# Dubai Islamic Bank P.J.S.C.

**Consolidated financial statements**
**for the year ended 31 December 2014**

# Dubai Islamic Bank P.J.S.C.

**Report and consolidated financial statements**
for the year ended 31 December 2014

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# INDEPENDENT AUDITORS' REPORT

The Shareholders
Dubai Islamic Bank P.J.S.C.

## Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Dubai Islamic Bank P.J.S.C. (the "Bank") and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of profit or loss, 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 the consolidated financial statements that are free from material misstatements, 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 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 consolidated financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law no. 8 of 1984 (as amended), Union Law no. 10 of 1980 and the Articles of Association of the Bank; that proper financial records have been kept by the Bank; and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Bank's financial records. We are not aware of any violation of the above mentioned Laws and the Articles of Association having occurred during the year ended 31 December 2014, which may have had a material adverse effect on the business of the Bank or its financial position.

## INDEPENDENT AUDITORS' REPORT (continued)

**Other matters**

The consolidated financial statements of the Group as at and for the year ended 31 December 2013 were audited by another auditor whose report dated 29 January 2014 expressed an unqualified opinion on the consolidated financial statements.

KPMG

*KPMG Lower Gulf Limited*
Muhammad Tariq
Registration No: 793
Date: 25 January 2015

## Consolidated statement of financial position
as at 31 December 2014

| | Note | 2014 AED'000 | 2013 AED'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | 7 | **16,317,405** | 22,712,964 |
| Due from banks and financial institutions | 8 | **4,316,452** | 9,606,168 |
| Islamic financing and investing assets, net | 9 | **73,976,602** | 56,070,638 |
| Investments in Islamic sukuk measured at amortised cost | 10 | **16,118,782** | 11,642,553 |
| Other investments measured at fair value | 11 | **2,036,697** | 2,029,657 |
| Investments in associates and joint ventures | 12 | **1,873,065** | 1,877,829 |
| Properties held for development and sale | 13 | **1,511,815** | 1,840,973 |
| Investment properties | 14 | **2,041,856** | 2,013,314 |
| Receivables and other assets | 15 | **5,113,913** | 4,957,374 |
| Property and equipment | 16 | **580,772** | 536,968 |
| **Total assets** | | **123,887,359** | 113,288,438 |
| **LIABILITIES AND EQUITY** | | | |
| **LIABILITIES** | | | |
| Customers' deposits | 18 | **92,345,468** | 79,060,541 |
| Due to banks and financial institutions | 19 | **3,939,653** | 2,630,006 |
| Sukuk issued | 20 | **2,847,175** | 2,807,603 |
| Payables and other liabilities | 21 | **6,854,498** | 12,282,511 |
| Zakat payable | 23 | **194,481** | 165,588 |
| **Total liabilities** | | **106,181,275** | 96,946,249 |
| **EQUITY** | | | |
| Share capital | 24 | **3,953,751** | 3,953,751 |
| Tier 1 sukuk | 25 | **3,673,000** | 3,673,000 |
| Other reserves and treasury shares | 26 | **5,494,117** | 5,495,696 |
| Investments fair value reserve | 27 | **(567,806)** | (563,850) |
| Exchange translation reserve | 28 | **(280,383)** | (280,833) |
| Retained earnings | | **3,252,192** | 2,013,921 |
| **Equity attributable to owners of the Bank** | | **15,524,871** | 14,291,685 |
| Non-controlling interests | 17.3 | **2,181,213** | 2,050,504 |
| **Total equity** | | **17,706,084** | 16,342,189 |
| **Total liabilities and equity** | | **123,887,359** | 113,288,438 |

| | | |
|---|---|---|
| **H.E. Mohammad Ibrahim Al Shaibani**<br>**Chairman** | **Abdulla Ali Al Hamli**<br>**Managing Director** | **Dr. Adnan Chilwan**<br>**Chief Executive Officer** |

The notes on pages 9 to 91 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 1 & 2.

## Consolidated statement of profit or loss
for the year ended 31 December 2014

| | Note | 2014 AED'000 | 2013 AED'000 |
|---|---|---|---|
| **NET INCOME** | | | |
| Income from Islamic financing and investing transactions | *31* | **4,443,723** | 4,029,686 |
| Commissions, fees and foreign exchange income | *32* | **1,189,493** | 798,854 |
| Income from other investments measured at fair value, net | *33* | **39,149** | 21,966 |
| Income from properties held for development and sale, net | *34* | **215,323** | 233,164 |
| Income from investment properties | *35* | **83,247** | 61,198 |
| Share of profit from associates and joint ventures | *12.5* | **134,644** | 78,077 |
| Other income | *36* | **262,236** | 65,525 |
| **Total income** | | **6,367,815** | 5,288,470 |
| Less: depositors' and sukuk holders' share of profit | *37* | **(799,018)** | (1,053,831) |
| **Net income** | | **5,568,797** | 4,234,639 |
| **OPERATING EXPENSES** | | | |
| Personnel expenses | *38* | **(1,331,080)** | (1,051,159) |
| General and administrative expenses | *39* | **(575,719)** | (502,356) |
| Depreciation of investment properties | *14* | **(34,985)** | (36,198) |
| Depreciation of property and equipment | *16* | **(102,475)** | (98,864) |
| **Total operating expenses** | | **(2,044,259)** | (1,688,577) |
| **Profit before net impairment charges and taxation** | | **3,524,538** | 2,546,062 |
| Impairment charges, net | *40* | **(702,593)** | (824,118) |
| **Profit for the year before income tax expense** | | **2,821,945** | 1,721,944 |
| Income tax expense | *22* | **(18,219)** | (3,915) |
| **Net profit for the year** | | **2,803,726** | 1,718,029 |
| Attributable to: | | | |
| Owners of the Bank | | **2,660,665** | 1,610,939 |
| Non-controlling interests | *17.3* | **143,061** | 107,090 |
| **Net profit for the year** | | **2,803,726** | 1,718,029 |
| **Basic and diluted earnings per share (AED per share)** | *41* | **AED 0.61** | AED 0.38 |

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## Consolidated statement of other comprehensive income
for the year ended 31 December 2014

| | **2014** **AED'000** | 2013 AED'000 |
|---|---|---|
| **Net profit for the year** | **2,803,726** | 1,718,029 |
| ***Other comprehensive (loss)/income items*** | | |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| Exchange differences on translation of foreign operations, net | **3,132** | (88,733) |
| *Items that will not be reclassified subsequently to profit or loss:* | | |
| Fair value (loss)/gain on other investments carried at FVTOCI, net | **(4,609)** | 275,437 |
| **Other comprehensive income for the year** | **(1,477)** | 186,704 |
| **Total comprehensive income for the year** | **2,802,249** | 1,904,733 |
| Attributable to: | | |
| Owners of the Bank | **2,656,804** | 1,782,469 |
| Non-controlling interests | **145,445** | 122,264 |
| **Total comprehensive income for the year** | **2,802,249** | 1,904,733 |

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## Consolidated statement of changes in equity
for the year ended 31 December 2014

| | ----Equity attributable to owners of Bank---- | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital AED'000 | Tier 1 sukuk AED'000 | Other reserves and treasury shares AED'000 | Investments fair value reserve AED'000 | Exchange translation reserve AED'000 | Retained earnings AED'000 | Total AED'000 | Non-controlling interests AED'000 | Total equity AED'000 |
| **Balance at 1 January 2013** | 3,797,054 | - | 5,348,964 | (817,913) | (192,100) | 951,776 | 9,087,781 | 2,605,133 | 11,692,914 |
| Net profit for the year | - | - | - | - | - | 1,610,939 | 1,610,939 | 107,090 | 1,718,029 |
| Other comprehensive income for the year | - | - | - | 260,263 | (88,733) | - | 171,530 | 15,174 | 186,704 |
| Total comprehensive income for the year | - | - | - | 260,263 | (88,733) | 1,610,939 | 1,782,469 | 122,264 | 1,904,733 |
| **Transaction with owners directly in equity:** | | | | | | | | | |
| Dividends paid (note 29.1) | - | - | - | - | - | (569,558) | (569,558) | (25,063) | (594,621) |
| Zakat (note 23) | - | - | - | - | - | (162,800) | (162,800) | (19,202) | (182,002) |
| Tier 1 sukuk issuance (note 25) | - | 3,673,000 | - | - | - | - | 3,673,000 | - | 3,673,000 |
| Tier 1 sukuk issuance cost | - | - | - | - | - | (29,273) | (29,273) | - | (29,273) |
| Tier 1 sukuk profit distribution | - | - | - | - | - | (114,781) | (114,781) | - | (114,781) |
| Transfer on disposal/reclassification of other investments carried at FVTOCI | - | - | - | (6,200) | - | 6,200 | - | - | - |
| Board of Directors' remuneration | - | - | - | - | - | (5,350) | (5,350) | - | (5,350) |
| Acquisition of non-controlling interest (note 17.1) | 156,697 | - | 148,948 | - | - | 327,040 | 632,685 | (632,690) | (5) |
| Treasury shares (note 26.5) | - | - | (2,216) | - | - | 395 | (1,821) | 62 | (1,759) |
| Share capital issuance cost | - | - | - | - | - | (667) | (667) | - | (667) |
| **Balance at 31 December 2013** | 3,953,751 | 3,673,000 | 5,495,696 | (563,850) | (280,833) | 2,013,921 | 14,291,685 | 2,050,504 | 16,342,189 |
| **Balance at 1 January 2014** | **3,953,751** | **3,673,000** | **5,495,696** | **(563,850)** | **(280,833)** | **2,013,921** | **14,291,685** | **2,050,504** | **16,342,189** |
| Net profit for the year | - | - | - | - | - | 2,660,665 | 2,660,665 | 143,061 | 2,803,726 |
| Other comprehensive loss for the year | - | - | - | (4,311) | 450 | - | (3,861) | 2,384 | (1,477) |
| Total comprehensive income for the year | - | - | - | (4,311) | 450 | 2,660,665 | 2,656,804 | 145,445 | 2,802,249 |
| **Transaction with owners directly in equity:** | | | | | | | | | |
| Dividends paid (note 29.1) | - | - | - | - | - | (986,526) | (986,526) | (9,886) | (996,412) |
| Zakat (note 23) | - | - | - | - | - | (191,621) | (191,621) | (5,063) | (196,684) |
| Tier 1 sukuk issuance cost | - | - | - | - | - | (45) | (45) | - | (45) |
| Tier 1 sukuk profit distribution | - | - | - | - | - | (229,563) | (229,563) | - | (229,563) |
| Transfer on disposal/reclassification of other investments carried at FVTOCI | - | - | - | 355 | - | (355) | - | - | - |
| Board of Directors' remuneration | - | - | - | - | - | (15,650) | (15,650) | - | (15,650) |
| Treasury shares (note 26.5) | - | - | (1,579) | - | - | 1,366 | (213) | 213 | - |
| **Balance at 31 December 2014** | **3,953,751** | **3,673,000** | **5,494,117** | **(567,806)** | **(280,383)** | **3,252,192** | **15,524,871** | **2,181,213** | **17,706,084** |

The notes on pages 9 to 91 form an integral part of these consolidated financial statements.
The independent auditors' report is set out on pages 1 & 2.

## Consolidated statement of cash flows
for the year ended 31 December 2014

| | 2014<br>AED'000 | 2013<br>AED'000 |
|---|---|---|
| **Operating activities** | | |
| Profit for the year before income tax expense | **2,821,945** | 1,721,944 |
| **Adjustments for:** | | |
| Share of profit of associates and joint ventures | **(134,644)** | (78,077) |
| Income from disposal of properties held for development and sale | **(215,323)** | (122,217) |
| Dividend income | **(40,661)** | (20,274) |
| Loss/(gain) on disposal of other investments | **1,497** | (1,677) |
| Revaluation of investments at fair value through profit or loss | **15** | (15) |
| Gain on sale of investments in Islamic sukuk | **(31,173)** | (67,122) |
| (Gain)/loss on disposal of property and equipment | **(550)** | 7,289 |
| Gain on disposal of investment properties | **(21,331)** | - |
| Gain on disposal of subsidiaries | **-** | (27,679) |
| (Gain)/loss on disposal and reclassification of investment in associates and joint ventures | **(42,841)** | 53,636 |
| Liability written back by a subsidiary | **(147,922)** | - |
| Depreciation of property and equipment | **102,475** | 98,864 |
| Depreciation of investment properties | **34,985** | 36,198 |
| Property and equipment written off | **140** | 40 |
| Provision for employees' end-of-service benefits | **25,669** | 22,945 |
| Impairment charge for the year, net | **702,593** | 824,118 |
| **Operating cash flow before changes in operating assets and liabilities** | **3,054,874** | 2,447,973 |
| Decrease/(increase) in deposits and international murabahas with over three months maturity | **6,980,696** | (6,731,028) |
| Increase in Islamic financing and investing assets | **(18,400,204)** | (1,896,361) |
| Increase in receivables and other assets | **(133,125)** | (139,660) |
| Increase in customers' deposits | **13,150,750** | 12,569,190 |
| Increase/(decrease) in due to banks and other financial institutions | **1,303,821** | (4,026,953) |
| (Decrease)/increase in payables and other liabilities and zakat payable | **(5,636,348)** | 7,190,767 |
| **Cash generated from operations** | **320,464** | 9,413,928 |
| Employees' end-of-service benefits paid | **(8,502)** | (561) |
| Tax paid | **(6,119)** | (6,294) |
| **Net cash generated from operating activities** | **305,843** | 9,407,073 |

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The independent auditors' report is set out on pages 1 & 2.

## Consolidated statement of cash flows (continued)
for the year ended 31 December 2014

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| **Investing activities** | | |
| Net movement in investments in Islamic sukuk measured at amortised cost | **(4,400,838)** | (626,506) |
| Net movement in other investments measured at fair value | **229,718** | 155,767 |
| Dividend received | **62,649** | 43,559 |
| Additions to properties held for development and sale | **(530,359)** | (107,165) |
| Proceeds from disposal of properties held for development and sale | **946,199** | 527,438 |
| Purchase of investment properties | **(89,173)** | (16,223) |
| Investments in associates and joint ventures | **(109,587)** | 112,079 |
| Purchase of property and equipment | **(155,150)** | (70,350) |
| Proceeds from disposal of property and equipment | **12,229** | 11,922 |
| Proceeds from disposal of investment properties | **134,453** | 26,565 |
| **Net cash (used in)/generated from investing activities** | **(3,899,859)** | 57,086 |
| **Financing activities** | | |
| Dividend paid | **(996,412)** | (594,621) |
| Tier 1 sukuk issued during the year | - | 3,673,000 |
| Tier 1 sukuk profit distribution | **(229,563)** | (114,781) |
| Tier 1 sukuk issuance, net | **(45)** | (29,273) |
| Repayment of medium term wakala deposit | **-** | (3,752,543) |
| Net movement in sukuk issued | **39,572** | (1,866,357) |
| Treasury shares acquired | **-** | (1,759) |
| Share capital issuance cost | **-** | (667) |
| **Net cash used in financing activities** | **(1,186,448)** | (2,687,001) |
| **Net (decrease)/increase in cash and cash equivalents** | **(4,780,464)** | 6,777,158 |
| Cash and cash equivalents at the beginning of the year | **17,369,132** | 10,548,086 |
| Effect of exchange rate changes on the balance of cash held in foreign currencies | **75,885** | 43,888 |
| **Cash and cash equivalents at the end of the year (note 42)** | **12,664,553** | 17,369,132 |

The notes on pages 9 to 91 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 1 & 2.

## 1. General information

Dubai Islamic Bank (Public Joint Stock Company) (the "Bank") was incorporated by an Amiri Decree issued on 29 Safar 1395 Hijri, corresponding to 12 March 1975 by His Highness, the Ruler of Dubai, to provide banking and related services based on Islamic Sharia'a principles. It was subsequently registered under the Commercial Companies Law number 8 of 1984 (as amended) as a Public Joint Stock Company.

The accompanying consolidated financial statements combine the activities of the Bank and its subsidiaries as disclosed in note 17.1 (together referred to as the "Group").

The Bank is listed on the Dubai Financial Market (Ticker: "DIB").

The Group is primarily engaged in corporate, retail, private and investment banking activities and carries out its operations through its local branches and overseas subsidiaries. The principal activities of the Group entities are described in note 17.1 to these consolidated financial statements.

The registered head office of the Bank is at P.O. Box 1080, Dubai, United Arab Emirates.

## 2 Application of new and revised International Financial Reporting Standards (IFRSs)

### 2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements

The following revised IFRSs have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements:

- Amendments to IFRS 10 Consolidated Financial Statements - amendments for investment entities;
- Amendments to IFRS 12 Disclosure of interests in Other Entities - amendments for investment entities;
- Amendments to IAS 27 Separate Financial Statements (as amended in 2011) - amendments for investment entities;
- Amendments to IAS 32 Financial instruments: Presentation - amendments relating to the offsetting of assets and liabilities;
- Amendments to IAS 36 Impairment of Assets – Amendments arising from Recoverable Amount Disclosures for Non-Financial Asset;
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Amendments for novation of derivatives; and
- IFRIC 21 Levies.

### 2.2 New and revised standards in issue but not yet effective

The Group has not early adopted the following new and revised standards that have been issued but are not yet effective:

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| ▪ Amendments to IFRS 2 Shared-based Payment – Definition of 'vesting condition' | 1 July 2014 |
| ▪ Amendments to IFRS 3 Business Combinations – Accounting for contingent consideration and scope exception for joint ventures | 1 July 2014 |
| ▪ Amendments to IFRS 8 Operating Segments – Aggregation of segments, and reconciliation of segment assets | 1 July 2014 |
| ▪ Amendments to IFRS 11 Joint Arrangements – Amendments regarding the accounting for acquisitions of an interest in a joint operation | 1 January 2016 |

**2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)**

**2.2 New and revised standards in issue but not yet effective (continued)**

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| ▪ IFRS 15 Revenue from contracts with customers – it specifies how and when entities should recognise revenue and requiring the entities to provide users of financial statements with more informative, relevant disclosures. | 1 January 2017 |
| ▪ Amendments to IAS 16 Property, Plant and Equipment – Proportionate restatement of accumulated depreciation on revaluation | 1 July 2014 |
| ▪ Amendments to IAS 16 Property, Plant and Equipment – Amendments regarding the clarification of acceptable methods of depreciation and amortisation | 1 January 2016 |
| ▪ Amendments to IAS 19 Employee Benefits – Amended to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service | 1 July 2014 |
| ▪ Amendments to IAS 24 Related Party Disclosures – Management entities | 1 July 2014 |
| ▪ Amendments to IAS 38 Intangible Assets – Proportionate restatement of accumulated depreciation on revaluation | 1 July 2014 |
| ▪ Amendments to IAS 38 Intangible Assets - Amendments regarding the clarification of acceptable methods of depreciation and amortisation | 1 January 2016 |
| ▪ Amendments to IAS 40 Investment Property – Interrelationship between IFRS 3 and IAS 40 | 1 July 2014 |
| ▪ IFRS 9 Financial Instruments – Revised guidance on classification of financial assets, guidance on classification of financial liabilities, impairment on financial assets and rules for hedge accounting | 1 January 2018 |

As of date of issuance of these consolidated financial statements, management are still in the process of evaluating the impact of these new and revised standards on the consolidated financial statements.

**3 Definitions**

The following terms are used in the consolidated financial statements with the meaning specified:

**3.1 Murabaha**

A contract whereby the Group (the “Seller”) sells an asset to its customer (the “Purchaser”), on a deferred payment basis, after purchasing the asset and gaining possession thereof and title thereto, where the Seller has purchased and acquired that asset, based on a promise received from the Purchaser to buy the asset once purchased according to specific Murabaha terms and conditions. The Murabaha sale price comprises the cost of the asset and a pre-agreed profit amount. Murabaha profit is internally accounted for on a time-apportioned basis over the period of the contract based on the principal amount outstanding. The Murabaha sale price is paid by the Purchaser to the Seller on an installment basis over the period of the Murabaha as stated in the contract.

**3.2 Salam finance**

A contract whereby the Group purchases a fixed quantity of a specified commodity and pays the full Salam price of the commodity in advance, whereas the customer delivers the quantity of the commodities in accordance with an agreed delivery schedule. The Group makes profit on Salam transactions, when the Salam commodities are received from the Salam customer and subsequently sold to a third party at profit. Salam profit is internally accounted for on a time-apportioned basis over the period of the Salam contract based on the value of the outstanding Salam commodities.

**3 Definitions (continued)**

### 3.3 Istisna'a

A sale contract between two parties whereby the Group (the "Sani" or "Seller") undertakes to construct, for its customer (the "Mustasni" or "Purchaser"), a specific asset or property (being "Al-Masnoo") according to certain pre-agreed specifications to be delivered during a pre-agreed period of time in consideration of a pre-determined price, which comprises the cost of construction and a profit amount. The work undertaken is not restricted to be accomplished by the Sani' alone and the whole or part of the construction/development can be undertaken by third parties under the control and responsibility of the Sani'. Under an Istisna'a contract the Group could be the Sani' or the Mustasni'. Istisna'a profit (difference between the sale price of Al-Masnoo to the customer and the Group total Istisna'a cost) is internally accounted for on a time-apportioned basis over the period of the contract based on the principal amount outstanding.

### 3.4 Ijarah

#### 3.4.1 Ijarah Muntahiya Biltamleek

An agreement whereby the Group (the "Lessor") leases an asset to its customer (the "Lessee") (after purchasing/acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer's request and based on his promise to lease), against certain rental payments for specific lease term/periods, payable on fixed or variable rental basis.

The Ijarah agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation and the timing of rental payment. The Lessee undertakes under this agreement to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Ijarah agreement, the Lessor will sell the leased asset to the Lessee at nominal value based on a sale undertaking given by the Lessor.

Ijarah rentals accrue upon the commencement of the lease and continues throughout the lease term based on the outstanding fixed rental (which predominantly represent the cost of the leased asset).

#### 3.4.2 Forward Ijarah

Forward Ijarah (Ijarah Mausoofa Fiz Zimma) is an agreement whereby the Group (the "Lessor") agrees to provide, on a specified future date, a certain described asset on lease to its customer (the "Lessee") upon its completion and delivery by the developer, contractor or customer, from whom the Group has purchased the same, by way of Istisna.

The Forward Ijarah agreement specifies the description of the leased asset, duration of the lease term, and the basis for rental calculation and the timing of rental payment.

During the construction period, the Group pays to the developer/contractor one payment or multiple payments, Forward Ijarah profit during the construction period will be accounted for on a time-apportioned basis over the construction period on account of rentals. These profit amounts are received either during the construction period as advance rental payment or with the first or second rental payment after the commencement of the lease.

The lease rental under Forward Ijarah commences only upon the Lessee having received possession of the leased asset from the Lessor. The Lessee undertakes under the Forward Ijarah agreement to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Forward Ijarah agreement, the Lessor will sell the leased asset to the Lessee at nominal value based on a sale undertaking given by the Lessor.

**3 Definitions (continued)**

### 3.5 Musharaka

An agreement between the Group and its customer, whereby both parties contribute towards the capital of the Musharaka (the "Musharaka Capital"). The Musharaka Capital may be contributed in cash or in kind, as valued at the time of entering into the Musharaka. The subject of the Musharaka may be a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership.The profit is shared according to a pre-agreed profit distribution ratio as stipulated under the Musharaka agreement. In principle Musharaka profit is distributed on declaration/distribution by the managing partner. However, since the Musharaka profit is always reliably estimated, it is internally accounted for on a time-apportioned basis over the Musharaka tenure based on the Musharaka Capital outstanding. Whereas the loss, if any, is shared in proportion to their capital contribution ratios, provided in the absence of the managing partner's negligence, breach or default, the Group receives satisfactory evidence that such loss was due to force majeure and that the managing partner neither was able to predict the same nor could have prevented the negative consequences of the same on the Musharaka.

### 3.6 Mudaraba

A contract between two parties whereby one party is a fund provider (the "Rab Al Mal") who would provide a certain amount of funds (the "Mudaraba Capital"), to the other party (the "Mudarib"). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit, if any. The Rab Al Mal is not involved in the management of the Mudaraba activity. In principle Mudaraba profit is distributed on declaration/distribution by the Mudarib. However, since the Mudaraba profit is always reliably estimated it is internally accounted for on a time-apportioned basis over the Mudaraba tenure based on the Mudaraba Capital outstanding. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal, provided the Rab Al Mal receives satisfactory evidence that such loss was due to force majeure and that the Mudarib neither was able to predict the same nor could have prevented the negative consequences of the same on the Mudaraba. Under the Mudaraba contract the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

### 3.7 Wakala

An agreement between two parties whereby one party is a fund provider (the "Muwakkil") who provides a certain amount of money (the "Wakala Capital") to an agent (the "Wakeel"), who invests the Wakala Capital in a Sharia'a compliant manner and according to the feasibility study/investment plan submitted to the Muwakkil by the Wakeel. The Wakeel is entitled to a fixed fee (the "Wakala Fee") as a lump sum amount or a percentage of the Wakala Capital. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. In principle, wakala profit is distributed on declaration/distribution by the Wakeel. However, since the Wakala profit is always reliably estimated it is internally accounted for on a time-apportioned basis over the Wakala tenure based on the Wakala Capital outstanding. The Wakeel would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Wakala Agreement; otherwise the loss would be borne by the Muwakkil, provided the Muwakkil receives satisfactory evidence that such loss was due to force majeure and that the Wakeel neither was able to predict the same nor could have prevented the negative consequences of the same on the Wakala. Under the Wakala agreement the Group may act either as Muwakkil or as Wakeel, as the case may be.

### 3.8 Sukuk

These comprise asset backed, Sharia'a compliant trust certificates.

### 3.9 Amanats accounts

The Group acts as a trustee agent for clients escrow accounts for a fixed fee.

## 4 Basis of preparation

### 4.1 Statement of compliance

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

### 4.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values as explained in the accounting policies below;

### 4.3 Functional and reporting currency

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands dirham, except when otherwise indicated.

The principal accounting policies applied in preparation of these consolidated financial statements are set out below.

## 5 Significant accounting policies

### 5.1 Basis of consolidation

#### 5.1.1 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of Islamic financing or equity instruments.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

#### 5.1.2 Subsidiary

These consolidated financial statements incorporate the financial statements of the Group and entities controlled by the Group. Control is achieved when the Group has:

- power over the investee;
- exposure, or has rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group voting rights in an investee are sufficient to give it power, including:

## 5 Significant accounting policies (continued)

### 5.1 Basis of consolidation (continued)

#### 5.1.2 Subsidiary (continued)

- the size of the Group holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders and other parties;
- rights raising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary Profit or loss and each component of other comprehensive income are attributable to the owners of the Group and to the non-controlling interests.

Total comprehensive income of the subsidiaries is attributable to the owners of the group and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

Changes in the Group ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid/payable or received/receivable is recognised directly in equity and attributed to owners of the Group.

#### 5.1.3 Foreign currencies

In preparing the consolidated financial statements, each individual Group entity's transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in the consolidated statement of profit or loss in the period in which they arise except for:

- exchange differences on foreign currency Islamic financing relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to financing costs on those foreign currency Islamic financings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to the consolidated statement of profit or loss on settlement of the monetary items.

## 5 Significant accounting policies (continued)

### 5.1 Basis of consolidation (continued)

#### 5.1.3 Foreign currencies (continued)

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group foreign operations are translated into Arab Emirates Dirham, which is the Group presentation currency, using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group is reclassified to the consolidated statement of profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated statement of profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated statement of profit or loss.

Fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

#### 5.1.4 Loss of control

When the Group loses control of a subsidiary, a gain or loss is recognised in the consolidated statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary, and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

#### 5.1.5 Special purpose vehicles ("SPVs")

Special purpose vehicles are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of assets, or the execution of a specific Islamic financing transaction. An SPV is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPV's risk and rewards, the Group concludes that it controls the SPV.

#### 5.1.6 Fiduciary activities

The Group acts as trustee/manager and in other capacities that result in holding or placing of assets in a fiduciary capacity on behalf of trusts or other institutions. Such assets and income arising thereon are not included in the Group consolidated financial statements as they are not assets of the Group.

## 5 Significant accounting policies (continued)

### 5.2 Financial instruments

#### 5.2.1 Initial recognition

Financial assets and liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

#### 5.2.2 Initial measurement

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated statement of profit or loss.

### 5.3 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

#### 5.3.1 Classification of financial assets

Balances with central banks, due from banks and financial institutions, Islamic financing and investing assets, investments in Islamic sukuk and certain items in receivables and other assets that meet the following conditions are subsequently measured at amortised cost less impairment loss and deferred income, if any (except for those assets that are designated as at fair value through profit or loss on initial recognition):

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

#### 5.3.2 Amortised cost and effective profit rate method

The effective profit rate method is a method of calculating the amortised cost of those financial instruments measured at amortised cost and of allocating income over the relevant period. The effective profit rate is the rate that is used to calculate the present value of the estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financing and investing instruments, or, where appropriate, a shorter period, to arrive at the net carrying amount on initial recognition.

Income is recognised in the consolidated statement of profit or loss on an effective profit rate basis for financing and investing instruments measured subsequently at amortised cost.

#### 5.3.3 Financial assets at fair value through other comprehensive income (FVTOCI)

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

**5 Significant accounting policies (continued)**

**5.3 Financial assets (continued)**

**5.3.3 Financial assets at fair value through other comprehensive income (FVTOCI) (continued)**

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is an Islamic derivative that is not designated and effective as an Islamic hedging instrument or a financial guarantee.

FVTOCI assets are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income. The cumulative gain or loss will not be reclassified to profit or loss on disposals.

**5.3.4 Financial assets at fair value through profit or loss (FVTPL)**

Investments in equity instruments are classified as at FVTPL, unless the Group designates an investment at fair value through other comprehensive income (FVTOCI) on initial recognition.

Financial assets (other than equity instruments) that do not meet the amortised cost criteria are measured at FVTPL. In addition, financial assets (other than equity instruments) that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. Financial assets (other than equity instruments) may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Group has not designated any financial assets (other than equity instruments) as at FVTPL.

Financial assets are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of financial assets (other than equity instruments) that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit/loss. The net gain or loss recognised in the consolidated statement of profit or loss is included in the ‘gain from other investments at fair value’ line item in the consolidated statement of profit or loss. Fair value is determined in the manner described in note 47.2.1 to these consolidated financial statements.

**5.3.5 Foreign exchange gains and losses**

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in consolidated statement of profit or loss; and
- for financial assets that designated as at FVTOCI, any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated financial instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated statement of profit or loss.

## 5 Significant accounting policies (continued)

### 5.3 Financial assets (continued)

#### 5.3.6 Impairment of financial assets

Financial assets (including Islamic financing and investing assets, investments in Islamic sukuk, balances due from banks and financial institutions, balances with central banks and other assets) that are measured at amortised cost are assessed for impairment at each reporting date. Financial assets measured at amortised cost are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include, however not limited to:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in profit or principal payments;
- it becoming probable that the customer will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, calculated using the financial asset's original effective profit rate.

The carrying amount of the financial asset measured at amortised cost is reduced by the impairment loss directly for all financial assets with the exception of Islamic financing and investing assets, where the carrying amount is reduced through the use of an impairment allowance account. When the Islamic financing and investing assets are considered uncollectible, it is written off against the impairment allowance account. Subsequent recoveries of amounts previously written off are credited against the impairment allowance account. Changes in the carrying amount of the impairment allowance account are recognised in the consolidated statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated statement of profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Islamic financing and investing assets (and the related impairment allowance) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised Islamic financing and investing assets, when the proceeds from realizing the security have been received.

Impairment of Islamic financing and investing assets measured at amortised cost is assessed by the Group as follows:

***Individually assessed Islamic financing and investing assets***

Individually assessed Islamic financing and investing assets mainly represent corporate and commercial assets which are assessed individually in order to determine whether there exists any objective evidence that an Islamic financing and investing asset is impaired. Islamic financing and investing assets are classified as impaired as soon as there is doubt about the customer's ability to meet payment obligations to the Group in accordance with the original contractual terms. Doubts about the customer's ability to meet payment obligations generally arise when:

- Principal and profit are not serviced as per contractual terms; and
- When there is significant deterioration in the customer's financial condition and the amount expected to be realised from disposals of collaterals, if any, are not likely to cover the present carrying value of the Islamic financing and investing assets.

## 5 Significant accounting policies (continued)

### 5.3 Financial assets (continued)

#### 5.3.6 Impairment of financial assets (continued)

***Individually assessed Islamic financing and investing assets (continued)***

Impaired Islamic financing and investing assets are measured on the basis of the present value of expected future cash flows calculated using Islamic financing and investing asset's original effective profit rate or, as a practical expedient, at the Islamic financing and investing asset's observable market price or fair value of the collaterals if the Islamic financing and investing asset's is collateral dependent. Impairment loss is calculated as the difference between the Islamic financing and investing asset's carrying value and its present impaired value.

***Retail Islamic financing and investing assets with common features and which are not individually significant***

Collective impairment is made to cover impairment against specific group of assets where there is a measurable decrease in estimated future cash flows by applying a formula approach which allocates progressively higher loss rates in line with the overdue installment date.

***Incurred but not yet identified***

Individually assessed Islamic financing and investing assets for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics based on industry, product or Islamic financing and investing assets rating for the purpose of calculating an estimated collective loss.

This reflects impairment losses that the Group may have incurred as a result of events occurring before the consolidated financial position date, which the Group is not able to identify on an individual basis, and that can be reliably estimated. As soon as information becomes available which identifies losses on individual Islamic financing and investing assets within the group of the customer, those Islamic financing and investing assets are removed from the group of the customer and assessed on an individual basis for impairment.

***Renegotiated financing facilities***

Where possible, the Group seeks to restructure financing exposures rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions. Once the terms have been renegotiated, the financing exposure is no longer considered past due. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur. The facility continues to be subject to an individual or collective impairment assessment, calculated using the facility's original effective profit rate depending upon the customer complying with the revised terms and conditions and base upon performance criteria of the exposure such as minimum payment requirements and improvement in quality and effectiveness of collateral, to be moved to performing category.

#### 5.3.7 Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised Islamic financing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated statement of profit or loss.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve in equity is not reclassified to the consolidated statement of profit or loss, but is transferred to retained earnings within equity.

**5 Significant accounting policies (continued)**

### 5.4 Offsetting

Financial assets and liabilities are offset and reported net in the consolidated financial position only when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle either 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 by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group trading activity.

The Group is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented on a gross basis.

### 5.5 Classification of financial liabilities and equity instruments

Liability and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

### 5.6 Equity instruments

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

Own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are recognised and deducted directly in equity. No gain or loss is recognised in the consolidated statement of profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Tier 1 sukuk are perpetual Mudaraba sukuk which are not redeemable by sukukholders and bear an entitlement to profit distributions that is non-cumulative and at the discretion of the Board of Directors. Accordingly tier 1 sukuk are presented as a component of equity instruments issued by the Group in equity.

Dividends on ordinary shares and profit distribution to tier 1 sukuk are recognised as a liability and deducted from equity when they are approved by the Group shareholders and Board of Directors, respectively. Dividends for the year that are approved after the reporting date are disclosed as an unadjusting event after the reporting date.

### 5.7 Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective profit rate method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantees issued by the Group, and commitments issued by the Group to provide a facility at below-market profit rate are measured in accordance with the specific accounting policies set out below.

#### 5.7.1 Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective profit rate method. Customers' share of profit that is not capitalised as part of costs of an asset is included in the consolidated statement of profit or loss.

## 5 Significant accounting policies (continued)

### 5.7 Financial liabilities (continued)

#### 5.7.1 Financial liabilities subsequently measured at amortised cost (continued)

The effective profit rate method is a method of calculating the amortised cost of a financial liability and of allocating customers’ share of profit over the relevant period. The effective profit rate is the rate that is used to calculate the present value of estimated future cash payments (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs through the expected life of the financial liability, or (where appropriate) a shorter period, to arrive at the net carrying amount on initial recognition.

Financial liabilities measured at amortised cost include due to banks and financial institutions, customers’ deposits, sukuk instruments, certain payables and other liabilities.

#### 5.7.2 Convertible sukuk issued

Convertible sukuk that can be settled at the option of the issuer are recorded as compound financial instruments. The equity component of the convertible sukuk is calculated as the excess of the issue proceeds over the present value of the future profit and principal payments, calculated using the market rate of profit applicable to similar liabilities that do not have a conversion option.

#### 5.7.3 Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the consolidated statement of profit or loss.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

#### 5.7.4 Financial guarantee

A financial guarantee is an undertaking/commitment that requires the issuer 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.

Financial guarantees issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the guarantee, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

#### 5.7.5 De-recognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated statement of profit or loss.

**5 Significant accounting policies (continued)**

**5.8 Islamic derivative financial instruments**

An Islamic derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The Group enters into a variety of Islamic derivative financial instruments to manage the exposure to profit and foreign exchange rate risks, including unilateral promise to buy/sell currencies and Islamic profit rate swap.

Islamic derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All Islamic derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Islamic derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right to setoff exists, and the parties intend to settle the cash flows on a net basis.

Islamic derivative fair valu es are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the Islamic derivative's components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether Islamic derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of Islamic derivatives held for trading are recognised in consolidated statement of profit or loss.

When Islamic derivatives are designated as hedges, the Group classifies them as either: (i) hedges of the change in the fair value of recognised assets or liabilities or firm commitments ('fair value hedges'); (ii) hedges of the variability in future cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect future reported net income ('cash flow hedges'); or (iii) a hedge of a net investment in a foreign operation ('net investment hedges'). Hedge accounting is applied to Islamic derivatives designated as hedging instruments in a fair value, cash flow or net investment hedges provided certain criteria are met.

At the inception of a hedging relationship, to qualify for hedge accounting, the Group documents the relationship between the hedging instruments and the hedged items as well as its risk management objective and its strategy for undertaking the hedge. The Group also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily Islamic derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Profit on designated qualifying hedges is included in the consolidated statement of profit or loss.

**5.8.1 Fair value hedges**

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the Islamic derivative and the hedged item are recognised in the consolidated statement of profit or loss. Fair value adjustments relating to the Islamic hedging instrument are allocated to the same consolidated statement of profit or loss category as the related hedged item. Any ineffectiveness is also recognised in the same consolidated statement of profit or loss category as the related hedged item. If the Islamic derivative expires, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued.

**5.8.2 Cash flow hedges**

The effective portion of changes in the fair value of Islamic derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in other comprehensive income. The ineffective part of any gain or loss is recognised immediately in the consolidated statement of profit or loss as trading revenue/loss. Amounts accumulated in equity are transferred to the consolidated statement of profit or loss in the periods in which the hedged item affects profit or loss.

## 5 Significant accounting policies (continued)

### 5.8 Islamic derivative financial instruments (continued)

#### 5.8.2 Cash flow hedges (continued)

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When an Islamic hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated statement of profit or loss. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated statement of profit or loss and classified as trading revenue/loss.

All gains and losses from changes in the fair values of Islamic derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated statement of profit or loss as trading revenue/loss. However, the gains and losses arising from changes in the fair values of Islamic derivatives that are managed in conjunction with financial instruments designated at fair value are included in net income from financial instruments designated at fair value under other non-profit revenue/loss.

Islamic derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate Islamic derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in the consolidated statement of profit or loss.

### 5.9 Unilateral promises to buy/sell currencies (the "Promises")

The Promises are stated at fair value. The fair value of a Promise is the equivalent of the unrealised gain or loss from marking to market the Promise using prevailing market rates. Promises with positive market value (unrealised gain) are included in other assets and Promises with negative market value (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

### 5.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central Banks, deposits and balances due from banks, items in the course of collection from or in transmission to other banks and highly liquid assets with original maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

### 5.11 Investments in associates and joint ventures

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

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 joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

## 5 Significant accounting policies (continued)

### 5.11 Investments in associates and joint ventures (continued)

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in associates and joint ventures is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group share of the profit or loss and other comprehensive income of the associates and joint ventures.
When the Group share of losses of associates and joint ventures exceeds the Group interest in that associates and joint ventures (which includes any long-term interests that, in substance, form part of the Group net investment in the associates and joint ventures), the Group discontinues recognizing its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates and joint ventures.

An investment in associate and a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or joint venture.

On acquisition of the investment in an associate or a joint venture, any excess of the cost of acquisition over the Group share of the net fair value of the identifiable assets, liabilities and contingent liabilities of associates and joint ventures recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated statement of profit or loss in the period in which the investment is acquired.

The requirements of International Financial Reporting Standards are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group investment in associates and joint ventures. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of equity method from the date when the investment ceases to be an associate or a joint venture. When the Group retains its interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture.

In addition, the Group accounts for all amounts previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

### 5 Significant accounting policies (continued)

### 5.11 Investments in associates and joint ventures (continued)

Upon disposal of associates and joint ventures that results in the Group losing significant influence over that associates and joint ventures, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associates and joint ventures attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associates and joint ventures. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associates and joint ventures on the same basis as would be required if that associates and joint ventures had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associates and joint ventures would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associates and joint ventures.

When a Group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture is recognised in the Group consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

### 5.12 Properties held for sale

Properties acquired or constructed with the intention of sale are classified as properties held for sale. Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for properties less all estimated costs of completion and costs necessary to make the sale.

Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are capitalised as and when the activities that are necessary to get the assets ready for the intended use are in progress.

### 5.13 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured at cost less accumulated depreciation and impairment loss, if any. Depreciation on investment in buildings is charged on a straight-line basis over 25 years.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss in the period in which the property is derecognised.

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

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

### 5.14 Acceptances

Acceptances are recognised as financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

**5 Significant accounting policies (continued)**

### 5.15 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are charged to the consolidated statement of profit or loss in the period in which they are incurred.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method as follows:

- Buildings 15-25 years
- Furniture, office equipment and motor vehicles 3-5 years
- Information technology 3-5 years

Freehold land is not depreciated. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.
Properties or assets in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss, if any. Cost includes all direct costs attributable to the design and construction of the property including related staff costs, and for qualifying assets, financing costs capitalised in accordance with the Group accounting policy. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property, plant and equipment category and is depreciated in accordance with the Group policies.

### 5.16 Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the present value of the estimated future cash flows are calculated using a profit rate that reflects current market assessments of the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated statement of profit or loss.

**5 Significant accounting policies (continued)**

### 5.17 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is reasonably certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

### 5.18 Employees' end of service benefits

Pension and national insurance contributions for the U.A.E. citizens are made by the Group in accordance with Federal Law No. 2 of 2000.

The Group provides end of service benefits for its expatriate employees in accordance with U.A.E. Labour Law.

The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

### 5.19 Share-based payment arrangement

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group estimate of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated statement of profit or loss over the remaining vesting period, with a corresponding adjustment to the employees' incentive plan reserve.

### 5.20 Taxation

Provision is made for current and deferred taxes arising from operating results of overseas subsidiaries in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate.

#### 5.20.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

## 5 Significant accounting policies (continued)

### 5.20 Taxation (continued)

#### 5.20.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

### 5.21 Zakat

Zakat for shareholders is computed based on "Net Invested Funds Method" which is in accordance with the advice of the Fatwa and Sharia'a Supervisory Board.

The Zakat for the shareholders is accounted for as follows:

#### 5.21.1 Zakat accounted by the Bank on shareholders' behalf

Zakat is accounted as per the Articles and Memorandum of Association of the Bank and is approved by the Bank Fatwa and Sharia'a Supervisory Boards on the following basis:

- The portion of Zakat payable by the Bank on its shareholders' behalf is calculated on 'statutory reserve', 'general reserve', 'retained earnings' and 'provision for employees' end of service benefits';
- Zakat paid by investee companies directly are adjusted in shareholders Zakat, if the Bank only accounts for net profit after Zakat of investee;
- Zakat on depositors' investment risk reserve is calculated and deducted from the investment risk reserve balance held with the bank and added to the Zakat payable balance; and
- Zakat is disbursed by a committee appointed by the Board of Directors and operating as per the by-law set by the Board of Directors.

#### 5.21.2 Zakat payable by the shareholders

Zakat payable by the shareholders directly represents the differential/remaining Zakat after deducting the Zakat accounted by the Bank on shareholders' behalf.

**5 Significant accounting policies (continued)**

**5.22 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable.

**5.22.1 Income from financial assets measured at amortised cost**

Income from a financial asset measured at amortised cost is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Income from a financial asset measured at amortised cost is accrued/amortised on a time basis, by reference to the principal outstanding and at the effective profit rate applicable, which is the rate that is used to calculate the present value of estimated future net cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**5.22.2 Fee and commission income**

Fee and commission income is recognised when the related services are performed.

**5.22.3 Dividend income**

Dividend income from other investments at fair value in equities is recognised when the right to receive the dividend is established.

**5.22.4 Income from cancellation of properties sale contract**

Income from cancellation of properties sale contract (forfeiture income) is recognised in the consolidated statement of profit or loss when, in the case of properties sold and not yet recognised as revenue, a customer does not fulfil the contractual payment terms. This is deemed to take place when, despite rigorous follow-up with the defaulted customer, the customer continues to default on the contractual terms and an amount is taken under a settlement or pursuant to a decision issued by Dubai Real Estate Regulatory Authority.

**5.22.5 Revenue from sale of properties, net**

Revenue from the sale of properties is recognised when the properties are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the properties;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Cost of sale of property includes the cost of land and development costs. Development costs include the cost of infrastructure and construction. The cost of sale in respect of apartments is based on the estimated proportion of the development cost incurred to date to the estimated total development costs for each project.

**5.22.6 Rental income**

The Group policy for recognition of revenue from operating leases is described in note 5.24.1 below.

## 5 Significant accounting policies (continued)

### 5.22 Revenue recognition (continued)

#### 5.22.7 Forfeited income

According to the Bank's Fatwa and Sharia'a Supervisory Board, the Group is required to identify any income deemed to be derived from transactions not acceptable under Islamic Sharia'a principles, as interpreted by Fatwa and Sharia'a Supervisory Board, and to set aside such amount in a separate account used to pay for local charitable causes and activities.

### 5.23 Depositors' share of profit calculation

Allocation of profits between depositors and shareholders is calculated according to the Bank's standard procedures and is approved by the Bank's Fatwa and Sharia'a Supervisory Board.

### 5.24 Lease

#### 5.24.1 The Group as a lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term. Leased asset are initially recorded at cost and depreciated on useful life on a straight line basis.

#### 5.24.2 The Group as a lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### 5.25 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments. Refer to note 44 on Business Segment reporting.

## 6 Critical accounting judgements and key sources of estimation of uncertainty

While applying the accounting policies as stated in note 5, the management of the Group has made certain judgments. These judgments mainly have a significant effect on the carrying amounts of Islamic financing and investing assets, investment securities and the fair values of Islamic derivative financial instruments. The significant judgments made by the management in arriving at the carrying amounts of Islamic financing and investing assets, investment securities and fair values of Islamic derivative financial instruments are summarised as follows:

## 6 Critical accounting judgements and key sources of estimation of uncertainty (continued)

### 6.1 Impairment losses on Islamic financing and investing assets

The impairment allowance for Islamic financing and investing assets is established through charges to the consolidated statement of profit or loss in the form of an impairment allowance for doubtful Islamic financing and investing assets.

***Individually assessed Islamic financing and investing assets***

Impairment losses for individually assessed Islamic financing and investing assets are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate Islamic financing and investing assets which are individually significant accounts or are not subject to the portfolio-based-approach.

The following factors are considered by management when determining allowance for impairment on individual Islamic financing and investing assets which are significant:

- The amount expected to be realised on disposals of collaterals;
- The Group ability to enforce its claim on the collaterals and associated cost of litigation; and
- The expected time frame to complete legal formalities and disposals of collaterals.

The Group policy requires regular review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability.

Impaired Islamic financing and investing assets continue to be classified as impaired unless they are brought fully current and the collection of scheduled profit and principal is considered probable.

***Collectively assessed Islamic financing and investing assets***

Collective assessment of allowance for impairment is made for overdue retail Islamic financing and investing assets with common features which are not individually significant and performing Islamic financing and investing assets which are not found to be individually impaired.

This collective allowance is based on any deterioration in the internal rating of the asset or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The management of the Group assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of Islamic financing and investing assets which may be impaired but not identified as of the consolidated financial position date

### 6.2 Classification of investments

The classification and measurement of the financial assets depends on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial assets assessed. Management is satisfied that the Group investment in securities are appropriately classified and measured.

Financial assets that are measured at amortised cost are those assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit.

Financial assets that are measured at FVTOCI are strategic investments in equity instruments and investment funds that are not held to benefit from changes in their fair value and are not held for trading. The management believes that designating these instruments as at FVTOCI provides a more meaningful presentation of its medium to long-term interest in its investments than holding the investments at fair value through profit and loss.

Financial assets that are measured at FVTPL are either held for trading or designated as FVTPL.

## 6 Critical accounting judgements and key sources of estimation of uncertainty (continued)

### 6.3 Impairment of associates and joint ventures

After application of equity method of accounting, the Group determines whether it is necessary to recognise for any additional impairment loss on the carrying value of the investment in associates and joint ventures by comparing their recoverable amounts with the higher of value in use or fair value less costs to sell with their carrying amounts.

In determining the value in use of the investment, the Group estimates:

- its share of the present value of the estimated future cash flows expected to be generated by the associates, including the cash flows from the operations of the associates and the proceeds on the ultimate disposal of the investment; or
- the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

### 6.4 Fair value of financial instruments

Certain assets and liabilities are measured at fair value for financial reporting purposes. The management has set up a valuation process, which involves finance and investment banking departments to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market observable data to the extent it is available. Where level 1 inputs are not available, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as present value calculation rates, prepayment rates and default rate assumptions for ‘asset-backed’ securities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in note 48 to these consolidated financial statements.

### 6.5 Determination of control over investee

Management applies its judgement to determine whether control indicates set out in 5.1.1 that the Group controls an investee.

## 7 Cash and balances with central banks

### 7.1 Analysis by category

| | *Note* | **2014** **AED'000** | 2013 AED'000 |
|---|---|---|---|
| Cash on hand | | **2,146,676** | 1,740,992 |
| Balances with central banks: | | | |
| Current accounts | | **268,293** | 888,259 |
| Reserve requirements with central banks | *7.3* | **5,933,132** | 5,095,569 |
| International murabahas with the Central Bank of the U.A.E. | | **7,969,304** | 14,988,144 |
| **Total** | | **16,317,405** | 22,712,964 |

### 7.2 Analysis by geography

| | **2014** **AED'000** | 2013 AED'000 |
|---|---|---|
| Within the U.A.E. | **15,979,844** | 22,546,487 |
| Outside the U.A.E. | **337,561** | 166,477 |
| **Total** | **16,317,405** | 22,712,964 |

### 7.3 Statutory cash reserve requirements

The reserve requirements are kept with the Central Banks of the U.A.E. and Islamic Republic of Pakistan in the respective local currencies and US Dollar. These reserves are not available for use in the Group's day to day operations, and cannot be withdrawn without the approval of the respective central banks. The level of reserve required changes every month in accordance with the requirements of the respective central banks' directives.

## 8 Due from banks and financial institutions

### 8.1 Analysis by category

| | **2014** **AED'000** | 2013 AED'000 |
|---|---|---|
| Current accounts | **1,730,935** | 2,461,844 |
| Investment deposits | **1,601,711** | 1,774,263 |
| International murabahas - short term | **983,806** | 5,370,061 |
| **Total** | **4,316,452** | 9,606,168 |

### 8.2 Analysis by geography

| | **2014** **AED'000** | 2013 AED'000 |
|---|---|---|
| Within the U.A.E. | **2,421,820** | 7,328,001 |
| Outside the U.A.E. | **1,894,632** | 2,278,167 |
| **Total** | **4,316,452** | 9,606,168 |

## 9 Islamic financing and investing assets, net

### 9.1 Analysis by category

| | *Note* | **2014 AED'000** | 2013 AED'000 |
|---|---|---|---|
| **Islamic financing assets** | | | |
| Vehicles murabahas | | **8,306,263** | 5,960,304 |
| Commodities murabahas | | **4,936,931** | 4,276,412 |
| Real estate murabahas | | **3,200,523** | 3,737,731 |
| International murabahas - long term | | **8,474,984** | 884,689 |
| **Total murabahas** | | **24,918,701** | 14,859,136 |
| Ijarahs | | **17,937,087** | 13,160,813 |
| Home finance ijarah | | **11,767,049** | 11,376,246 |
| Salam finance | | **8,642,763** | 6,235,659 |
| Istisna'a | | **4,123,091** | 3,482,002 |
| Islamic credit cards | | **511,085** | 422,199 |
| | | **67,899,776** | 49,536,055 |
| Less: deferred income | | **(1,881,610)** | (1,889,228) |
| Less: contractors and consultants' istisna'a contracts | | **(435,465)** | (122,583) |
| **Total Islamic financing assets** | | **65,582,701** | 47,524,244 |
| **Islamic investing assets** | | | |
| Musharakas | | **4,326,521** | 5,644,561 |
| Mudarabas | | **6,058,634** | 4,026,973 |
| Wakalas | | **3,155,790** | 3,448,133 |
| **Total Islamic investing assets** | | **13,540,945** | 13,119,667 |
| **Total Islamic financing and investing assets** | | **79,123,646** | 60,643,911 |
| Less: provisions for impairment | *9.3* | **(5,147,044)** | (4,573,273) |
| **Total Islamic financing and investing assets, net** | | **73,976,602** | 56,070,638 |
| | | ======== | ======== |

## 9 Islamic financing and investing assets, net (continued)

### 9.2 Analysis by economic sector and geography

| | Within the U.A.E. AED'000 | Outside the U.A.E. AED'000 | Total AED'000 |
|---|---|---|---|
| **2014** | | | |
| Government | **4,378,053** | **380,783** | **4,758,836** |
| Manufacturing and services | **11,558,606** | **1,673,380** | **13,231,986** |
| Trade | **5,837,330** | **856,014** | **6,693,344** |
| Financial institutions | **2,900,491** | **561,667** | **3,462,158** |
| Real estate | **17,799,001** | **932,069** | **18,731,070** |
| Consumer home finance | **12,424,364** | **198,157** | **12,622,521** |
| Consumer financing | **19,307,712** | **316,019** | **19,623,731** |
| | **74,205,557** | **4,918,089** | **79,123,646** |
| Less: provisions for impairment | | | **(5,147,044)** |
| **Total** | | | **73,976,602** |
| **2013** | | | |
| Government | 4,627,479 | 91,124 | 4,718,603 |
| Manufacturing and services | 5,937,119 | 1,135,593 | 7,072,712 |
| Trade | 4,577,355 | 161,956 | 4,739,311 |
| Financial institutions | 1,322,238 | 635,908 | 1,958,146 |
| Real estate | 15,788,116 | 161,684 | 15,949,800 |
| Consumer home finance | 11,535,324 | 166,852 | 11,702,176 |
| Consumer financing | 14,248,539 | 254,624 | 14,503,163 |
| | 58,036,170 | 2,607,741 | 60,643,911 |
| Less: provisions for impairment | | | (4,573,273) |
| **Total** | | | 56,070,638 |

### 9.3 Provisions for impairment

| | *Note* | **2014 AED'000** | 2013 AED'000 |
|---|---|---|---|
| **Balance at 1 January** | | **4,573,273** | 3,699,422 |
| Charge for the year | *40* | **1,106,021** | 1,153,085 |
| Release to profit or loss | *40* | **(545,372)** | (301,455) |
| Foreign exchange effect | | **2,889** | (3,799) |
| Others | | **10,233** | 26,020 |
| **Balance at 31 December** | | **5,147,044** | 4,573,273 |
| Gross amount of Islamic financing and investing assets, determined to be impaired | | **5,345,694** | 5,654,003 |

### 9 Islamic financing and investing assets, net (continued)

### 9.4 Collaterals and mitigations

The Group, in the ordinary course of providing finance, holds collateral as security to mitigate credit risk associated with Islamic financing and investing assets. The collaterals include mortgage on land and buildings and lien on savings and investment deposits, equities and other fixed assets. The estimated value of collaterals for Islamic financing and investing assets which are mainly asset based financing, is as follows:

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| Property and mortgages | **40,682,257** | 40,066,671 |
| Deposits and equities | **10,837,672** | 1,648,335 |
| Machineries and vehicles | **3,864,097** | 2,091,096 |

The estimated fair value of collaterals that the Group holds relating to facilities individually determined to be impaired at 31 December 2014 amounts to AED 4.3 billion (2013: AED 4.0 billion).

During the year ended 31 December 2014, the Group took possession of various underlying assets, primarily vehicles. The Group has sold repossessed assets amounting to AED 2.4 million (2013: AED 1.8 million), which has been adjusted against the outstanding receivables.

### 10 Investments in Islamic sukuk measured at amortised cost

### 10.1 Analysis by geography

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| Within the U.A.E. | **12,017,716** | 10,204,306 |
| Other G.C.C. Countries | **799,493** | 519,985 |
| Rest of the World | **3,301,573** | 918,262 |
| **Total** | **16,118,782** | 11,642,553 |
| | ======== | ======== |

### 10.2 Analysis by economic sector

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| Government | **8,527,731** | 5,877,729 |
| Manufacturing and services | **3,117,522** | 2,433,353 |
| Financial institutions | **2,066,637** | 2,339,214 |
| Real estate | **2,406,892** | 992,257 |
| **Total** | **16,118,782** | 11,642,553 |
| | ======== | ======== |

Investments in Islamic sukuk within the U.A.E. include investments in bilateral sukuk amounting to AED 3.3 billion as at 31 December 2014 (2013: AED 3.7 billion).

## 11 Other investments measured at fair value

### 11.1 Analysis by category and geography

| | Within the U.A.E. AED'000 | Other G.C.C. countries AED'000 | Rest of the World AED'000 | Total AED'000 |
|---|---|---|---|---|
| **As at 31 December 2014** | | | | |
| **Investments designated at fair value through profit or loss** | | | | |
| Quoted equity instruments | **-** | **-** | **-** | **-** |
| **Investments measured at fair value through other comprehensive income** | | | | |
| Quoted equity instruments | **827,917** | **149,631** | **11,557** | **989,105** |
| Unquoted equity instruments and investment funds | **697,004** | **43,229** | **307,359** | **1,047,592** |
| | **1,524,921** | **192,860** | **318,916** | **2,036,697** |
| **Total** | **1,524,921** | **192,860** | **318,916** | **2,036,697** |
| | ======== | ======== | ======== | ======== |
| **As at 31 December 2013** | | | | |
| **Investments designated at fair value through profit or loss** | | | | |
| Quoted equity instruments | 790 | - | - | 790 |
| **Investments measured at fair value through other comprehensive income** | | | | |
| Quoted equity instruments | 629,484 | 184,610 | 44,544 | 858,638 |
| Unquoted equity instruments and investment funds | 807,764 | 44,044 | 318,421 | 1,170,229 |
| | 1,437,248 | 228,654 | 362,965 | 2,028,867 |
| **Total** | 1,438,038 | 228,654 | 362,965 | 2,029,657 |
| | ======== | ======== | ======== | ======== |

During the year ended 31 December 2014, dividends received from investments at fair value through other comprehensive income amounting to AED 40.7 million (2013: AED 20.2 million) were recognised as gain from other investments at fair value in the consolidated statement of profit or loss (note 33).

### 11.2 Analysis by economic sector

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| Manufacturing and services | **1,214,280** | 1,296,732 |
| Financial institutions | **561,925** | 402,959 |
| Real estate | **260,492** | 329,966 |
| **Total** | **2,036,697** | 2,029,657 |
| | ======== | ======== |

### 12 Investments in associates and joint ventures

### 12.1 Analysis of carrying value

| | *Note* | **2014 AED'000** | 2013 AED'000 |
|---|---|---|---|
| Investments in associates and joint ventures | | **1,936,112** | 1,940,876 |
| Less: provision for impairment | *12.3* | **(63,047)** | (63,047) |
| **Net investment in associates and joint ventures** | | **1,873,065** | 1,877,829 |

### 12.2 Analysis by geography

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| Within the U.A.E. | **1,247,285** | 1,389,009 |
| Other G.C.C. Countries | **58,090** | 56,931 |
| Rest of the world | **567,690** | 431,889 |
| **Total** | **1,873,065** | 1,877,829 |

### 12.3 Movement in provision for impairment

| | | **2014 AED'000** | 2013 AED'000 |
|---|---|---|---|
| **Balance at 1 January** | | **63,047** | 33,495 |
| Charge for the year | *40* | **-** | 29,552 |
| **Balance at 31 December** | | **63,047** | 63,047 |

### 12.4 Fair value of investment in associates and joint ventures

As at 31 December 2014, the cumulative fair value of the Group listed associates is AED 317.9 million (2013: AED 168.9 million), and the carrying amount of the Group's interest in those associates is AED 511.6 million (2013: AED 371.1 million). All other investments in associates and joint ventures are not listed in active markets and the management considers the carrying amounts of these investments approximate their fair values.

### 12.5 Analysis of the Group's share of total comprehensive income of associates and joint ventures

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| The Group's share of profit for the year * | **134,644** | 78,077 |
| The Group's share of other comprehensive loss for the year | **-** | (71,142) |
| **The Group's share of total comprehensive income for the year** | **134,644** | 6,935 |

## 12 Investments in associates and joint ventures (continued)

### 12.6 Disposal and reclassification of its interest in equity of certain associates and joint ventures

| | *Note* | **2014 AED'000** | 2013 AED'000 |
|---|---|---|---|
| Fair value of investments / proceeds of disposal | | **259,448** | 136,717 |
| Carrying value of the investments reclassification to other comprehensive income | | **(216,607)** | (190,353) |
| **Gain/(loss) recognised** | *36* | **42,841** | (53,636) |

This represents reclassification of Emirates REIT CEIC Limited to investment measured at fair value through other comprehensive income upon dilution of ownership in a company.

### 12.7 List of associates and joint ventures

| | Name of associate or joint venture | Principal activity | Place of incorporation | Percentage of holding 2014 | 2013 |
|---|---|---|---|---|---|
| 1. | Bank of Khartoum | Banking | Sudan | **28.4%** | 28.4% |
| 2. | Jordan Dubai Islamic Bank | Banking | Jordan | **20.8%** | 20.8% |
| 3. | Bank Panin Syariah Tbk | Banking | Indonesia | **24.9%** | - |
| 4. | Bosnia Bank International | Banking | Bosnia | **27.3%** | 27.3% |
| 5. | Emirates REIT Management Private Limited | Properties management | DIFC, U.A.E. | **25.0%** | 25.0% |
| 6. | Liquidity Management Center | Brokerage services | Bahrain | **25.0%** | 25.0% |
| 7. | Ejar Cranes & Equipment L.L.C.* | Equipment leasing | U.A.E. | **16.7%** | 16.7% |
| 8. | MESC Investment Company | Investments | Jordan | **40.0%** | 40.0% |
| 9. | Solidere International Al Zorah Equity Investments Inc | Property development | Cayman Islands | **22.7%** | 22.7% |
| 10. | Landmark Properties LLC | Real estate brokerage | U.A.E. | **40.0%** | 40.0% |
| 11. | Emirates REIT CEIC Limited (note 12.6) | Real estate fund | U.A.E. | **-** | 39.2% |
| 12. | Al Islami Aircraft Leasing Limited | Aircraft Leasing | U.A.E. | **24.7%** | 24.7% |
| 13. | Al Bustan Center Company L.L.C. | Leasing apartments and shops | U.A.E. | **50.0%** | 50.0% |
| 14. | Millennium Private Equity L.L.C. | Fund management | DIFC, U.A.E. | **50.0%** | 50.0% |
| 15. | Al Rimal Development | Property development | U.A.E. | **50.0%** | 50.0% |
| 16. | Arady Development LLC | Property development | U.A.E. | **50.0%** | 50.0% |

All of the above associates and joint ventures are accounted for using the equity accounting method in these consolidated financial statements.

During the year ended 31 December 2014, the Group acquired 24.9% of PT Bank Panin Syariah Tbk, Indonesia by acquiring 2,427,750,000 shares. The Group is in the process to increase its stake to 40% after obtaining required regulatory approvals.

* Although the Group holds less than 20% of the equity shares and it has less than 20% of the voting power at shareholders meetings, the Group exercises significant influence by being one of the major shareholders of the company, having a representative in the company's Board of Directors.

### 12.8 Material associates and joint ventures for financial reporting purposes

Summarised financial information in respect of each of the Group material associates and joint ventures is set out below. The summarised financial information represents amounts shown in the associates' and joint ventures' financial statements prepared in accordance with IFRS and adjusted by the Group for equity accounting purposes.

### 12 Investments in associates and joint ventures (continued)

### 12.8 Material associates and joint ventures for financial reporting purposes (continued)

#### 12.8.1 Bank of Khartoum ("BOK")

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| Assets | **6,065,492** | 5,199,884 |
| Liabilities | **(5,214,629)** | (4,457,546) |
| **Net assets of the associate** | **850,863** | 742,338 |
| Revenue | **175,545** | 324,239 |
| **Net profit and total comprehensive income for the year** | **104,774** | 185,509 |

Reconciliation of the above summarised financial information to the carrying amount of the interest in BOK recognised in these consolidated financial statements:

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| **Net assets of the associate** | **850,863** | 742,338 |
| Proportion of the Group's ownership interest in BOK | **28.4%** | 28.4% |
| **Carrying amount of the Group's interest in BOK** | **241,645** | 210,824 |

These figures are extracted from the financial information of Bank of Khartoum for the nine-month period ended 30 September 2014 (latest available financial information) and for the year ended 31 December 2013. Management believes the financial information for the year ended 31 December 2014 will not be materially different from 30 September 2014.

#### 12.8.2 Jordan Dubai Islamic Bank ("JDIB")

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| Assets | **3,416,359** | 2,977,776 |
| Liabilities | **(2,639,342)** | (2,207,041) |
| **Net assets of the associate** | **777,017** | 770,735 |
| Revenue | **123,851** | 128,067 |
| **Net profit and total comprehensive income for the year** | **6,296** | 11,977 |

### 12 Investments in associates and joint ventures (continued)

### 12.8 Material associates and joint ventures for financial reporting purposes (continued)

### 12.8.2 Jordan Dubai Islamic Bank ("JDIB") (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in JDIB recognised in these consolidated financial statements:

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| **Net assets of the associate** | **777,017** | 770,735 |
| Proportion of the Group's ownership interest in JDIB | **20.8%** | 20.8% |
| **Carrying amount of the Group's interest in JDIB** | **161,620** | 160,313 |

These figures are extracted from the financial information of Jordan Dubai Islamic Bank for the nine-month period ended 30 September 2014 (latest available financial information) and for the year ended 31 December 2013. Management believes the financial information for the year ended 31 December 2014 will not be materially different from 30 September 2014.

### 12.8.3 Solidere International Al Zorah Equity Investments Inc ("Zorah")

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| Assets | **1,339,753** | 1,128,639 |
| Liabilities | **(355,004)** | (222,683) |
| **Net assets of the associate** | **984,749** | 905,956 |
| Revenue | **87,344** | 8,626 |
| **Net profit and total comprehensive income for the year** | **90,687** | 4,194 |
| **Dividends received during the year** | **2,955** | - |

Reconciliation of the above summarised financial information to the carrying amount of the interest in Zorah recognised in these consolidated financial statements:

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| **Net assets of the associate** | **984,749** | 905,956 |
| Proportion of the Group's ownership interest in Zorah | **22.7%** | 22.7% |
| **Carrying amount of the Group's interest in Zorah** | **223,538** | 205,652 |

### 12 Investments in associates and joint ventures (continued)

### 12.8 Material associates and joint ventures for financial reporting purposes (continued)

### 12.8.4 Arady Development LLC ("Arady")

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Assets | **2,387,284** | 1,886,410 |
| Liabilities | **(777,620)** | (381,446) |
| **Net assets of the joint venture** | **1,609,664** | 1,504,964 |
| Revenue | **-** | - |
| **Net profit and total comprehensive income/(loss) for the year** | **114,113** | (30,156) |

Reconciliation of the above summarised financial information to the carrying amount of the interest in Arady recognised in these consolidated financial statements:

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| **Net assets of the joint venture** | **1,609,664** | 1,504,964 |
| Proportion of the Group's ownership interest in Arady | **50.0%** | 50.0% |
| **Carrying amount of the Group's interest in Arady** | **804,832** | 752,482 |

### 12.8.5 Aggregate information of associates and joint ventures that are not individually material

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| ***The Group's share of financial position:*** | | |
| Assets | **4,966,187** | 1,208,484 |
| Liabilities | **(3,251,702)** | (659,926) |
| **Net assets of the associates and joint ventures** | **1,714,485** | 548,558 |
| ***The Group's share of revenue and total comprehensive income:*** | | |
| Revenue | **322,375** | 92,242 |
| **Net profit and total comprehensive income for the year** | **84,006** | 33,053 |
| **Dividends received during the year** | **19,033** | 23,285 |

## 13 Properties held for development and sale

### 13.1 Movement in properties held for development and sale

| | *Note* | Other real estate AED'000 | Properties under construction AED'000 | Land AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **Balance at 1 January 2014** | | **1,270,280** | **326,302** | **244,391** | **1,840,973** |
| Additions | | **19,449** | **202,127** | **308,783** | **530,359** |
| Disposals | *34* | **(730,876)** | **-** | **-** | **(730,876)** |
| Transfers to investment properties | *14.1* | **-** | **(126,789)** | **-** | **(126,789)** |
| Transfers | | **157,220** | **(157,220)** | **-** | **-** |
| Foreign exchange effect | | **(1,852)** | **-** | **-** | **(1,852)** |
| **Balance at 31 December 2014** | | **714,221** | **244,420** | **553,174** | **1,511,815** |
| Balance at 1 January 2013 | | 915,832 | 841,542 | 240,000 | 1,997,374 |
| Additions | | 194 | 102,580 | 4,391 | 107,165 |
| Disposals | *34* | (391,518) | (13,703) | - | (405,221) |
| Reversal of impairment during the year | *40* | - | 150,000 | - | 150,000 |
| Transfers | | 754,117 | (754,117) | - | - |
| Foreign exchange effect | | (8,345) | - | - | (8,345) |
| **Balance at 31 December 2013** | | 1,270,280 | 326,302 | 244,391 | 1,840,973 |

### 13.2 Analysis by geography

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| Within the U.A.E. | **1,417,886** | 1,736,102 |
| Outside the U.A.E. | **93,929** | 104,871 |
| **Total** | **1,511,815** | 1,840,973 |

Properties held for sale represent properties in the U.A.E. and outside the U.A.E. that are registered in the name of the Group entities.

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## 14 Investment properties

### 14.1 Movement in investment properties

| | *Note* | Other real estate AED'000 | Investment properties under construction AED'000 | Land AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| **Balance at 1 January 2014** | | **805,516** | **685,210** | **1,147,763** | **2,638,489** |
| Additions | | **8,130** | **12,876** | **68,167** | **89,173** |
| Transfer | *13.1* | **126,789** | **-** | **-** | **126,789** |
| Reclassification | | **37,785** | **(37,785)** | **-** | **-** |
| Disposal | | **(8,200)** | **-** | **(104,921)** | **(113,121)** |
| Foreign exchange effect | | **(35,589)** | **-** | **-** | **(35,589)** |
| **Balance at 31 December 2014** | | **934,431** | **660,301** | **1,111,009** | **2,705,741** |
| **Accumulated depreciation and impairment:** | | | | | |
| **Balance at 1 January 2014** | | **319,374** | **39,369** | **266,432** | **625,175** |
| Depreciation charged for the year | | **34,985** | **-** | **-** | **34,985** |
| Reclassification | | **16,129** | **(16,129)** | **-** | **-** |
| Foreign exchange effect | | **3,725** | **-** | **-** | **3,725** |
| **Balance at 31 December 2014** | | **374,213** | **23,240** | **266,432** | **663,885** |
| **Carrying amount at 31 December 2014** | | **560,218** | **637,061** | **844,577** | **2,041,856** |
| **Cost:** | | | | | |
| **Balance at 1 January 2013** | | 904,269 | 670,397 | 1,147,763 | 2,722,429 |
| Additions | | 1,410 | 14,813 | - | 16,223 |
| Disposal | | (107,101) | - | - | (107,101) |
| Foreign exchange effect | | 6,938 | - | - | 6,938 |
| **Balance at 31 December 2013** | | 805,516 | 685,210 | 1,147,763 | 2,638,489 |
| **Accumulated depreciation and impairment:** | | | | | |
| **Balance at 1 January 2013** | | 295,883 | 39,369 | 304,167 | 639,419 |
| Depreciation charged for the year | | 36,198 | - | - | 36,198 |
| Impairment charge/(reversal), net | *40* | 62,239 | - | (37,735) | 24,504 |
| Disposal | | (80,536) | - | - | (80,536) |
| Foreign exchange effect | | 5,590 | - | - | 5,590 |
| **Balance at 31 December 2013** | | 319,374 | 39,369 | 266,432 | 625,175 |
| **Carrying amount at 31 December 2013** | | 486,142 | 645,841 | 881,331 | 2,013,314 |

**14 Investment properties (continued)**

**14.2 Analysis by geography**

| 2014 | Other real estate AED'000 | Investment properties under construction AED'000 | Land AED'000 | Total AED'000 |
|---|---|---|---|---|
| ***Carrying amount at 31 December:*** | | | | |
| Within the U.A.E. | **350,825** | **637,060** | **792,844** | **1,780,729** |
| Outside the U.A.E. | **209,394** | **-** | **51,733** | **261,127** |
| **Total cost** | **560,219** | **637,060** | **844,577** | **2,041,856** |
| **2013** | | | | |
| ***Carrying amount at 31 December:*** | | | | |
| Within the U.A.E. | 219,946 | 645,849 | 724,685 | 1,590,480 |
| Outside the U.A.E. | 266,180 | - | 156,654 | 422,834 |
| **Total cost** | 486,126 | 645,849 | 881,339 | 2,013,314 |

Investment properties include properties with the book value of AED 314.7 million (2013: AED 376.6 million) have been mortgaged by one of the Group's entities as a security in respect of Islamic financing arrangements to another financial institution.

**14.3 Fair value of investment properties**

The fair value of the Group's investment properties as at 31 December 2014 is AED 3.7 billion (2013: AED 3.2 billion) based on unobservable market inputs (i.e. level 3).

The Group has carried out internal and external valuation of these properties as at 31 December 2014 and 2013. The valuations are carried out by professional valuers who holds recognised and relevant professional qualification and have recent experience in the location and category of the investment properties being valued. The valuations were based on comparable transaction method and present value calculation of the estimated future cash flow model supported by existing lease and current market rents for similar properties in the same location adjusted to reflect the level of completion of construction of these properties. The profit rate, which is used to calculate the present value of the future cash flows, reflects current market assessments of the uncertainty and timing of the cash flows.

The valuations were based on an individual assessment, for each property type, of both the future earnings and the required yield. In assessing the future earnings of the properties, potential changes in rental levels from each contract's rent and expiry date compared with estimated current market rent, as well as changes in occupancy rates and property costs.

## 15 Receivables and other assets

### 15.1 Analysis by category

| | *Note* | **2014 AED'000** | 2013 AED'000 |
|---|---|---|---|
| Receivables on sale of investment properties, net | *15.1.1* | **1,650,533** | 2,339,881 |
| Due from customers | *15.1.2* | **854,291** | 852,011 |
| Acceptances | | **1,072,137** | 858,556 |
| Trade receivables | | **283,857** | 227,413 |
| Other income receivable | | **91,942** | 53,503 |
| Clearing receivables | | **134,089** | 88,154 |
| Prepaid expenses | | **104,775** | 82,752 |
| Advances to contractors | | **120,558** | 38,781 |
| Due from employees | | **36,129** | 31,778 |
| Fair value of Islamic derivatives | *45.1* | **97,554** | 21,041 |
| Deferred tax asset | *22.2* | **1,809** | 9,691 |
| Inventories | | **2,479** | 2,147 |
| Other | | **663,760** | 351,666 |
| **Total** | | **5,113,913** | 4,957,374 |
| | | ======= | ======= |

### 15.1.1 Receivables on sale of investment properties

The Bank and its subsidiary entered into sale and purchase agreements to sell investment properties in prior years. The salient terms and conditions of the sales and purchase agreements are as follows:

- The sales consideration of transactions of the bank and its subsidiary is receivable on or before 30 December 2016 and 30 December 2015 respectively;
- The sales consideration can be settled in cash or in kind or a combination of cash and in kind, at the discretion of the buyer. In case full settlement of consideration or part thereof is in kind, assets to be offered in lieu of the full sales consideration or part thereof, must be of equal value to the amount due and payable under the agreement; and
- The commitments on the remaining original purchase price for the plots of land remain with the Bank.

During the year ended 31 December 2014, the Group settled AED 688.5 million against receivable in kind by acquiring certain plots of land.

Receivables on sale of investment properties are stated net of provision for impairment amounting to AED 144.0 million (2013: AED 101.2 million).

### 15.1.2 Due from customers

Due from customers represent overdrawn current accounts and other accounts that do not meet the definition of Islamic financing and investing assets. The balances are stated net of provision for impairment amounting to AED 473.0 million (2013: AED 473.0 million). The Group holds collaterals amounting to AED 1,250.0 million (2013: AED 1,250.0 million) against these accounts.

### 16 Property and equipment

| | Land and buildings | Furniture, equipment, and vehicles | Information technology | Capital work in progress | Total |
|---|---|---|---|---|---|
| | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| **Cost:** | | | | | |
| **Balance at 1 January 2014** | **612,070** | **254,731** | **480,102** | **40,989** | **1,387,892** |
| Additions | **13,247** | **24,730** | **21,622** | **95,551** | **155,150** |
| Disposals | **-** | **(1,517)** | **(4,011)** | **(12,247)** | **(17,775)** |
| Written off | **-** | **(214)** | **-** | **-** | **(214)** |
| Transfers | **12,928** | **9,870** | **64,484** | **(87,282)** | **-** |
| Exchange adjustments | **90** | **4,050** | **2,198** | **149** | **6,487** |
| **Balance at 31 December 2014** | **638,335** | **291,650** | **564,395** | **37,160** | **1,531,540** |
| **Accumulated depreciation:** | | | | | |
| **Balance at 1 January 2014** | **252,673** | **203,306** | **394,945** | **-** | **850,924** |
| Charge for the year | **29,050** | **21,939** | **51,486** | **-** | **102,475** |
| Disposals | **(677)** | **(1,410)** | **(4,009)** | **-** | **(6,096)** |
| Written off | **-** | **(74)** | **-** | **-** | **(74)** |
| Transfers | **-** | **-** | **-** | **-** | **-** |
| Exchange adjustments | **-** | **2,165** | **1,374** | **-** | **3,539** |
| **Balance at 31 December 2014** | **281,046** | **225,926** | **443,796** | **-** | **950,768** |
| **Carrying amount** | | | | | |
| **Balance at the end of the year** | **357,289** | **65,724** | **120,599** | **37,160** | **580,772** |

| | Land and buildings | Furniture, equipment, and vehicles | Information technology | Capital work in progress | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| **Balance at 1 January 2013** | 474,695 | 459,143 | 469,111 | 30,672 | 1,433,621 |
| Additions | 3,375 | 8,033 | 9,700 | 49,242 | 70,350 |
| Disposals | (10,888) | (79,295) | (15,875) | - | (106,058) |
| Written off | - | (96) | - | - | (96) |
| Transfers | 145,037 | (126,864) | 20,529 | (38,702) | - |
| Exchange adjustments | (149) | (6,190) | (3,363) | (223) | (9,925) |
| **Balance at 31 December 2013** | 612,070 | 254,731 | 480,102 | 40,989 | 1,387,892 |
| **Accumulated depreciation:** | | | | | |
| **Balance at 1 January 2013** | 88,683 | 383,517 | 371,944 | - | 844,144 |
| Charge for the year | 27,047 | 30,062 | 41,755 | - | 98,864 |
| Disposals | (2,191) | (69,133) | (15,523) | - | (86,847) |
| Written off | - | (56) | - | - | (56) |
| Transfers | 139,134 | (137,877) | (1,257) | - | - |
| Exchange adjustments | - | (3,207) | (1,974) | - | (5,181) |
| **Balance at 31 December 2013** | 252,673 | 203,306 | 394,945 | - | 850,924 |
| **Carrying amount** | | | | | |
| **Balance at the end of the year** | 359,397 | 51,425 | 85,157 | 40,989 | 536,968 |

**Notes to the consolidated financial statements**
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### 17 Subsidiaries

#### 17.1 List of material subsidiaries

Below are material interest held by the Group directly or indirectly in subsidiaries:

| | Name of subsidiary | Principal activity | Place of incorporation and operation | Ownership interest and voting power 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 registered ownership described above, the remaining equity in the entities 1, 4, 7, 11, and 12 are also beneficially held by the Bank through nominee arrangements.

On 3 January 2013, the Bank's Board of Directors announced its intention to acquire 100% of Tamweel P.J.S.C. ("Tamweel") shares by offering DIB shares in exchange for Tamweel shares to the non-controlling shareholders. The Bank obtained the approval of its shareholders in the Extraordinary Annual General Meeting conducted on 4 March 2013 and subsequently obtained all required approvals from the regulatory authorities, including The U.A.E. Ministry of Finance, Securities and Commodities Authority of the U.A.E., the U.A.E. Central Bank and Dubai Financial Market.

During the year ended 31 December 2013, the Bank issued 156.7 million shares at a par value of AED 1 per share to the non-controlling interest of Tamweel, who accepted the Bank's offer of swapping 10 new DIB shares for every 18 Tamweel shares. This transaction increased the Bank's percentage of equity in Tamweel to 86.5% and the difference of AED 327.0 million between the fair value of the 156.7 million DIB shares and the carrying amount of non-controlling interest acquired was recognised in retained earnings.

On 27 August 2014 Tamweel has been registered as Private Joint Stock Company and its shares have been delisted from Dubai Financial Market with effect from 18 December 2014.

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for the year ended 31 December 2014

### 17 Subsidiaries (continued)

### 17.2 List of Special Purpose Vehicles ("SPV")

Below is the list of special purpose vehicles which were formed to manage specific transactions including funds, and are expected to be closed upon completion of the related 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.

### 17.3 Non-controlling interests

Below are details of subsidiaries of the Group that have material non-controlling interests:

| | Name of subsidiary | Proportion of ownership interests and voting rights held by the non-controlling interests | | Profit allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | | **AED'000** | AED'000 | **AED'000** | AED'000 | **AED'000** | AED'000 |
| 1 | Tamweel P.S.C. | **13.5%** | 13.5% | **13,201** | 19,238 | **314,081** | 312,503 |
| 2 | Deyaar Development P.J.S.C. | **55.1%** | 55.1% | **127,801** | 85,216 | **1,864,416** | 1,734,230 |
| 3 | Other subsidiaries | - | - | **2,059** | 2,636 | **2,716** | 3,771 |
| | Total | | | **143,061** | 107,090 | **2,181,213** | 2,050,504 |

### 17 Subsidiaries (continued)

### 17.4 Material non-controlling interests

Summarised financial information of material non-controlling interests before intragroup elimination is as follows:

#### 17.4.1 Tamweel P.S.C (formerly Tamweel P.J.S.C)

| | **31 December 2014 AED'000** | 31 December 2013 AED'000 |
|---|---|---|
| ***Statement of financial position*** | | |
| Islamic financing and investing assets, net | **6,038,392** | 7,676,168 |
| Other | **667,890** | 671,701 |
| **Total assets** | **6,706,282** | 8,347,869 |
| Due to banks and financial institutions | **2,925,000** | 4,650,000 |
| Sukuk issued | **1,102,500** | 1,102,500 |
| Other | **241,884** | 248,340 |
| **Total liabilities** | **4,269,384** | 6,000,840 |
| **Equity** | **2,436,898** | 2,347,029 |

| | **2014 AED' 000** | 2013 AED' 000 |
|---|---|---|
| ***Statement of comprehensive income*** | | |
| Total revenue | **443,730** | 587,336 |
| Total operating expenses | **(128,278)** | (290,724) |
| Depositors' and sukukholders' share of profit | **(217,999)** | (194,084) |
| **Net profit and total comprehensive income for the year** | **97,453** | 102,528 |
| ***Statement of cash flows*** | | |
| Net cash flows used in operating activities | **(74,064)** | (952,670) |
| Net cash flows (used in)/generated from investing activities | **(4,887)** | 7,027 |
| **Net cash flows used during the year** | **(78,951)** | (945,643) |
| **Dividends paid to non-controlling interests** | **6,773** | 20,876 |

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**17 Subsidiaries (continued)**

**17.4 Material non-controlling interests (continued)**

**17.4.2 Deyaar Development P.J.S.C.**

| | **31 December 2014 AED'000** | 31 December 2013 AED'000 |
|---|---|---|
| ***Statement of financial position*** | | |
| Investment in associates and joint ventures | **1,028,370** | 984,943 |
| Properties held for sale | **1,359,670** | 1,670,962 |
| Investment properties | **274,747** | 265,521 |
| Receivables and other assets | **1,341,530** | 1,999,737 |
| Other | **1,135,375** | 458,198 |
| **Total assets** | **5,139,692** | 5,379,361 |
| Due to banks and financial institutions | **650,162** | 826,389 |
| Payables and other liabilities | **1,106,111** | 1,408,402 |
| **Total liabilities** | **1,756,273** | 2,234,791 |
| **Equity** | **3,383,419** | 3,144,570 |

| | **2014 AED' 000** | 2013 AED' 000 |
|---|---|---|
| ***Statement of comprehensive income*** | | |
| Total income | **472,113** | 281,483 |
| Total expenses | **(295,151)** | (87,863) |
| Depositors' and sukukholders' share of profit | **(22,871)** | (24,927) |
| Share of loss from associates and joint ventures | **77,642** | (14,176) |
| **Profit for the year** | **231,733** | 154,517 |
| **Other comprehensive income** | **4,323** | 26,861 |
| **Total comprehensive income** | **236,056** | 181,378 |
| ***Statement of cash flows*** | | |
| Net cash flows generated from operating activities | **732,303** | 255,384 |
| Net cash flows (used in)/generated from investing activities | **(615,846)** | 140,030 |
| Net cash flows (used in)/generated from financing activities | **(204,990)** | 54,550 |
| **Net cash flows (used in)/generated during the year** | **(88,533)** | 449,964 |

* Adjustments were made to the above financial information to bring the subsidiary's accounting policies in line with those used by the Group.

## 17 Subsidiaries (continued)

### 17.5 Disposal of investment in a subsidiary

During the year ended 31 December 2013, the Group lost control of a subsidiary. Below is the analysis of assets and liabilities of subsidiaries over which control was lost at the date of derecognition:

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| Other assets | **-** | 15,536 |
| **Total assets** | **-** | 15,536 |
| Other liabilties | **-** | (55,770) |
| **Total liabilities** | **-** | (55,770) |
| **Net liabilities disposed** | **-** | (40,234) |

Gain recognised on loss of control of a subsidiary during the years ended 31 December is as follows:

| | *Note* | **2014 AED'000** | 2013 AED'000 |
|---|---|---|---|
| Fair value of investments retained | | **-** | (12,555) |
| Less: Net liabilities settled | | **-** | 40,234 |
| **Gain recognised** | *36* | **-** | 27,679 |

## 18 Customers' deposits

### 18.1 Analysis by category

| | | **2014 AED'000** | 2013 AED'000 |
|---|---|---|---|
| Current accounts | | **26,910,231** | 20,606,115 |
| Saving accounts | | **14,432,950** | 12,927,264 |
| Investment deposits | | **50,335,179** | 45,126,102 |
| Margin accounts | | **464,089** | 226,332 |
| Depositors' investment risk reserve | *18.3* | **105,365** | 105,396 |
| Depositors' share of profit payable | *18.4* | **97,654** | 69,332 |
| **Total** | | **92,345,468** | 79,060,541 |

### 18.2 Analysis by geography

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| Within the U.A.E. | **87,539,275** | 75,591,875 |
| Outside the U.A.E. | **4,806,193** | 3,468,666 |
| **Total** | **92,345,468** | 79,060,541 |

## Notes to the consolidated financial statements
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### 18 Customers' deposits (continued)

### 18.3 Depositors' investment risk reserve

Depositors' investment risk reserve represents a portion of the depositors' share of profits set aside as a reserve. This reserve is payable to the depositors upon the approval of the Bank's Fatwa and Sharia'a Supervisory Board. Zakat on depositors' investment risk reserve is included under Zakat payable and is deducted from the depositors' investment risk reserve balance.

Movement of depositors' investment risk reserve is as follows:

| | *Note* | **2014 AED'000** | 2013 AED'000 |
|---|---|---|---|
| **Balance at 1 January** | | **105,396** | 64,748 |
| Zakat for the year | *23* | **(2,788)** | (2,788) |
| Net transfer from depositors' share of profit during the year | *18.4* | **2,757** | 43,436 |
| **Balance at 31 December** | | **105,365** | 105,396 |

### 18.4 Depositors' share of profit payable

| | | **2014 AED'000** | 2013 AED'000 |
|---|---|---|---|
| **Balance at 1 January** | | **69,332** | 113,573 |
| Depositors' share of profit for the year | *37* | **338,054** | 453,300 |
| Net transfer to depositors' investment risk reserve | *18.3* | **(2,757)** | (43,436) |
| Less: amount paid during the year | | **(306,975)** | (454,105) |
| **Balance at 31 December** | | **97,654** | 69,332 |

### 19 Due to banks and financial institutions

### 19.1 Analysis by category

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| Current accounts | **203,177** | 177,616 |
| Investment deposits | **3,736,476** | 2,452,390 |
| **Total** | **3,939,653** | 2,630,006 |

### 19.2 Analysis by geography

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| Within the U.A.E. | **3,124,155** | 1,666,936 |
| Outside the U.A.E. | **815,498** | 963,070 |
| **Total** | **3,939,653** | 2,630,006 |

## 20 Sukuk issued

### 20.1 Analysis by issuance

| | *Note* | **2014** **AED'000** | 2013 AED'000 |
|---|---|---|---|
| Sukuk issued by the Bank | *20.2* | **1,836,500** | 1,836,500 |
| Sukuk issued by a subsidiary | *20.3* | **1,010,675** | 971,103 |
| **Total** | | **2,847,175** | 2,807,603 |

### 20.2 Sukuk issued by the Bank

In May 2012, the Bank, through a Sharia'a compliant financing arrangement, established a Trust Certificate Issuance Programme for USD 2,500 million (the "Programme"). As part of the Programme, the first series of the trust certificates amounting to USD 500 million (AED 1,836.5 million) were issued and listed on Irish Stock Exchange on 30 May 2012.

The terms of the Programme include transfer of certain identified assets (the "Co-Owned Assets") including original leased and musharakas assets, Sharia'a compliant authorised investments and any replaced assets of the Bank to DIB Sukuk Limited, Cayman Islands (the "Issuer"). These assets are under the control of the Bank and shall continue to be serviced by the Bank.

The Issuer will pay the semi-annually distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the semi-annually distribution amount payable to the sukuk holders on the semi-annually distribution dates. Upon maturity of the sukuk, the Bank has undertaken to buy these assets at the exercise price from the Issuer.

These sukuk mature in May 2017 and is expected to pay profit to the investors semi-annually based on 6 months LIBOR + 3.65% per annum at the time of issuance.

### 20.3 Sukuk issued by a subsidiary

In 2012, a subsidiary issued Sharia'a Compliant Trust Certificates of US$ 300 million (AED 1,101.9 million) at an expected profit rate of 5.15% per annum. Realised profit on these certificates is payable semi-annually in arrears. The terms of sukuk include transfer of identified assets comprising ijarah assets of the subsidiary, to Tamweel Funding III Limited ("the Issuer"). The certificates are listed on the Irish Stock Exchange, Ireland and mature in 2017.

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for the year ended 31 December 2014

### 21 Payables and other liabilities

### 21.1 Analysis by category

| | *Note* | **2014 AED'000** | 2013 AED'000 |
|---|---|---|---|
| Sundry deposits and amanat accounts * | | **1,726,538** | 7,417,229 |
| Trade payables | | **1,066,955** | 1,280,192 |
| Acceptances payable | | **1,072,137** | 858,556 |
| Bankers cheques | | **515,374** | 381,903 |
| Investments related payable | | **293,585** | 293,585 |
| Payable for properties | | **210,096** | 215,687 |
| Vendor payable for Islamic financing and investing assets | | **245,015** | 170,957 |
| Provision for employees' end-of-service benefits | *21.3* | **171,217** | 154,050 |
| Clearing payable | | **81,014** | 99,708 |
| Depositors' and sukuk holders' share of profit payable | *21.2* | **62,018** | 97,848 |
| Accruals and other provisions | | **80,612** | 97,131 |
| Deferred income | | **205,834** | 71,156 |
| Payable to contractors | | **49,069** | 66,097 |
| Unclaimed dividends | | **35,577** | 35,540 |
| Fund transfer and remittances | | **81,287** | 19,606 |
| Fair value of Islamic derivative liabilities | *45.1* | **77,174** | 10,136 |
| Provision for taxation | *22.1* | **6,269** | 2,239 |
| Other | | **874,727** | 1,010,891 |
| **Total** | | **6,854,498** | 12,282,511 |

* Amanats accounts represent escrow accounts held and maintained by the Group on behalf of customers where the Group acts as an agent in certain transactions.

### 21.2 Depositors' and sukuk holders share of profit payable

| | *Note* | **2014 AED'000** | 2013 AED'000 |
|---|---|---|---|
| **Balance at 1 January** | | **97,848** | 143,915 |
| Wakala and other investment deposits from banks | *37* | **318,326** | 439,144 |
| Sukukholders' accrued/realised profit on sukuk issued | *37* | **142,638** | 161,387 |
| Paid during the year | | **(496,794)** | (646,598) |
| **Balance at 31 December** | | **62,018** | 97,848 |

### 21.3 Provision for employees' end-of-service benefits

| | | **2014 AED'000** | 2013 AED'000 |
|---|---|---|---|
| **Balance at 1 January** | | **154,050** | 131,666 |
| Charged during the year | *38* | **25,669** | 22,945 |
| Paid during the year | | **(8,502)** | (561) |
| **Balance at 31 December** | | **171,217** | 154,050 |

**Notes to the consolidated financial statements**
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## 22 Taxation

### 22.1 Provision for taxation

| | *Note* | **2014** **AED'000** | 2013 AED'000 |
|---|---|---|---|
| **Balance at 1 January** | | **2,239** | 3,590 |
| Charged during the year | *22.3* | **9,805** | 4,685 |
| Paid during the year | | **(6,119)** | (6,294) |
| Foreign exchange effect | | **344** | 258 |
| **Balance at 31 December** | | **6,269** | 2,239 |

### 22.2 Deferred tax asset

| | | **2014** **AED'000** | 2013 AED'000 |
|---|---|---|---|
| **Balance at 1 January** | | **9,691** | 9,749 |
| (Charged)/reversed during the year | *22.3* | **(8,414)** | 770 |
| Foreign exchange effect | | **532** | (828) |
| **Balance at 31 December** | | **1,809** | 9,691 |

### 22.3 Income tax expense

| | | **2014** **AED'000** | 2013 AED'000 |
|---|---|---|---|
| Current taxation | *22.1* | **9,805** | 4,685 |
| Deferred taxation | *22.2* | **8,414** | (770) |
| **Total** | | **18,219** | 3,915 |

Effective tax rate reconciliation is not material in relation to the consolidated financial statements as tax charge relates to overseas subsidiaries only.

## 23 Zakat payable

| | | **2014** **AED'000** | 2013 AED'000 |
|---|---|---|---|
| Zakat charged to equity attributable to shareholders of the Bank | | **192,454** | 163,995 |
| Zakat accounted and paid by investees | | **(833)** | (1,195) |
| Shareholders' Zakat for the year payable by the Bank | | **191,621** | 162,800 |
| Zakat adjustment related to previous years | | **72** | - |
| Net Zakat payable by the Bank on shareholders' behalf | | **191,693** | 162,800 |
| Zakat on depositors' investment risk reserve | *18.3* | **2,788** | 2,788 |
| **Total Zakat payable** | | **194,481** | 165,588 |

## 24 Share capital

As at 31 December 2014, 3,953,751,107 authorised ordinary shares of AED 1 each (2013: 3,953,751,107 ordinary shares of AED 1 each) were fully issued and paid up.

## 25 Tier 1 sukuk

During 2013, the Bank issued Shari'a compliant Tier 1 Sukuk through an SPV, DIB Tier 1 Sukuk Ltd, ("the Issuer") amounting to USD 1,000 million (AED 3,673 million) at a par value of USD 1,000 (AED 3,673) per sukuk. Tier 1 sukuk was issued as approved by the Bank's shareholders in the Extraordinary General Meeting held on 4 March 2013.

Tier 1 sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 sukuk is listed on the Irish Stock Exchange and callable by the Bank after the six-year period ending in March 2019 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions.

The net proceeds of Tier 1 sukuk are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool.

Tier 1 sukuk carries an expected profit rate of 6.25% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on then prevailing 6 year U.S. Mid Swap Rate plus initial margin of 495.5 basis points.

At the Issuer's sole discretion, it may elect not to make any Mudaraba profit distributions expected and the event is not considered an event of default. In such event, the Mudaraba profit will not be accumulated but forfeited to the issuer. If the Issuer 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 make any other payment on, and will procure that no distribution or dividend or other payment is made on ordinary shares issued by the Bank, or (b) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire ordinary shares issued by the Bank.

## 26 Other reserves and treasury shares

### 26.1 Movements in other reserves and treasury shares

Movement of the other reserves and treasury shares during the years ended 31 December 2014 and 2013 is as follows:

| | *Note* | Statutory reserve | General reserve | Donated land reserve | Additional paid in capital | Treasury shares | Total |
|---|---|---|---|---|---|---|---|
| | | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| **2014** | | | | | | | |
| **Balance at 1 January 2014** | | **2,731,879** | **2,350,000** | **267,085** | **159,832** | **(13,100)** | **5,495,696** |
| Treasury shares acquired | | **-** | **-** | **-** | **-** | **(1,579)** | **(1,579)** |
| **Balance at 31 December 2014** | | **2,731,879** | **2,350,000** | **267,085** | **159,832** | **(14,679)** | **5,494,117** |
| **2013** | | | | | | | |
| **Balance at 1 January 2013** | | 2,731,879 | 2,350,000 | 267,085 | - | - | 5,348,964 |
| Acquisition of non-controlling interest of Tamweel P.S.C. | *17.1* | - | - | - | 159,832 | (10,884) | 148,948 |
| Treasury shares acquired | | - | - | - | - | (2,216) | (2,216) |
| **Balance at 31 December 2013** | | 2,731,879 | 2,350,000 | 267,085 | 159,832 | (13,100) | 5,495,696 |

### 26 Other reserves and treasury shares (continued)

### 26.2 Statutory reserve

Article 192 of the U.A.E. Commercial Companies Law No. (8) of 1984 (as amended) and the Articles of Association of the Bank, require that 10% of the profit attributable to the shareholders is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital. This reserve is not available for distribution other than in circumstances stipulated by law.

The Board of Directors has resolved to discontinue the annual transfer to statutory reserve as the current reserve exceeds 50% of the paid up capital of the Bank.

### 26.3 General reserve

Transfer to general reserve is made based on the discretion of the Board of Directors and is subject to the approval of the Shareholders at the annual general meeting.

### 26.4 Donated land reserve

The Government of Dubai has donated certain lands which have been allocated for the sole benefit of the shareholders of the Bank. Such lands are included in investment properties as they are held for capital appreciation purposes.

### 26.5 Treasury shares

The Group hold 8,527,153 treasury shares (2013: 7,649,631 shares) amounting to AED 14.7 million (2013: 13.1 million).

### 27 Investments fair value reserve

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| **Balance at 1 January** | **(563,850)** | (817,913) |
| Fair value gain on other investments at FVTOCI, net | **(4,311)** | 260,263 |
| Transfer to retained earnings on disposal of FVTOCI investments | **355** | (6,200) |
| **Balance at 31 December** | **(567,806)** | (563,850) |

### 28 Exchange translation reserve

Exchange translation reserve relating to the translation of the results and net assets of the Bank's foreign operations from their functional currencies to the Bank's presentation currency (i.e. AED) are recognised directly in other comprehensive income and accumulated in the exchange translation reserve.

### 29 Subsequent events

### 29.1 Dividends paid and proposed

The Board of Directors has proposed 40% cash dividend at their meeting held on 25 January 2015.

For the year ended 31 December 2013, the shareholders approved and paid a cash dividend of AED 0.25 per share (total dividend AED 986.5 million) at the Annual General Meeting held on 2 March 2014. For the year ended 31 December 2012, the shareholders approved and paid a cash dividend of AED 0.15 per share (total dividend AED 569.56 million) at the Annual General Meeting held on 4 March 2013.

### 29 Subsequent events (continued)

### 29.2 Issuance of Tier 1 sukuk

Subsequent to 31 December 2014, the Bank raised additional Tier 1 sukuk amounting to USD 1.0 billion (AED 3.67 billion). The Tier 1 sukuk is a perpetual security in respect of which there is no fixed redemption date and will be listed in Irish stock exchange. The sukuk carries an expected profit rate of 6.75% per annum to be paid semi-annually in arrears.

### 30 Contingent liabilities and commitments

Financing-related financial instruments include commitments to extend Islamic financing, standby letters of credit and guarantees which are designed to meet the requirements of the Group customers.

Commitments to extend Islamic financing represent contractual commitments to provide Islamic financing. Commitments generally have fixed expiration dates, or other termination clauses and normally require the payment of a fee. Since commitments may expire without being utilised, the total contract amounts do not necessarily represent future cash requirements. Standby letters of credit and guarantees commit the Group to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

Analysis of contingent liabilities and commitments as at 31 December 2014 and 2013 is as follows:

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| **Contingent liabilities:** | | |
| Letters of guarantee | **8,071,148** | 6,986,202 |
| Letters of credit | **2,581,215** | 3,313,044 |
| **Total contingent liabilities** | **10,652,363** | 10,299,246 |
| **Commitments:** | | |
| Capital expenditure commitments | **605,815** | 903,605 |
| Irrevocable undrawn facilities commitments | **18,820,251** | 13,850,038 |
| **Total commitments** | **19,426,066** | 14,753,643 |
| **Total contingent liabilities and commitments** | **30,078,429** | 25,052,889 |

### 31 Income from Islamic financing and investing transactions

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| Income from Islamic financing and investing assets | **3,615,371** | 3,348,430 |
| Income from investments in Islamic sukuk | **687,234** | 585,582 |
| Income from international murabahas with the Central Bank | **71,181** | 65,008 |
| Income from investment and wakala deposits with financial institutions | **29,183** | 22,708 |
| Income from international murabahas with financial institutions | **40,754** | 7,958 |
| **Total** | **4,443,723** | 4,029,686 |

Income from financing and investing assets is presented net of forfeited income of AED 6.7 million (2013: AED 6.5 million).

**Notes to the consolidated financial statements**
for the year ended 31 December 2014

## 32 Commissions, fees and foreign exchange income

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Trade related commission and fees | **446,840** | 283,515 |
| Foreign exchange income | **137,418** | 70,186 |
| Asset and wealth management related fees | **117,773** | 52,189 |
| Fair value gain of Islamic derivatives | **29,764** | 4,293 |
| Other commissions and fees | **457,698** | 388,671 |
| **Total** | **1,189,493** | 798,854 |

## 33 Income from other investments measured at fair value, net

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Dividend income from investments measured at FVTOCI | **40,661** | 20,210 |
| Realised (loss)/gain on disposal of investments measured at FVTPL | **(1,497)** | 1,677 |
| Dividend income from investments designated at FVTPL | **-** | 64 |
| Unrealised (loss)/gain on revaluation of investments measured at FVTPL | **(15)** | 15 |
| **Total** | **39,149** | 21,966 |

## 34 Income from properties held for development and sale, net

| | *Note* | 2014 AED'000 | 2013 AED'000 |
|---|---|---|---|
| Sales proceeds | | **946,199** | 527,438 |
| Less: cost of sale | *13.1* | **(730,876)** | (405,221) |
| Net gains from sale of properties | | **215,323** | 122,217 |
| Income from cancellation of properties sale contracts | | **-** | 110,947 |
| **Total** | | **215,323** | 233,164 |

## 35 Income from investment properties

Income from investment properties represents the net rental income recognised by the Group from its investment properties and gain on disposal of investment properties during the years ended 31 December 2014 and 2013.

## 36 Other income

| | *Note* | 2014 AED'000 | 2013 AED'000 |
|---|---|---|---|
| Realised gain on disposal of investments in Islamic sukuk | | **31,173** | 67,122 |
| Services income, net | | **15,235** | 25,456 |
| Gain/(loss) on disposal and reclassification of associates and joint ventures | *12.6* | **42,841** | (53,636) |
| Net gain/(loss) on sale of property and equipment | | **550** | (7,289) |
| Loss on property and equipment written off | | **140** | - |
| Gain on sale of a subsidiary | *17.5* | **-** | 27,679 |
| Liability written back by a subsidiary | *36.1* | **147,922** | - |
| Other | | **24,375** | 6,193 |
| **Total** | | **262,236** | 65,525 |

**Notes to the consolidated financial statements**
for the year ended 31 December 2014

### 36 Other income (continued)

### 36.1 Liability written back by a subsidiary

During the year ended 31 December 2014, a subsidiary entered into a settlement agreement with a financial institution to repay an Islamic financing obligation. The terms of settlement resulted in reduction of principal amount and waiver of accrued profit. Accordingly, an amount of AED 147.9 million has been recognised as an income in the current year.

### 37 Depositors' and sukuk holders' share of profit

| | | **2014** | 2013 |
|---|---|---|---|
| | | **AED'000** | AED'000 |
| Investment and savings deposits from customers | *18.4* | **338,054** | 453,300 |
| Wakala and other investment deposits from banks | *21.2* | **318,326** | 439,144 |
| Sukukholders' accrued/realised profit on sukuks issued | *21.2* | **142,638** | 161,387 |
| **Total** | | **799,018** | 1,053,831 |
| | | ======= | ======= |

### 38 Personnel expenses

| | ***Note*** | **2014** | 2013 |
|---|---|---|---|
| | | **AED'000** | AED'000 |
| Salaries, wages and other benefits | | **1,305,411** | 1,028,214 |
| Staff terminal benefits | *21.3* | **25,669** | 22,945 |
| **Total** | | **1,331,080** | 1,051,159 |
| | | ======= | ======= |

### 39 General and administrative expenses

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| Premises and equipment maintenance costs | **101,772** | 94,919 |
| Administrative expenses | **141,178** | 96,709 |
| Rental charges under operating leases | **82,911** | 72,241 |
| Communication costs | **93,450** | 72,529 |
| Printing and stationery | **11,725** | 7,631 |
| Other operating expenses | **144,683** | 158,327 |
| **Total** | **575,719** | 502,356 |
| | ======= | ======= |

**Notes to the consolidated financial statements**
for the year ended 31 December 2014

### 40 Impairment charge, net

| | *Note* | **2014 AED'000** | 2013 AED'000 |
|---|---|---|---|
| **Impairment charge on financial assets** | | | |
| Provision for Islamic financing and investing assets charged | *9.3* | **1,106,021** | 1,153,085 |
| Provision for Islamic financing and investing assets released | *9.3* | **(545,372)** | (301,455) |
| Net provision for receivables and other assets | | **141,944** | 68,432 |
| | | **702,593** | 920,062 |
| **Impairment charge on non financial assets** | | | |
| Impairment of investment properties | *14.1* | **-** | 24,504 |
| Impairment of investment in associates and joint ventures | *12.3* | **-** | 29,552 |
| Reversal of impairment of properties held for sale | *13.1* | **-** | (150,000) |
| | | **-** | (95,944) |
| **Total** | | **702,593** | 824,118 |

### 41 Basic and diluted earnings per share

Basic and diluted earnings per share are calculated by dividing the profit for the year attributable to owners of the Bank, net of directors' remuneration and profit attributable to Tier 1 sukukholders by the weighted average number of shares outstanding during the year as follows:

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| Profit for the year attributable to owners of the Bank | **2,660,665** | 1,610,939 |
| Profit attributable to Tier 1 sukukholders | **(229,563)** | (114,781) |
| Board of Directors' remuneration | **(15,650)** | (5,350) |
| | **2,415,452** | 1,490,808 |
| Weighted average number of shares outstanding during the year ('000) | **3,945,880** | 3,894,475 |
| Basic and diluted earnings per share (AED per share) | **AED 0.61** | AED 0.38 |

As of the reporting date, the diluted earnings per share is equal to the basic earnings per share as the Bank has not issued any financial instruments that should be taken into consideration when the diluted earnings per share is calculated.

### 42 Cash and cash equivalents

| | *Note* | **2014 AED'000** | 2013 AED'000 |
|---|---|---|---|
| Cash and balances with the central banks | *7.1* | **16,317,405** | 22,712,964 |
| Due from banks and financial institutions | *8.1* | **4,316,452** | 9,606,168 |
| | | **20,633,857** | 32,319,132 |
| Less: balances and deposits with banks and financial institutions with original maturity over 3 months | | **(7,969,304)** | (14,950,000) |
| **Balance at 31 December** | | **12,664,553** | 17,369,132 |

## 43 Related party transactions

### 43.1 Identification of related parties

Parties are considered to be related if one party has the ability to control or influence over the other party in making financial or operating decisions.

The Bank enters into transactions with shareholders, associates, directors, key management personnel and their related concerns in the ordinary course of business at commercial profit and commission rates.

Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

### 43.2 Major shareholders

As at 31 December 2014, the major shareholder of the Bank is Investment Corporation of Dubai (“ICD”), a company in which the Government of Dubai is the majority shareholder.

### 43.3 Significant balances and transactions

Deposits from and financing to Investment Corporation of Dubai related-entities, other than those that have been individually disclosed below, amount to 3.8% of the Bank’s total customers’ deposits (2013: 5.3%), 14.4% of the Group’s total Islamic financing and investing assets (2013: 10.5%), 17.1% of the Bank’s total due from banks and financial institutions (2013: 22.8%) and 11.0% of the Bank’s total due to banks and financial institutions (2013: 22.8%). These entities are independently run business entities, and all financial dealings with the Bank are on an arms-length basis.

### 43.4 Compensation of Directors and key management personnel

| | **2014 AED’000** | 2013 AED’000 |
|---|---|---|
| Salaries and other benefits, including directors’ remuneration | **22,670** | 22,214 |
| Employee terminal benefits | **5,053** | 3,999 |
| | ========= | ========= |

### 43.5 Related parties balances

Significant balances of related parties included in the consolidated financial statement are as follows:

| | **Major shareholders AED’000** | **Directors and key management personnel AED’000** | **Associates and joint ventures AED’000** | **Total AED’000** |
|---|---|---|---|---|
| **2014** | | | | |
| Islamic financing and investing assets | **2,329,153** | **10,542** | **7,247** | **2,346,942** |
| Customers’ deposits | **3,314,912** | **69,801** | **19,793** | **3,404,506** |
| Income from Islamic financing and investing | **60,327** | **939** | **437** | **61,703** |
| Depositors’ share of profits | **33,540** | **63** | **-** | **33,603** |
| Contingent liabilities | **-** | **6** | **563** | **569** |
| **2013** | | | | |
| Islamic financing and investing assets | 1,591,634 | 50,921 | 5,964 | 1,648,519 |
| Customers’ deposits | 3,021,695 | 40,955 | 14,883 | 3,077,533 |
| Income from Islamic financing and investing | 48,441 | 3,847 | 2,261 | 54,549 |
| Depositors’ share of profits | 73,405 | 170 | - | 73,575 |
| Contingent liabilities | - | 6 | 14,120 | 14,126 |

No impairment allowances have been recognised against Islamic financing and investing assets extended to related parties or contingent liabilities issued in favor of related parties during the years ended 31 December 2014 and 2013.

### 44 Segmental information

#### 44.1 Reportable segments

Reportable segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group's reportable segments are organised into five major segments as follows:

| | |
|---|---|
| - Consumer banking: | Principally handling small and medium businesses and individual customers' deposits, providing consumer and commercial murabahas, salam, ijarah (including home finance ijarah), credit cards and funds transfer facilities, and trade finance facilities. |
| - Corporate banking: | Principally handling financing and other credit facilities and deposit and current accounts for corporate and institutional customers. |
| - Real estate development: | Property development and other real estate investments by subsidiaries. |
| - Treasury: | Principally responsible for managing the Group's overall liquidity and market risk and provides treasury services to customers. Treasury also runs its own Islamic sukuk portfolio and specialises financial instruments book to manage the above risks. |
| - Other: | Functions other than above core lines of businesses including investment banking services. |

During the year ended 31 December 2014, the management changed the structure of its reportable segments and internal reports and accordingly, reportable segments' titles, definitions and amounts were modified. The comparative amounts were restated as required by IFRS 8 *Operating Segments.*

The accounting policies of the above reportable segments are the same as the Group's accounting policies. Transactions between segments are conducted at estimated profit rates which approximate to market rates on an arm's length basis.

## 44 Segmental information (continued)

### 44.2 Segment profitability

The following table presents profit or loss and certain asset and liability information regarding the Group's business segments for the year ended 31 December:

| | Consumer banking | | Corporate banking | | Real estate development | | Treasury | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2014 AED'000** | 2013 AED'000 | **2014 AED'000** | 2013 AED'000 | **2014 AED'000** | 2013 AED'000 | **2014 AED'000** | 2013 AED'000 | **2014 AED'000** | 2013 AED'000 | **2014 AED'000** | 2013 AED'000 |
| Net operating revenue | **2,719,139** | 2,067,130 | **1,556,323** | 1,393,892 | **510,396** | 224,153 | **619,142** | 499,864 | **163,797** | 49,600 | **5,568,797** | 4,234,639 |
| Operating expense | **(1,389,911)** | (1,178,413) | **(254,917)** | (204,437) | **(140,368)** | (119,103) | **(26,830)** | (19,974) | **(232,233)** | (166,650) | **(2,044,259)** | (1,688,577) |
| Impairment (loss)/reversal | **(331,072)** | (380,782) | **(221,056)** | (475,192) | **(138,295)** | 49,467 | - | - | **(12,170)** | (17,611) | **(702,593)** | (824,118) |
| Profit before income tax | **998,156** | 507,935 | **1,080,350** | 714,263 | **231,733** | 154,517 | **592,312** | 479,890 | **(80,606)** | (134,661) | **2,821,945** | 1,721,944 |
| Income tax expense | | | | | | | | | | | **(18,219)** | (3,915) |
| Profit for the year | | | | | | | | | | | **2,803,726** | 1,718,029 |

### 44.3 Segment financial position

Following table presents assets, liabilities and equity regarding the Group's business segments:

| | Consumer banking | | Corporate banking | | Real estate development | | Treasury | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2014 AED'000** | 2013 AED'000 | **2014 AED'000** | 2013 AED'000 | **2014 AED'000** | 2013 AED'000 | **2014 AED'000** | 2013 AED'000 | **2014 AED'000** | 2013 AED'000 | **2014 AED'000** | 2013 AED'000 |
| Segment assets | **32,130,828** | 26,184,186 | **43,861,527** | 31,711,839 | **5,314,135** | 4,968,647 | **20,000,420** | 21,074,762 | **22,580,449** | 29,349,004 | **123,887,359** | 113,288,438 |
| Segment liabilities | **53,978,844** | 50,019,615 | **42,160,826** | 38,100,341 | **1,452,919** | 1,896,850 | **6,579,213** | 5,087,814 | **2,009,473** | 1,841,629 | **106,181,275** | 96,946,249 |

**44 Segmental information (continued)**

**44.4 Geographical information**

Although the management of the Group is based primarily on business segments, the Group operates in two geographic markets: inside the U.A.E. which is designated as domestic and outside the U.A.E. which is designated as international.

The following table show the distribution of the Group's external gross income and non-current assets allocated based on the location of the operating centres for the years ended 31 December 2014 and 2013:

| | **Gross income from external customers** | |
|---|---|---|
| | **2014** | 2013 |
| | **AED'000** | AED'000 |
| Within the U.A.E. | **5,979,470** | 4,999,864 |
| Outside the U.A.E. | **388,345** | 288,606 |
| Total | **6,367,815** | 5,288,470 |

Gross income from external customers geographical analysis is based on the Group's operating centres and subsidiaries and associates locations.

Revenue from major products and services are disclosed in notes 31and 36 to the consolidated financial statements.

**45 Islamic derivatives financial instruments**

**45.1 Fair values of Islamic derivative financial instruments**

The table below shows the positive and negative fair values of Islamic derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of an Islamic derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of Islamic 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.

| | | | | **Notional amounts by term to maturity** | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Positive fair value (note 15) AED'000** | **Negative fair value (note 21) AED'000** | **Notional amount total AED'000** | **Within 3 months AED'000** | **Over 3 months to 1 year AED'000** | **Over 1 year to 3 years AED'000** | **Over 3 to 5 years AED'000** | **Over 5 years AED'000** |
| **2014** | | | | | | | | |
| ***Islamic Derivatives held for trading:*** | | | | | | | | |
| Unilateral promise to buy/sell currencies | **43,026** | **48,404** | **29,550,894** | **3,947,203** | **13,494,667** | **12,109,024** | **-** | **-** |
| Islamic profit rate swaps | **54,528** | **28,770** | **8,107,518** | **-** | **-** | **-** | **8,107,518** | **-** |
| **Total** | **97,554** | **77,174** | **37,658,412** | **3,947,203** | **13,494,667** | **12,109,024** | **8,107,518** | **-** |
| 2013 | | | | | | | | |
| ***Islamic Derivatives held for trading:*** | | | | | | | | |
| Unilateral promise to buy/sell currencies | 10,522 | 10,136 | 9,704,723 | 5,343,890 | 4,360,833 | - | - | - |
| Islamic profit rate swaps | 10,519 | - | 5,379,778 | - | - | 3,041,478 | 1,673,300 | 665,000 |
| **Total** | 21,041 | 10,136 | 15,084,501 | 5,343,890 | 4,360,833 | 3,041,478 | 1,673,300 | 665,000 |

### 45 Islamic derivatives financial instruments (continued)

### 45.2 Types of Islamic derivatives

#### 45.2.1 Unilateral Promise to buy/sell currencies

Unilateral promises to buy/sell currencies are promises to either buy or sell a specified currency at a specific price and date in the future. The actual transactions are executed on the value dates, by exchanging the purchase/sale offers and acceptances between the relevant parties and delivering (exchanging) the relevant currencies on spot basis.

#### 45.2.2 Islamic Swaps

Islamic Swaps are based on a Waa'd (promise) structure between two parties to buy a specified Sharia'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. Islamic swap structure comprises profit rate swap and currency swap. For Islamic profit rate swaps, counterparties generally exchange fixed and floating rate profit payments by executing the purchase/sale of commodity under "Murabaha Sale Agreement" in a single currency. For Islamic currency swaps, fixed or floating profit payments as well as cost of underlying commodity are exchanged in different currencies, by executing the purchase/sale of commodity under "Murabaha Sale Agreement".

### 46 Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities analysed according to when they are expected to be recovered or settled.

| 2014 | Less than 3 months AED'000 | 3 months to 1 year AED'000 | 1 year to 5 years AED'000 | Over 5 years AED'000 | No maturity AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| Cash and balances with central banks | **9,810,873** | **6,224,546** | **281,986** | **-** | **-** | **16,317,405** |
| Due from banks and financial institutions | **4,084,740** | **231,712** | **-** | **-** | **-** | **4,316,452** |
| Islamic financing and investing assets, net | **7,696,845** | **10,818,658** | **36,254,565** | **19,206,534** | **-** | **73,976,602** |
| Investments in Islamic sukuk measured at amortised cost | **10,854** | **109,630** | **11,900,632** | **4,097,666** | **-** | **16,118,782** |
| Other investments measured at fair value | **-** | **939,582** | **1,097,115** | **-** | **-** | **2,036,697** |
| Investments in associates and joint ventures | **-** | **-** | **-** | **-** | **1,873,065** | **1,873,065** |
| Properties held for development and sale | **-** | **-** | **1,511,815** | **-** | **-** | **1,511,815** |
| Investment properties | **-** | **-** | **-** | **-** | **2,041,856** | **2,041,856** |
| Receivables and other assets | **177,687** | **1,767,116** | **3,169,110** | **-** | **-** | **5,113,913** |
| Property and equipment | **-** | **-** | **-** | **-** | **580,772** | **580,772** |
| **Total assets** | **21,780,999** | **20,091,244** | **54,215,223** | **23,304,200** | **4,495,693** | **123,887,359** |
| **Liabilities and equity:** | | | | | | |
| Customers' deposits | **33,791,411** | **37,151,209** | **21,285,164** | **117,684** | **-** | **92,345,468** |
| Due to banks and financial institutions | **3,510,370** | **82,476** | **346,807** | **-** | **-** | **3,939,653** |
| Sukuk issued | **-** | **-** | **2,847,175** | **-** | **-** | **2,847,175** |
| Payables and other liabilities | **3,847,022** | **2,296,728** | **710,748** | **-** | **-** | **6,854,498** |
| Zakat payable | **-** | **194,481** | **-** | **-** | **-** | **194,481** |
| Equity | **-** | **1,380,828** | **-** | **-** | **16,325,256** | **17,706,084** |
| **Total liabilities and equity** | **41,148,803** | **41,105,722** | **25,189,894** | **117,684** | **16,325,256** | **123,887,359** |

### 46 Maturity analysis of assets and liabilities (continued)

| 2013 | Less than 3 months AED'000 | 3 months to 1 year AED'000 | 1 year to 5 years AED'000 | Over 5 years AED'000 | No maturity AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| Cash and balances with central banks | 12,636,424 | 9,967,747 | 108,793 | - | - | 22,712,964 |
| Due from banks and financial institutions | 9,243,665 | 362,503 | - | - | - | 9,606,168 |
| Islamic financing and investing assets, net | 7,761,888 | 8,879,252 | 26,793,616 | 12,635,882 | - | 56,070,638 |
| Investments in Islamic Sukuk measured at amortised cost | 37,971 | 1,511,341 | 8,400,044 | 1,693,197 | - | 11,642,553 |
| Other investments measured at fair value | - | 1,066,155 | 963,502 | - | - | 2,029,657 |
| Investments in associates and joint ventures | - | - | - | - | 1,877,829 | 1,877,829 |
| Properties held for development and sale | - | - | 1,840,973 | - | - | 1,840,973 |
| Investment properties | - | - | - | - | 2,013,314 | 2,013,314 |
| Receivables and other assets | 439,509 | 1,034,312 | 3,483,168 | 385 | - | 4,957,374 |
| Property and equipment | - | - | - | - | 536,968 | 536,968 |
| **Total assets** | 30,119,457 | 22,821,310 | 41,590,096 | 14,329,464 | 4,428,111 | 113,288,438 |
| **Liabilities and equity:** | | | | | | |
| Customers' deposits | 25,366,652 | 32,670,132 | 20,952,861 | 70,896 | - | 79,060,541 |
| Due to banks and financial institutions | 2,056,936 | 84,487 | 488,583 | - | - | 2,630,006 |
| Sukuk issued | - | - | 2,807,603 | - | - | 2,807,603 |
| Payables and other liabilities | 8,852,895 | 2,953,928 | 475,688 | - | - | 12,282,511 |
| Zakat payable | - | 165,588 | - | - | - | 165,588 |
| Equity | - | 593,063 | - | - | 15,749,126 | 16,342,189 |
| **Total liabilities and equity** | 36,276,483 | 36,467,198 | 24,724,735 | 70,896 | 15,749,126 | 113,288,438 |

**Notes to the consolidated financial statements**
for the year ended 31 December 2014

## 47 Financial assets and liabilities

### 47.1 Financial instruments classification

The table below sets out the Group classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2014 and 2013:

| 2014 | Fair value through OCI AED'000 | Fair value through profit or loss AED'000 | Amortised cost AED'000 | Carrying amount AED'000 |
|---|---|---|---|---|
| ***Financial assets*** | | | | |
| Cash and balances with central banks | **-** | **-** | **16,317,405** | **16,317,405** |
| Due from banks and financial institutions | **-** | **-** | **4,316,452** | **4,316,452** |
| Islamic financing and investing assets, net | **-** | **-** | **73,976,602** | **73,976,602** |
| Investment in Islamic sukuk measured at amortised cost | **-** | **-** | **16,118,782** | **16,118,782** |
| Other investments measured at fair value | **2,036,697** | **-** | **-** | **2,036,697** |
| Receivables and other assets | **-** | **97,554** | **4,786,739** | **4,884,293** |
| | **2,036,697** | **97,554** | **115,515,980** | **117,650,231** |
| ***Financial liabilities*** | | | | |
| Customers' deposits | **-** | **-** | **92,345,468** | **92,345,468** |
| Due to banks and financial institutions | **-** | **-** | **3,939,653** | **3,939,653** |
| Sukuk issued | **-** | **-** | **2,847,175** | **2,847,175** |
| Payables and other liabilities | **-** | **77,174** | **6,394,005** | **6,471,179** |
| | **-** | **77,174** | **105,526,301** | **105,603,475** |
| **2013** | | | | |
| ***Financial assets*** | | | | |
| Cash and balances with central banks | - | - | 22,712,964 | 22,712,964 |
| Due from banks and financial institutions | - | - | 9,606,168 | 9,606,168 |
| Islamic financing and investing assets, net | - | - | 56,070,638 | 56,070,638 |
| Investment in Islamic sukuk measured at amortised cost | - | - | 11,642,553 | 11,642,553 |
| Other investments measured at fair value | 2,028,867 | 790 | - | 2,029,657 |
| Receivables and other assets | - | 21,041 | 4,802,962 | 4,824,003 |
| | 2,028,867 | 21,831 | 104,835,285 | 106,885,983 |
| ***Financial liabilities*** | | | | |
| Customers' deposits | - | - | 79,060,541 | 79,060,541 |
| Due to banks and financial institutions | - | - | 2,630,006 | 2,630,006 |
| Sukuk issued | - | - | 2,807,603 | 2,807,603 |
| Payables and other liabilities | - | 10,136 | 12,044,930 | 12,055,066 |
| | - | 10,136 | 96,543,080 | 96,553,216 |

## 47 Financial assets and liabilities (continued)

### 47.2 Fair value of financial instruments

This note provides information about how the Group determines the fair value of various financial assets and financial liabilities.

#### 47.2.1 Fair value of the Group's financial assets and financial liabilities

All of the Group's financial assets and financial liabilities, which are reported at their fair value in these consolidated financial statements, are measured at fair value at end of each reporting period. The fair value of financial assets and financial liabilities are determined as follows:

- Fair value of all quoted other investments measured at fair value through profit or loss and at fair value through other comprehensive income (note 11) are based on quoted price in an active market (unadjusted);
- Fair value of all unquoted other investments measured at fair value through other comprehensive income (note 11) are mainly based on net asset value of the investees on measurement dates. The net asset value is an unobservable input and the Group has determined that the reported net asset value represents the fair value at end of the reporting period; and
- Fair value of all Islamic derivatives financial instruments (Sharia compliant profit rate swap and unilateral promise to buy/sell currencies) is based on present value calculation of the estimated future cash flows. Future cash flows are estimated, based on forward (promise) profit rates and/or exchange rates (from observable yield curves and/or forward exchange rates at the end of each reporting period) and contract (based on promise) profit and/or forward (promise) rates, estimated at a rate that reflects the credit risk of various counterparties.

The table below summarises the Group's financial instruments' fair value according to fair value hierarchy:

| **2014** | **Level 1 AED'000** | **Level 2 AED'000** | **Level 3 AED'000** | **Total AED'000** |
|---|---|---|---|---|
| **Other investments measured at fair value** | | | | |
| Investments designated at fair value through profit or loss | | | | |
| Quoted equity instruments | - | - | - | - |
| **Investments measured at fair value through other comprehensive income** | | | | |
| Quoted equity instruments | **989,105** | **-** | **-** | **989,105** |
| Unquoted equity instruments | **-** | **-** | **818,409** | **818,409** |
| Unquoted investment funds | **-** | **-** | **229,183** | **229,183** |
| **Other assets** | | | | |
| Islamic derivative assets | **-** | **97,554** | **-** | **97,554** |
| **Financial assets measured at fair value** | **989,105** | **97,554** | **1,047,592** | **2,134,251** |
| **Other liabilities** | | | | |
| Islamic derivative liabilities | **-** | **77,174** | **-** | **77,174** |

**47 Financial assets and liabilities (continued)**

**47.2 Fair value of financial instruments (continued)**

**47.2.1 Fair value of the Group's financial assets and financial liabilities (continued)**

| **2013** | **Level 1 AED'000** | **Level 2 AED'000** | **Level 3 AED'000** | **Total AED'000** |
|---|---|---|---|---|
| **Other investments measured at fair value** | | | | |
| Investments designated at fair value through profit or loss | | | | |
| Quoted equity instruments | 790 | - | - | 790 |
| **Investments measured at fair value through other comprehensive income** | | | | |
| Quoted equity instruments | 858,638 | - | - | 858,638 |
| Unquoted equity instruments | - | - | 930,423 | 930,423 |
| Unquoted investment funds | - | - | 239,806 | 239,806 |
| **Other assets** | | | | |
| Islamic derivative assets | - | 21,041 | - | 21,041 |
| **Financial assets measured at fair value** | 859,428 | 21,041 | 1,170,229 | 2,050,698 |
| **Other liabilities** | | | | |
| Islamic derivative liabilities | - | 10,136 | - | 10,136 |

The fair values of the financial assets included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on the present value of future cash flow analysis, with the most significant inputs being the applicable rate that reflects the credit risk of counterparties.

There were no transfers between Level 1 and 2 during the years ended 31 December 2014 and 2013.

**47.2.2 Reconciliation of Level 3 fair value measurement of financial assets measured at fair value through other comprehensive income**

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| **Balance at1 January** | **1,170,229** | 1,369,062 |
| Losses in other comprehensive income | **(98,035)** | (46,235) |
| Reclassified to investment in associates and joint ventures | **-** | (54,662) |
| Disposed during the year | **(24,602)** | (97,936) |
| **Balance at 31 December** | **1,047,592** | 1,170,229 |

### 47 Financial assets and liabilities (continued)

#### 47.2.3 Fair value of financial instruments measured at amortised cost

Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statement approximate their fair values.

| | Carrying | Fair value | | | |
|---|---|---|---|---|---|
| **2014** | **amount AED'000** | **Level 1 AED'000** | **Level 2 AED'000** | **Level 3 AED'000** | **Total AED'000** |
| ***Financial assets:*** | | | | | |
| Investments in Islamic sukuk | **16,118,782** | **16,289,728** | **-** | **135,653** | **16,425,381** |
| | ========= | ========= | ========= | ========= | ======== |
| ***Financial liabilities:*** | | | | | |
| Sukuk issued | **2,847,175** | **2,998,314** | **-** | **-** | **2,998,314** |
| | ========= | ========= | ========= | ========= | ======== |
| **2013** | | | | | |
| ***Financial assets:*** | | | | | |
| Investments in Islamic sukuk | 11,642,553 | 11,154,576 | - | 856,177 | 12,010,753 |
| | ========= | ========= | ========= | ========= | ======== |
| ***Financial liabilities*:** | | | | | |
| Sukuk issued | 2,807,603 | 2,971,687 | - | - | 2,971,687 |
| | ========= | ========= | ========= | ========= | ======== |

### 48 Financial risk management

#### 48.1 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.

#### 48.1.1 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.

## 48 Financial risk management (continued)

### 48.1 Introduction (continued)

#### 48.1.1 Risk management structure (continued)

***Risk Management Committee***

The day-to-day management of risk has been delegated to Risk Management Committee.

The Risk Management Committee 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 approval, 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.

#### 48.1.2 Risk measurement and reporting systems

The Group measures risks using conventional qualitative 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 of Directors and 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.

### 48 Financial risk management (continued)

### 48.1 Introduction (continued)

### 48.1.3 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.

### 48.1.4 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.

### 48.2 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.

**48 Financial risk management (continued)**

**48.2 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 fulfill 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.

**48.2.1 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 |
| | ======== | ========= |

**48.2.2 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 |
| | ======== | ======== |

**48 Financial risk management (continued)**

**48.2 Credit risk (continued)**

**48.2.2 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 |

**48.2.3 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.

## Notes to the consolidated financial statements
for the year ended 31 December 2014

### 48 Financial risk management (continued)

### 48.2 Credit risk (continued)

### 48.2.4 Analysis of credit quality

| 2014 | Balances with central banks and due from banks and financial institutions AED'000 | Islamic financing and investing assets AED'000 | Investments in Islamic sukuk and other investments at fair value AED'000 | Receivables and other assets AED'000 | Contingent liabilities and commitments AED'000 | Total 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 |

**48 Financial risk management (continued)**

**48.2 Credit risk (continued)**

**48.2.4 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.

**48.2.5 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.

**48 Financial risk management (continued)**

**48.2 Credit risk (continued)**

**48.2.5 Impairment assessment (continued)**

***Collectively assessed allowances (continued)***

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.

**48.3 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.

**48.3.1 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.

**48 Financial risk management (continued)**

**48.3 Liquidity risk and funding management (continued)**

**48.3.1 Liquidity risk management process (continued)**

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% |
| | ======= | ======= | ======= | ======= |

**48.3.2 Funding approach**

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

During the year ended 31 December 2013, the Bank issued Tier 1 sukuk AED 3,673 million (USD 1,000 million) sukuk to diversify sources of funding to support business growth going forward (note 25).

**48.3.3 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 and 2013. 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.

| | 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 |
|---|---|---|---|---|---|---|
| **2014** | | | | | | |
| 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** |
| | ======= | ======== | ======== | ======== | ======== | ======== |
| 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** |
| | ======== | ========= | ======== | ======== | ======== | ======== |

## 48 Financial risk management (continued)

## 48.3 Liquidity risk and funding management (continued)

### 48.3.3 Non-derivative cash flows (continued)

| | 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 |
|---|---|---|---|---|---|---|
| **2013** | | | | | | |
| 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.

### 48.3.4 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.

**Notes to the consolidated financial statements**
for the year ended 31 December 2014

### 48 Financial risk management (continued)

### 48.3 Liquidity risk and funding management (continued)

### 48.3.4 Islamic derivative maturity profile (continued)

| | 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 |
|---|---|---|---|---|---|
| **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** |
| **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 |

### 48.3.5 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 |

### 48 Financial risk management (continued)

### 48.4 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.

### 48.4.1 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.

### 48.4.2 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.

**48 Financial risk management (continued)**

**48.4 Market risk (continued)**

**48.4.2 Profit rate risk (continued)**

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 and 2013.

| **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** | - |

**48.4.3 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 and 2013. Included in the table are the Group financial instruments at their carrying amounts, categorised by currency.

## Notes to the consolidated financial statements
for the year ended 31 December 2014

### 48 Financial risk management (continued)

### 48.4 Market risk (continued)

### 48.4.3 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** |

**Notes to the consolidated financial statements**
for the year ended 31 December 2014

## 48 Financial risk management (continued)

### 48.4 Market risk (continued)

### 48.4.3 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 |

## Notes to the consolidated financial statements
for the year ended 31 December 2014

### 48 Financial risk management (continued)

### 48.4 Market risk (continued)

### 48.4.3 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 and 2013 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 AED'000** | Effect on profit or loss 2013 AED'000 |
|---|---|---|---|
| **GBP** | **+2** | **(59)** | (92) |
| **EURO** | **+2** | **(1,391)** | (1,489) |

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

### 48.4.4 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 and 2013 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 AED'000** | **Effect on other comprehensive income 2014 AED'000** | Effect on profit or loss 2013 AED'000 | Effect on other comprehensive income 2013 AED'000 |
|---|---|---|---|---|---|
| Pak Rupees | **+5** | **1,133** | **20,636** | (1,005) | (25,034) |
| Egypt Sterling | **+5** | **1,075** | **8,975** | 373 | 8,406 |

**48 Financial risk management (continued)**

**48.4 Market risk (continued)**

**48.4.4 Foreign investment (continued)**

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

**48.4.5 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 and 2013) 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 AED'000** | **Effect on other comprehensive income 2014 AED'000** | Effect on profit or loss 2013 AED'000 | Effect on other comprehensive income 2013 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 |

**48.5 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 three years of operational loss data. The subject system is currently enhanced to automate KRI, RCSA and scenario based fraud risk self-assessment modules.

### 48 Financial risk management (continued)

#### 48.5 Operational risk (continued)

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 operations 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.

### 49 Capital management

#### 49.1 Capital management objective

The Group objectives when managing capital, which is a broader concept than the 'equity' on the face of consolidated financial position are:

- To comply with the capital requirements set by the Central Bank of U.A.E.;
- To safeguard the Group ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

#### 49.2 Regulatory capital

The Group lead regulator the Central Bank of U.A.E. sets and monitors capital requirements for the Group as a whole. The Group and individual banking operations within the Bank are directly supervised by their respective local regulators.

The Group regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes share capital, Tier 1 sukuk, statutory reserves, donated land reserve, general reserve, retained earnings, exchange translation reserve and non-controlling interests, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy calculation purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities (i.e. Medium term wakala deposit), collective impairment allowance and investment fair value reserve relating to unrealised gain/loss on equity instruments measured as FVTOCI.

Various limits are applied to elements of the capital base:

- Tier 2 capital cannot exceed 67% of tier 1 capital;
- Tier 1 capital must be a minimum of 7% of risk weighted assets; and
- Qualifying subordinated liabilities capital cannot exceed 50% of tier 1 capital.

The Group assets are risk weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes profit rate risk, foreign exchange risk, equity exposure risk, and commodity risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

The Group is following the standardised approach for credit, market and operational risk, as permitted by the U.A.E. Central Bank and as per Pillar 1 of Basel 2.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a monthly or/and quarterly basis.

### 49 Capital management (continued)

### 49.2 Regulatory capital (continued)

During the years ended 31 December 2014 and 2013, the Bank complied in full with all its externally imposed capital requirements.

During the years ended 31 December 2014 and 2013, all banks operating in the U.A.E. are required to maintain a capital adequacy ratio at 12%.

No changes have been made to the objectives, policies and processes from the previous year. However, they are under constant review by the management.

### 49.3 Capital adequacy ratio ("CAR")

Basel 2 and the U.A.E. Central Bank requirements are followed in calculating the following ratios:

| | **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 |
| ***Risk weighted assets*** | | |
| 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 Ratios*** | | |
| Total regulatory capital expressed as a percentage of total risk weighted assets ("capital adequacy ratio") | **14.9%** | 18.2% |
| Tier 1 capital to total risk weighted assets after deductions for associates | **14.7%** | 18.2% |

### 50 Comparative information

Certain comparative amounts in statement of profit or loss and notes to the financial statement have been adjusted to conform to the current presentation.

### 51 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 25 January 2015.