed internal processes, people or systems.

The Group has developed a detailed operational risk framework. The framework clearly defines roles and responsibilities of individuals/units across different functions of the Group that are involved in performing various operational risk management tasks. Operational Risk Management Framework will ensure that operational risks within the Group are properly identified, monitored, managed and reported. Key elements of the framework include process mapping, setting up loss data base, setting up of KRIs, risk analysis and risk management reporting.

The Group is currently using operational risk tracking system, i.e. ORMIS to track operational risk events across the Group. The system houses five years of operational loss data. The subject system also covers KRI, RCSA and scenario based fraud risk self-assessment modules.

Each new product introduced is subject to a risk review and signoff process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product. Variations of existing products are also subject to a similar process. Business and support units are responsible for managing operations risk in their respective functional areas. They operate within the Group's operational risk management framework and ensure that risk is being managed within their respective business units. The day-to-day management of operational risk is through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedure to monitor transaction positions and documentation, as well as maintenance of key backup procedures and business contingency planning.

4. Risk Management Objectives and Policies (Continued)

4.6. Capital Management Policies and Stress Testing

The Bank is governed by the Central Bank of UAE guidelines on regulatory capital requirements for the group and the overseas branches and subsidiaries of the bank are directly supervised by their local regulators.

The main objective of the bank's capital management policies is to ensure that it has sufficient capital to cover the risks associated with its activities. The assessment of the various risks across the bank and their likely impact is carried out annually in conjunction with ICAAP. As part of ICAAP process, risk management division identifies various risks the bank is exposed to as part of its day-to-day operations. The Bank establish policies and procedures, frameworks and methodologies, contingency plans and other processes to measure, manage and mitigate the impact of such risks. Based on this the bank determines the risks which should be covered by capital.

The key objectives of the bank's capital management process are:

- Maintain sufficient capital to meet minimum capital requirement set by the Central Bank of UAE as well as to ensure smooth transition to Basel III in terms of capital ratios.
- Maintain sufficient capital to support bank's risk appetite in line with the strategic objectives as per the medium term strategic plan.
- Maintain adequate capital to withstand stress scenarios including increased capital requirements determined through ICAAP.
- To support the Bank's credit rating.

The capital management process of the bank is aligned with the overall business strategy to ensure that capital is adequate for the level of inherent risk in the business. The bank conducts capital planning in conjunction with the strategic business and financial planning exercise. The Bank develops medium-term strategic plan on a rolling basis which is updated annually. Detailed business plan and budget for the year is prepared based on the medium-term plan. The overall strategic plan and budget are approved by the Board of Directors of the bank. The business plan and budget for the year are cascaded down to the individual businesses. The detailed business plan and budget provides the foundation for financial risk management and planning exercise.

The bank conducts stress test exercise over three year horizon by considering risk factors based on macroeconomic variables at various levels of stress scenarios to determine its impact on the level of capital adequacy of the bank. The tests are considered as an important tool for internal capital planning.

4. Risk Management Objectives and Policies (Continued)

4.7. Regulatory/Compliance Risk

Regulatory risk is defined as the risk of regulatory sanctions, material financial or reputational loss, as a result of failure to comply with laws, regulations, supervisory or industry codes requirements etc.

The Bank has mainly two major operational centers - UAE & Pakistan. The Bank is entering into new jurisdictions i.e. Indonesia, Turkey and Kenya, also with minority interest in Jordan, Sudan, and Bosnia. The Bank's primary regulators in these jurisdictions are:

- UAE Central Bank;
- Securities & Commodities Authority;
- Dubai Financial Services Authority; and
- State Bank of Pakistan.

Given the dimensions of bank's business and its operations, the regulatory requirements are significant. Any failure in policy, internal control systems and processes may result in non-compliance with regulatory requirements which may impact the bank adversely.

The bank has develop a detail monitoring process to ensure compliance of regulatory requirements, internal policies and procedures with a dedicated team responsible for monitoring.

4.8. Reputational Risk

Reputational risk is defined as a damage or loss to the Bank's reputation due to one or more events such as negative publicity on bank's practices, conduct and financial conditions. The Bank has clearly identified the areas as sources of reputational events, such as:

- Compliance with legal and regulatory obligations;
- Business practices followed;
- Standard of products and service quality;
- Information technology security and data integrity;
- Association with customers, suppliers and partners;
- Crises management;
- External communication;
- Achievements of financial targets.

The bank actively manages the identified business risks that may lead to reputational events.

During the period of severe adverse changes in the economic environment, the bank has consistently been able to maintain brand image with considerable success. The risk assessment therefore, can be considered as modest.