

Abu Dhabi Islamic Bank PJSC

REPORT OF THE BOARD OF DIRECTORS AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

The audited Consolidated Financial Statements are subject to adoption by the Shareholders at the Annual General Meeting.

CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2014

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Abu Dhabi Islamic Bank PJSC

REPORT OF THE BOARD OF DIRECTORS

31 DECEMBER 2014

Abu Dhabi Islamic Bank PJSC

BOARD OF DIRECTORS' REPORT continued

Year ended 31 December 2014

The Board of Directors have pleasure in submitting their report together with the consolidated financial statements of Abu Dhabi Islamic Bank PJSC ("the Bank") and its subsidiaries (collectively known as the "the Group") for the year ended 31 December 2014.

Incorporation and registered office

The Bank was incorporated in the Emirate of Abu Dhabi, United Arab Emirates (UAE), as a public joint stock company with limited liability, in accordance with the provisions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) and the Amiri Decree No. 9 of 1997.

Principal activity

The activities of the Group are conducted in accordance with Islamic Shari'a, which prohibits usury, and within the provisions of the Articles and Memorandum of Association of the respective entities within the Group.

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), general principles of the Shari'a as determined by the Group's Fatwa and Shari'a Supervisory Board and applicable requirements of UAE Federal Law No. 8 of 1984 (as amended).

Financial commentary

The Group net profit reached a record AED 1,750.7 million (2013: AED 1,450.2 million) for 2014 up 20.7%. The financial highlights of the full year results are as follows:

- Group net revenue (total operating income net of distribution to depositors and sukuk holders) for 2014 was AED 4,583.0 million (2013: AED 3,931.3 million) increased by 16.6%.
- Group operating profit ("margin") for 2014 increased by 12.5% to reach at AED 2,508.5 million (2013: AED 2,230.6 million).
- Total provisions for impairments for 2014 were AED 757.8 million (2013: AED 780.4 million).
- Group net profit for 2014 reached a record AED 1,750.7 million (2013: AED 1,450.2 million) up 20.7%.
- Group earnings per share increased to AED 0.473 compared to AED 0.372 in 2013.
- Total assets as of 31 December 2014 were AED 111.9 billion (2013: AED 103.2 billion).
- Net customer financing (murabaha, ijara and other Islamic financing) as of 31 December 2014 was AED 73.0 billion (2013: AED 61.7 billion).
- Customer deposits as of 31 December 2014 were AED 84.8 billion (2013: AED 75.5 billion).

Dividends and proposed appropriations

The Board of Directors have recommended a cash dividend of 23.34% and the following appropriations from retained earnings:

	<i>AED '000</i>
▶ Transfer to legal reserves	(6,868)
▶ Transfer to general reserves	(186,865)
▶ Proposed dividends to charity for the year ended 31 December 2014	(20,000)
▶ Proposed cash dividend to shareholders for the year ended 31 December 2014	(700,200)
▶ Profit paid on Tier 1 sukuk during the year	(234,158)
▶ Profit paid on Tier 1 sukuk – Government of Abu Dhabi during the year	(93,201)

Abu Dhabi Islamic Bank PJSC

BOARD OF DIRECTORS' REPORT continued

Year ended 31 December 2014

Board of Directors

The directors during the year were as follows:

- | | | |
|----|--------------------------------------|---------------|
| 1. | H.E. Jawaan Awaidha Suhail Al Khaili | Chairman |
| 2. | Khaled Abdulla Neamat Khouri | Vice Chairman |
| 3. | Khamis Mohamed Buharoon | Board Member |
| 4. | Juma Khamis Mugheer Al Khaili | Board Member |
| 5. | Ragheed Najeeb Shanti | Board Member |
| 6. | Dr. Sami Ali Al Amri | Board Member |
| 7. | Abdulla Bin Aqeeda Al Muhairi | Board Member |



On behalf of the Board of Directors
H.E. Jawaan Awaidha Suhail Al Khaili
Chairman

25 January 2015
Abu Dhabi

Abu Dhabi Islamic Bank PJSC
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABU DHABI ISLAMIC BANK PJSC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Abu Dhabi Islamic Bank PJSC (“the Bank”) and its subsidiaries (“the Group”), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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 the applicable provisions of the articles of association of the Bank and the UAE Commercial Companies Law of 1984 (as amended), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended), Union Law no.10 of 1980 and the articles of association of the Bank; proper books of account have been kept by the Bank; and the contents of the Board of Directors' report relating to these consolidated financial statements are consistent with the books of account. We further report that we have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended) or of the articles of association of the Bank have occurred during the year which would have had a material effect on the business of the Group or on its financial position.

Ernst & Young

Signed by
Raed Ahmad
Partner
Ernst & Young
Registration No. 811

25 January 2015
Abu Dhabi

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2014

	<i>Notes</i>	2014 AED '000	2013 AED '000
OPERATING INCOME			
Income from murabaha, mudaraba and wakala with financial institutions		32,691	52,530
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	5	4,100,597	3,647,120
Income from Islamic sukuk measured at amortised cost		186,944	158,415
Income from investments measured at fair value	6	70,924	51,373
Share of results of associates and joint ventures		6,922	16,495
Fees and commission income, net	7	738,635	570,186
Foreign exchange income		60,114	46,207
Income from investment properties	8	11,999	17,438
Other income		<u>2,444</u>	<u>4,782</u>
		<u>5,211,270</u>	<u>4,564,546</u>
OPERATING EXPENSES			
Employees' costs	9	(1,263,483)	(1,023,737)
General and administrative expenses	10	(659,484)	(543,173)
Depreciation	22 & 25	(133,293)	(133,771)
Amortisation of intangibles	26	(18,252)	-
Provision for impairment, net	11	<u>(757,783)</u>	<u>(780,398)</u>
		<u>(2,832,295)</u>	<u>(2,481,079)</u>
PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS		2,378,975	2,083,467
Distribution to depositors and sukuk holders	12	<u>(628,285)</u>	<u>(633,221)</u>
PROFIT FOR THE YEAR		<u>1,750,690</u>	<u>1,450,246</u>
Attributable to:			
Equity holders of the Bank		1,746,875	1,447,829
Non-controlling interest		<u>3,815</u>	<u>2,417</u>
		<u>1,750,690</u>	<u>1,450,246</u>
Basic and diluted earnings per share attributable to ordinary shares (AED)	13	<u>0.473</u>	<u>0.372</u>

The attached notes 1 to 45 form part of these consolidated financial statements.

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2014

	<i>Notes</i>	2014 AED '000	2013 AED '000
PROFIT FOR THE YEAR		1,750,690	1,450,246
Other comprehensive loss			
<i>Items that will not be reclassified to consolidated income statement</i>			
Net loss on valuation of investments carried at fair value through other comprehensive income	34	(14,348)	(29,881)
Directors' remuneration paid	41	(4,900)	(4,200)
<i>Items that may be subsequently reclassified to consolidated income statement</i>			
Exchange differences arising on translation of foreign operations	34	(36,887)	(51,261)
Gain (loss) on hedge of foreign operations	34	18,729	(8,276)
Fair value gain on cash flow hedges	34	<u>6,162</u>	<u>6,795</u>
OTHER COMPREHENSIVE LOSS FOR THE YEAR		<u>(31,244)</u>	<u>(86,823)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>1,719,446</u>	<u>1,363,423</u>
Attributable to:			
Equity holders of the Bank		1,715,631	1,361,011
Non-controlling interest		<u>3,815</u>	<u>2,412</u>
		<u>1,719,446</u>	<u>1,363,423</u>

The attached notes 1 to 45 form part of these consolidated financial statements.

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	<i>Notes</i>	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
ASSETS			
Cash and balances with central banks	14	18,757,580	22,220,731
Balances and wakala deposits with			
Islamic banks and other financial institutions	15	4,103,625	3,086,369
Murabaha and mudaraba with financial institutions	16	2,166,553	3,576,624
Murabaha and other Islamic financing	17	34,202,627	28,265,583
Ijara financing	18	38,803,654	33,482,043
Investment in Islamic sukuk measured at amortised cost	19	5,421,527	4,762,100
Investments measured at fair value	20	1,007,475	1,407,869
Investment in associates and joint ventures	21	807,395	749,406
Investment properties	22	299,318	281,280
Development properties	23	837,381	837,381
Other assets	24	3,400,488	3,070,542
Property and equipment	25	1,566,532	1,420,558
Goodwill and intangibles	26	<u>529,648</u>	<u>-</u>
TOTAL ASSETS		<u>111,903,803</u>	<u>103,160,486</u>
LIABILITIES			
Due to financial institutions	27	5,475,734	6,226,864
Depositors' accounts	28	84,776,408	75,523,705
Other liabilities	29	3,374,369	3,745,400
Sukuk financing instruments	30	<u>4,590,625</u>	<u>4,590,625</u>
Total liabilities		<u>98,217,136</u>	<u>90,086,594</u>
EQUITY			
Share capital	31	3,000,000	2,364,706
Legal reserve	32	1,766,465	1,759,597
General reserve	32	1,098,560	911,695
Credit risk reserve	32	400,000	400,000
Retained earnings		1,244,781	744,466
Proposed dividend	33	700,200	1,360,417
Proposed dividend to charity		20,000	20,000
Other reserves	34	(194,644)	(168,668)
Tier 1 sukuk	35	<u>5,643,109</u>	<u>5,625,492</u>
Equity attributable to the equity holders of the Bank		13,678,471	13,017,705
Non-controlling interest	36	<u>8,196</u>	<u>56,187</u>
Total equity		<u>13,686,667</u>	<u>13,073,892</u>
TOTAL LIABILITIES AND EQUITY		<u>111,903,803</u>	<u>103,160,486</u>
CONTINGENT LIABILITIES AND COMMITMENTS	37	<u>13,473,763</u>	<u>12,612,017</u>



H.E. Jawaan Awaidha Suhail Al Khaili
Chairman



Tirad M. Mahmoud
Chief Executive Officer

The attached notes 1 to 45 form part of these consolidated financial statements.

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

<i>Attributable to the equity holders of the Bank</i>												
Notes	Share capital AED '000	Legal reserve AED '000	General reserve AED '000	Credit risk reserve AED '000	Retained earnings AED '000	Proposed dividends AED '000	Proposed dividends to charity AED '000	Other reserves AED '000	Tier 1 sukuk AED '000	Total AED '000	Non-controlling interest AED '000	Total equity AED '000
Balance at 1 January 2013	2,364,706	1,756,679	739,030	400,000	1,189,511	600,616	4,450	(86,050)	5,629,165	12,598,107	53,775	12,651,882
Profit for the year	-	-	-	-	1,447,829	-	-	-	-	1,447,829	2,417	1,450,246
Other comprehensive loss	-	-	-	-	(4,200)	-	-	(82,618)	-	(86,818)	(5)	(86,823)
Profit paid on Tier 1 sukuk	35	-	-	-	(212,674)	-	-	-	-	(212,674)	-	(212,674)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	35	-	-	-	(120,000)	-	-	-	-	(120,000)	-	(120,000)
Movement in Tier 1 sukuk	-	-	-	-	-	-	-	-	(3,673)	(3,673)	-	(3,673)
Dividends paid	-	-	-	-	-	(600,616)	-	-	-	(600,616)	-	(600,616)
Dividends paid to charity	-	-	-	-	-	-	(4,450)	-	-	(4,450)	-	(4,450)
Transfer to reserves	32	-	2,918	172,665	(175,583)	-	-	-	-	-	-	-
Proposed cash dividend to charity	-	-	-	-	(20,000)	-	20,000	-	-	-	-	-
Proposed dividend to shareholders	33	-	-	-	(1,360,417)	1,360,417	-	-	-	-	-	-
Balance at 1 January 2014	2,364,706	1,759,597	911,695	400,000	744,466	1,360,417	20,000	(168,668)	5,625,492	13,017,705	56,187	13,073,892
Profit for the year	-	-	-	-	1,746,875	-	-	-	-	1,746,875	3,815	1,750,690
Other comprehensive loss	-	-	-	-	(4,900)	-	-	(26,344)	-	(31,244)	-	(31,244)
Loss on disposal of investments carried at fair value through other comprehensive income	34	-	-	-	(368)	-	-	368	-	-	-	-
Profit paid on Tier 1 sukuk	35	-	-	-	(234,158)	-	-	-	-	(234,158)	-	(234,158)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	35	-	-	-	(93,201)	-	-	-	-	(93,201)	-	(93,201)
Movement in Tier 1 sukuk	-	-	-	-	-	-	-	-	17,617	17,617	-	17,617
Bonus shares issued	33	635,294	-	-	-	(635,294)	-	-	-	-	-	-
Dividends paid	33	-	-	-	-	(725,123)	-	-	-	(725,123)	-	(725,123)
Dividends paid to charity	-	-	-	-	-	-	(20,000)	-	-	(20,000)	-	(20,000)
Transfer to reserves	32	-	6,868	186,865	(193,733)	-	-	-	-	-	-	-
Proposed cash dividend to charity	-	-	-	-	(20,000)	-	20,000	-	-	-	-	-
Proposed cash dividend to shareholders	33	-	-	-	(700,200)	700,200	-	-	-	-	-	-
Movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	(51,806)	(51,806)
Balance at 31 December 2014	3,000,000	1,766,465	1,098,560	400,000	1,244,781	700,200	20,000	(194,644)	5,643,109	13,678,471	8,196	13,686,667

The attached notes 1 to 45 form part of these consolidated financial statements.

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Notes	2014 AED '000	2013 AED '000
OPERATING ACTIVITIES			
Profit for the year		1,750,690	1,450,246
Adjustments for:			
Depreciation on investment properties	22	12,529	11,895
Depreciation on property and equipment	25	120,764	121,876
Amortisation of intangibles	26	18,252	-
Share of results of associates and joint ventures		(6,922)	(16,495)
Dividend income	6	(7,949)	(8,728)
Realised (gain) loss on sale of investments carried at fair value through profit and loss	6	(20,718)	16,156
Unrealised gain on investments carried at fair value through profit and loss	6	(228)	(2,889)
(Gain) loss on disposal of property and equipment		(127)	1,675
Provision for impairment, net	11	757,783	780,398
Gain on sale of investment properties	8	(652)	(1,479)
Operating profit before changes in operating assets and liabilities		2,623,422	2,352,655
Decrease (increase) in balances with central banks		4,381,777	(4,586,509)
Increase in balances and wakala deposits with Islamic banks and other financial institutions		(964,693)	(431,596)
(Increase) decrease in murabaha and mudaraba with financial institutions		(282,736)	1,053,518
Increase in murabaha and other Islamic financing		(5,438,040)	(4,722,921)
Increase in ijara financing		(4,517,615)	(6,396,893)
Purchase of investments carried at fair value through profit and loss		(4,449,971)	(4,514,159)
Proceeds from sale of investments carried at fair value through profit and loss		4,824,423	4,456,311
Increase in other assets		(390,273)	(255,615)
Increase in due to financial institutions		286,166	156,427
Increase in depositors' accounts		7,940,425	14,194,943
(Decrease) increase in other liabilities		(390,338)	780,280
Cash from operations		3,622,547	2,086,441
Directors' remuneration paid	41	(4,900)	(4,200)
Net cash from operating activities		3,617,647	2,082,241
INVESTING ACTIVITIES			
Dividend received	6	7,949	8,728
Purchase of investments carried at fair value through other comprehensive income		(2,915)	-
Proceeds from sale of investments carried at fair value through other comprehensive income		34,052	72,124
Purchase of investments carried at amortised cost		(1,155,852)	(2,354,901)
Redemption proceeds from investments carried at amortised cost		479,456	381,128
Dividends received from an associate		6,343	5,154
Additions in investment in associates and joint ventures		(23,493)	(20,338)
Consideration paid for acquisition of business	45	(1,347,033)	-
Additions in investment properties		(1,764)	-
Proceeds from sale of investment properties	8	1,463	6,313
Purchase of property and equipment	25	(274,710)	(326,433)
Proceeds from disposal of property and equipment		509	4,173
Net cash used in investing activities		(2,275,995)	(2,224,052)
FINANCING ACTIVITIES			
Profit paid on Tier 1 sukuk	35	(234,158)	(212,674)
Profit paid on Tier 1 sukuk to Government of Abu Dhabi	35	(93,201)	(120,000)
Tier 2 wakala repaid to UAE Federal government		-	(2,207,408)
Proceeds (repurchase) of own Tier 1 sukuk		17,617	(3,673)
Proceeds of sukuk assets - second issue	30	-	119,723
Dividends paid		(708,733)	(577,798)
Net cash used in financing activities		(1,018,475)	(3,001,830)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		323,177	(3,143,641)
Cash and cash equivalents at 1 January		9,467,096	12,610,737
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	40	9,790,273	9,467,096
Operating cash flows from profit on balances and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, customer financing, Islamic sukuk and customer deposits are as follows:			
Profit received		4,390,187	3,485,827
Profit paid to depositors and sukuk holders		(510,661)	(560,894)

The attached notes 1 to 45 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Abu Dhabi Islamic Bank PJSC (“the Bank”) was incorporated in the Emirate of Abu Dhabi, United Arab Emirates (UAE), as a public joint stock company with limited liability, in accordance with the provisions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) and the Amiri Decree No. 9 of 1997.

The Bank and its subsidiaries (“the Group”) carry out full banking services, financing and investing activities through various Islamic instruments such as Murabaha, Istisna’a, Mudaraba, Musharaka, Ijara, Wakalah, Sukuk etc. The activities of the Bank are conducted in accordance with Islamic Shari’a, which prohibits usury as determined by the Fatwa and Shari’a Supervisory Board of the Bank, and within the provisions of the Articles and Memorandum of Association of the respective entities within the Group.

In addition to its main office in Abu Dhabi, the Bank operates through its 88 branches in UAE (2013: 77 branches) and 3 overseas branches in Iraq, Qatar and Sudan and subsidiaries in the UAE and the United Kingdom. The consolidated financial statements combine the activities of the Bank’s head office, its branches and subsidiaries.

The registered office of the Bank is at P O Box 313, Abu Dhabi, UAE.

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

2 DEFINITIONS

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

Murabaha

A sale contract, in which the Group sells to a customer a physical asset, goods, or shares already owned and possessed (either physically or constructively) at a selling price consists of the purchasing cost plus a mark-up profit.

Istisna’a

A sale contract, in which the Group (Al Saanee) sells an asset to be developed using its own materials to a customer (Al Mustasnee) according to pre-agreed upon precise specification, at a specific price, installments dates and to be delivered on a specific date. This developed asset can be either developed directly by the Group or through a subcontractor and then it is handed over to the customer on the pre-agreed upon date.

Ijara

A lease contract whereby the Group (the Lessor) leases to a customer (the Lessee) a service or the usufruct of an owned or rented physical asset either exists currently or to be constructed in future (forward lease) for a specific period of time at specific rental installments. The lease contract could be ended by transferring the ownership of a leased physical asset through an independent mode to the lessee.

Qard Hasan

A non-profit bearing loan enables the borrower to use the borrowed amounts for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any charges or profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

2 DEFINITIONS continued

Musharaka

A contract between the Group and a customer to enter into a partnership in an existing project (or to be established), or in the ownership of a specific asset, either on ongoing basis or for a limited time, during which the Group enters in particular arrangements with the customer to sell to him/her its share in this partnership until he/she becomes the sole owner of it (diminishing musharaka). Profits are distributed according to the mutual agreement of the parties as stipulated in the contract; however, losses are borne according to the exact shares in the Musharaka capital on a pro-rata basis.

Mudaraba

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

Wakalah

A contract between the Group and a customer whereby one party (the principal: the Muwakkil) appoints the other party (the agent: Wakil) to invest certain funds according to the terms and conditions of the Wakala for a fixed fee in addition to any profit exceeding the expected profit as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the Wakil; otherwise, they are borne by the principal.

Sukuk

Certificates which are equal in value and represent common shares in the ownership of a specific physical asset (leased or to be leased either existing or to be constructed in future), or in the ownership of cash receivables of selling an existing-owned asset, or in the ownership of goods receivables, or in the ownership of the assets of Mudaraba or Partnership companies. In all these cases, the Sukuk holders shall be the owners of their common shares in the leased assets, or in the cash receivables, or the goods receivable, or in the assets of the Partnership or the Mudaraba.

3 BASIS OF PREPARATION

3.1 (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), general principles of the Shari'a as determined by the Group's Fatwa and Shari'a Supervisory Board and applicable requirements of UAE Federal Law No. 8 of 1984 (as amended).

3.1 (b) Accounting convention

The consolidated financial statements have been prepared under the historical cost convention except for investments carried at fair value through profit or loss, investments carried at fair value through other comprehensive income, Shari'a compliant alternatives of derivative financial instruments which have been measured at fair value and land which has been carried at revalued amount.

The consolidated financial statements have been presented in UAE Dirhams (AED), which is the functional currency of the Bank and all values are rounded to the nearest thousand AED except where otherwise indicated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

3 BASIS OF PREPARATION continued

3.1 (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and those of its following subsidiaries:

	Activity	Country of incorporation	Percentage of holding	
			2014	2013
Abu Dhabi Islamic Securities Company LLC	Equity brokerage services	United Arab Emirates	95%	95%
Burooj Properties LLC	Real estate investments	United Arab Emirates	100%	100%
MPM Properties LLC	Real estate services	United Arab Emirates	100%	-
ADIB Invest 1	Equity brokerage services	BVI	100%	100%
Kawader Services Company LLC	Manpower supply	United Arab Emirates	100%	100%
Saudi Finance Company CSJC (Formerly Saudi Installment House) (note 21)	Islamic Retail finance	Kingdom of Saudi Arabia	-	51%
ADIB (UK) Limited	Islamic banking	United Kingdom	100%	100%
ADIB Holdings (Jersey) Ltd*	Special purpose vehicle	British Channel Islands	-	-
ADIB Sukuk Company Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Sukuk Company II Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Capital Invest 1 Ltd*	Special purpose vehicle	Cayman Island	-	-

*The Bank does not have any direct holding in ADIB Sukuk Company Ltd, ADIB Sukuk Company II Ltd, ADIB Capital Invest 1 Ltd or ADIB Holdings (Jersey) Ltd and each are considered to be a subsidiary by virtue of control.

Effective 1 January 2013, IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC12 Consolidation – Special Purpose Entities. Under IFRS 10, the only basis for consolidation is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that is applicable to all investees; among other things, it requires the consolidation of an investee if the Group controls the investee on the basis of de facto circumstances. The management has assessed the impact of new standard and concluded that it has no effect on the Group's financial position, performance or its disclosures.

These consolidated financial statements include the operations of the subsidiaries over which the Bank has control. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Non-controlling interests represent the portion of the profit or loss and net assets of the subsidiaries not held by the Bank and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the Bank shareholders' equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

3 BASIS OF PREPARATION continued

3.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except as noted below.

During the year the Group has adopted the following new standards / amendments to the standards effective for the annual period beginning on or after 1 January 2014:

IFRS 10: Consolidated Financial Statements (Amendment)
IFRS 12: Disclosure of Interests in Other Entities (Amendment)
IAS 27: Separate Financial Statements (Amendment)
IAS 32: Financial Instruments: Presentation (Amendment)
IAS 36: Impairment of Assets (Amendment)
IAS 39: Financial Instruments: Recognition and Measurement (Amendment)
IFRIC 21: Levies

A brief description of the change is also provided below:

IFRS 10, IFRS 12 and IAS 27: (Amendment): These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IAS 39: *Financial Instruments: Recognition and Measurement* or IFRS 9: *Financial Instruments* (as applicable) in the consolidated and separate financial statements. In addition, the amendments introduce new disclosure requirements related to investment entities in IFRS 12: *Disclosure of Interest in Other Entities* and IAS 27: *Separate Financial Statements*.

These amendments are not relevant to the Group, as the Group did not qualify to be an investment entity under IFRS 10.

IAS 32: Financial Instruments: Presentation (Amendment) clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

The amendment did not have any impact on the accounting policy, consolidated financial position and performance of the Group during the year.

IAS 36: Impairment of Assets (Amendment) requires the disclosure of information about the recoverable amount of impaired non-financial assets, if that amount is based on fair value less costs of disposal. They also require the disclosure of additional information about that fair value measurement. In addition, if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using the present value technique, the amendments also require the disclosure of the discount rates that have been used in the current and previous measurements.

The amendment did not have any significant impact on the consolidated financial position and performance of the Group during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

3 BASIS OF PREPARATION continued

3.2 CHANGES IN ACCOUNTING POLICIES continued

IAS 39: Financial Instruments: Recognition and Measurement (Amendment) provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

The amendment did not have any impact, as the Group has not novated its derivatives during the year.

IFRIC 21: Levies clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

The standard did not have any impact on the accounting policy, consolidated financial position and performance of the Group during the year.

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new standards / amendments to standards which were issued up to 31 December 2014 and are not yet effective for the year ended 31 December 2014 have not been applied while preparing these consolidated financial statements:

IFRS 14: Regulatory Deferral Accounts is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

IFRS 9: Financial Instruments - hedge accounting (Amendments to IFRS 9, IFRS 7 and IAS 39) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

IFRS 9: Financial Instruments - impairment introduces new requirements for impairment. On 24 July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The IASB has addressed the key concern that arose as a result of the financial crisis that the incurred loss model in IAS 39 contributed to the delayed recognition of credit losses, by issuing the new impairment requirements that are based on a more forward-looking expected credit loss model. The requirements of IFRS 9 relating to impairment are for annual periods beginning on or after 1 January 2018, with early application permitted..

IFRS 15: Revenue from Contracts with Customers was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

3 BASIS OF PREPARATION continued

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

IFRS 11: Joint Arrangements (Amendment) require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

IAS 16 and IAS 38: (Amendment) clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted.

IAS 16 and IAS 41: (Amendment) changes the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

IAS 27: Separate Financial Statements (Amendment) will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

Management anticipates that these amendments will be adopted in the Group's consolidated financial statements for the period when they become effective. Management is in the process of assessing the impact of these new standards/ amendments on the consolidated financial statements.

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements in conformity with the International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These judgments, estimates and assumptions also affect the revenue, expenses and provisions as well as fair value changes.

These judgments, estimates and assumptions may affect the reported amounts in subsequent financial years. Estimates and judgments are currently evaluated and are based on historical experience and other factors. In order to reduce the element of subjectivity, the Group has laid down clear criteria to enable estimation of future cash flows. As estimates are based on judgments, actual results may differ, resulting in future changes in such provisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES continued

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Impairment losses on financing assets and investments carried at amortised cost

The Group reviews its financing assets and investments carried at amortised cost on a regular basis to assess whether a provision for impairment should be recorded in the consolidated income statement in relation to any non-performing assets. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of individually impaired provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on financing assets

In addition to specific provisions against individually impaired financing assets, the Bank also makes collective impairment provisions against portfolio of financing assets with common features which have not been identified as individually impaired. This collective provision 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.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of probability of occurrence of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Classification and measurement of financial assets

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

Operating lease commitments - Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

Investment and development properties

The Group hired services of professional real estate valuer to provide reliable estimates of the market value of investment properties for determining the fair values as of the reporting date, for disclosure purposes and assessing the impairment, if any. The basis of estimate and method used by the valuer has been disclosed in the note 22.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES continued

Classification of properties

In the process of classifying properties, management has made various judgments. Judgment is needed to determine whether a property qualifies as an investment property, development property or property and equipment. The Group develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, development property and property and equipment. In making its judgment, management considers the detailed criteria and related guidance for the classification of properties as set out in IAS 2, IAS 16 and IAS 40, in particular, the intended usage of property as determined by the management.

Impairment of investments in associates and joint ventures

Management regularly reviews its investment in associates and joint venture for indicators of impairment. This determination of whether investments in associates is impaired, entails management's evaluation of the specific investee's profitability, liquidity, solvency and ability to generate operating cash flows from the date of acquisition and until the foreseeable future. If managements' review results in impairment, the difference between the estimated recoverable amount and the carrying value of investment in associates and joint venture is recognised as an expense in the consolidated income statement.

Impairment review of investment properties, development properties and advances paid against purchase of properties

Investment properties, development properties and advances paid against purchase of properties are assessed for impairment based on assessment of cash flows on individual cash-generating units when there is indication that those assets have suffered an impairment loss. Cash flows are determined with reference to recent market conditions, prices existing at the end of the reporting period, contractual agreements and estimations over the useful lives of the assets and discounted using a range of discount rates that reflects current market assessments of the time value of money and the risks specific to the asset. The net present values are compared to the carrying amounts to assess any impairment.

The assessment of current market conditions, including cost of project completion, future rental and occupancy rates and assessment of the projects capital structure and discount rates requires management to exercise its judgment. Management uses internal and external experts to exercise this judgment.

Impairment of goodwill

On an annual basis, the Group determines whether goodwill is impaired. This requires an estimation of the recoverable amount using value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful life of property and equipment

The cost of property and equipment is depreciated over its estimated useful life, which is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors.

Business combinations

Accounting for the acquisition of a business requires the allocation of the purchase price to the various assets and liabilities of the acquired business. For most assets and liabilities, the purchase price allocation is accomplished by recording the asset or liability at its estimated fair value. Determining the fair value of assets acquired and liabilities assumed requires estimation by management and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, the useful lives of intangibles and other assets and market multiples. The Group's management uses all available information to make these fair value determinations. The Group has, if necessary, up to one year after acquisition closing date to complete these fair value determinations and finalise the purchase price allocation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Revenue recognition

Murabaha

Murabaha income is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

Istisna 'a

Istisna'a revenue and the associated profit margin (difference between the cash price of al-masnoo to the customer and the Bank's total Istisna'a cost) is accounted for on a time apportioned basis.

Ijara

Ijara income is recognised on a time apportioned basis over the lease term.

Musharaka

Income is accounted for on the basis of the reducing balance of Musharaka on a time apportioned basis that reflects the effective yield on the asset.

Mudaraba

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

Sukuk

Income is accounted for on a time apportioned basis over the terms of the Sukuk.

Sale of properties

Revenue on sale of properties is recognised as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's initial investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property; and
- The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

Revenue on sale of units or apartments is deferred until completion of construction works and when delivery to the buyer takes place.

Fee and commission income

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

Operating lease income

Operating lease income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

4 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued

Gain on sale of investments

Gain or loss on disposal of FVTPL investments represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs and is recognised through consolidated income statement.

Gain or loss on disposal of FVTOCI investments represents the difference between sale proceeds and their original cost less associated selling costs and is recognised through consolidated statement of comprehensive income and are included within cumulative changes in fair value reserve within equity and not recognised in the consolidated income statement.

Dividends

Dividends from investments in equities are recognised when the right to receive the dividend is established.

Cost of sale of properties

Cost of sale of properties includes the cost of development. Development costs include the cost of infrastructure and construction.

Cost of sale of land represents the carrying amount at which it is recorded in the books.

Financial Instruments

Recognition and Measurement

Financial instruments comprise financial assets and financial liabilities. Financial assets of the Group are further analysed as:

- Customer financing;
- Balances and wakala deposits Islamic banks and other financial institutions;
- Murabaha and mudaraba with financial institutions;
- Investment in sukuk;
- Investment in equity instruments; and
- Sharia compliant alternatives of derivatives.

The Group's customer financing comprise the following:

- Murabaha and other Islamic financing; and
- Ijara financing.

Effective 1 January 2011, the Group early adopted IFRS 9 'Financial Instruments' in line with the transitional provisions of IFRS 9.

Financial assets are classified in their entirety on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued

Classification

Financial assets at amortised cost

Murahaba and other Islamic financing and Ijara financing i.e. customer financing and investment in sukuk, are measured at amortised cost, if both the following conditions are met:

- 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 financial asset 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.

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

Investments in equity instruments are classified as FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income ("FVTOCI") on initial recognition.

Other financial assets that do not meet the amortised cost criteria are classified as FVTPL. In addition, certain financial assets that meet the amortised cost criteria but at initial recognition are designated as FVTPL in line with the business model of the Group. A financial asset 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 recognizing the gains or losses on them on different basis.

Financial asset 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 that are designated as FVTPL on initial recognition is not allowed.

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

At initial recognition, the Group can make an irrevocable election (on instrument-by-instrument basis) to designate investments in equity instruments as FVTOCI.

A financial asset is FVTPL if:

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

Measurement

Financial assets or financial liabilities carried at amortised cost

Financial assets at amortised cost including customer financing and investment in sukuk are measured at amortised cost, less any reduction for impairment. Amortised cost is calculated using the effective profit rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective profit rate of the instrument.

Balances and deposits with banks and other financial institutions, Murabaha and Mudaraba with financial institutions, Murabaha, Ijara, Mudaraba and certain other Islamic financing are financial assets with fixed or expected profit payments. These assets are not quoted in an active market. They arise when the Group provides funds directly to a customer with no intention of trading the receivable. Financial liabilities are liabilities where the Group has a contractual obligation to deliver cash or another financial asset or exchange financial instruments under conditions that are potentially unfavourable to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued

Measurement continued

Financial assets or financial liabilities carried at amortised cost continued

Balances and wakala deposits with Islamic banks and other financial institutions are stated at amortised cost less amounts written off and provision for impairment, if any.

Murabaha and mudaraba with financial institutions are stated at amortised cost (which excludes deferred income or expected profits) less provisions for impairment.

Islamic financing consist of murabaha receivables, mudaraba, Istisna'a, Islamic covered cards (murabaha based) and other Islamic financing.

Istisna'a cost is measured and reported in the consolidated financial statements at a value not exceeding the cash equivalent value.

Other Islamic financing are stated at amortised cost (which excludes deferred income) less any provisions for impairment.

The Ijara is classified as a finance lease, when the Bank undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represents finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

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

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 income statement. The net gain or loss recognised in the consolidated income statement is included within 'investment income' in the consolidated income statement.

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

Investments in equity instruments 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 the consolidated statement of other comprehensive income and accumulated in the cumulative changes in fair values within equity. Where the assets are disposed off, the cumulative gain or loss previously accumulated in the cumulative changes in fair values is not transferred to the consolidated income statement, but is reclassified to retained earnings. As per the requirement of IFRS 9, financial assets measured at FVTOCI are not tested for impairment.

For investments quoted in active market, fair value is determined by reference to quoted market prices.

For other investments, where there is no active market, fair value is normally based on one of the following:

- the expected cash flows discounted at current profit rates applicable for items with similar terms and risk characteristics
- brokers' quotes
- recent market transactions

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued

Measurement continued

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

Dividends on investment in equity instruments are recognised in the consolidated income statement when the Group's right to receive the dividend is established, unless the dividends clearly represent a recovery of part of the cost of investment.

(i) *Recognition / De-recognition*

The Group initially recognises financial assets at fair value through profit or loss, financial assets at amortised cost and financial assets at fair value through other comprehensive income on the settlement date at which the Group becomes a party to the contractual provisions of the instrument.

Financing to customers are recognised on the day they are originated. A financial liability is recognised on the date the Group becomes a party to contractual provisions of the instruments.

A financial asset is de-recognised when the contractual rights to the cash flows from the financial asset expires or when it transfers the financial asset. A financial liability is de-recognised when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets designated at fair value through profit or loss, and financial assets at fair value through other comprehensive income that are sold are de-recognised and corresponding receivables from the buyer for the payment are recognised as at the date the Group commits to sell the assets. The Group uses the specific identification method to determine the gain or loss on de-recognition.

(ii) *Offsetting of financial instruments*

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a enforceable right legally and under Sharia'a framework to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

(iii) *Impairment of financial assets*

Customer financing

The recoverable amount of customer financing is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective profit rate. Short-term balances are not discounted. Financing is presented net of impairment allowances. Specific allowances are made against the carrying amount of financing that are identified as being impaired, based on regular reviews of outstanding balances to reduce these financing to their recoverable amounts. Portfolio allowances are maintained to reduce the carrying amount of portfolios of similar financing to their estimated recoverable amounts at the statement of financial position date. Changes in the allowance account are recognized in the consolidated income statement. When a financing is known to be irrecoverable, and all the necessary legal procedures have been completed, the final loss is determined and the financing is written off.

If in a subsequent period the amount of an impairment loss decreases, and the decrease can be linked objectively to an event occurring after the write down, the write down or allowance is reversed through the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

4 SIGNIFICANT ACCOUNTING POLICIES continued

Renegotiated financing facilities

Where possible, the Bank seeks to restructure financing facilities rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Once the terms have been renegotiated, any impairment is measured using the original effective profit rate as calculated before the modification of terms and the financing facility is no longer considered past due. Management continually reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur. The financing facilities continue to be subject to an individual or collective impairment assessment, calculated using the financing facilities' original effective profit rate.

Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's reporting schedule, to the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data such as market transactions, rental yields and audited financial statements.

Impairment of non-financial assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic benefit.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs (note 44).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

4 SIGNIFICANT ACCOUNTING POLICIES continued

Business combinations

Acquisitions of businesses are accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Bank, liabilities incurred by the Bank to the former owners of the acquiree and the cash and equity interests issued by the Bank in exchange for control of the acquiree. Acquisition related costs are recognised in consolidated income statement as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Bank entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in consolidated income statements as gain on acquiring controlling interest.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Bank in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates, with the corresponding gain or loss being recognised in consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4 SIGNIFICANT ACCOUNTING POLICIES continued

Business combinations continued

When a business combination is achieved in stages, the Bank's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Bank obtains control) and the resulting gain or loss, if any, is recognised in consolidated income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to consolidated income statement where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Bank reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date which is regarded as their cost. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses.

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The rates of amortisation are based upon the following estimated useful lives:

- Customer relationship 8 years
- Core deposit intangible 8 years

Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Bank's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in consolidated income statement.

For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units which are expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

4 SIGNIFICANT ACCOUNTING POLICIES continued

Investment in associates

The Group's investment in associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and that is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The consolidated income statement reflects the share of the results of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Investment in joint ventures

The Group has investment in joint ventures, which are jointly controlled entities, whereby venturers have a contractual arrangement that establishes joint control over the economic activities of the entities. The Group's investment in joint ventures is accounted for using the equity method of accounting.

Under the equity method, the investment in the joint ventures is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint venture. The consolidated income statement reflects the share of the results of the joint venture. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The financial statements of the ventures are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in the consolidated income statement.

Investment properties

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is charged on a straight-line basis over the assets' estimated useful lives. The useful life of buildings is estimated to be 25 years.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefits are expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

4 SIGNIFICANT ACCOUNTING POLICIES continued

Development properties

Properties in the course of construction for sale or completed properties held for sale are classified as development properties. Completed properties held for sale are stated at the lower of cost or net realizable value. Properties in the course of development for sale are stated at lower of cost or net realizable value. The cost of development properties includes the cost of land and other related expenditure which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property.

The property is considered to be complete when all related activities, including the infrastructure and facilities for the entire project, have been completed.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Land is recorded at revalued amount in the consolidated financial statements.

Depreciation is provided on a straight-line basis over the estimated useful lives of property and equipment, other than freehold land which is deemed to have an indefinite life. The rates of depreciation are based upon the following estimated useful lives:

• Buildings	25 years
• Furniture and leasehold improvements	7 years
• Computer and office equipment	4 years
• Motor vehicles	4 years

The carrying values of properties and equipments are reviewed for impairment when events of changes in circumstances indicate the carrying value may not be recoverable. If any such conditions exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Any subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognized in the consolidated income statement as the expense is incurred.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is included in the consolidated income statement in the year the asset is derecognized.

Capital work-in-progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated.

When an asset is revalued, any increase in the carrying amount arising on revaluation is credited directly to equity under revaluation reserve, except to the extent that a revaluation increase merely restores the carrying value of an asset to its original cost, whereby it is recognized as income i.e., to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense. A decrease resulting from a revaluation is initially charged directly against any related revaluation surplus held in respect of that asset and the remaining portion being charged as an expense. On disposal, the related revaluation surplus is credited directly to retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

4 SIGNIFICANT ACCOUNTING POLICIES continued

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

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.

Deposits

Customer deposits and due to banks and other financial institutions are carried at amortised cost.

Sukuk financing instruments

Sukuk financing instruments are initially measured at fair value and then are subsequently measured at amortised cost using the effective profit rate method, with profit distribution recognised on an effective yield basis.

The effective profit rate method is a method of calculating the amortised cost of a financial liability and of allocating profit distribution over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Employees' pension and end of service benefits

The Group provides end of service benefits to its expatriate employees. 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 and are included within 'other liabilities' in the consolidated statement of financial position.

With respect to its UAE national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are recognised in the consolidated income statement when due.

Shari'a compliant alternatives of derivative financial instruments

The Bank enters into a Shari'a compliant alternatives of derivative financial instruments to manage the exposure to profit rate risks, including unilateral promise which represents Shari'a compliant alternatives of swap. Those financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All these Shari'a compliant alternatives of derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognized pricing models as appropriate.

The Bank enters into cash flows hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognized asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

4 SIGNIFICANT ACCOUNTING POLICIES continued

Cash flow hedges

The effective portion of changes in the fair value of Shari'a compliant alternatives of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The ineffective part of any gain or loss is recognized immediately in the consolidated income statement. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss. 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 a 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 nonfinancial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in consolidated statement of comprehensive income within foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statement. Gains and losses accumulated in equity are included in the consolidated income statement on the disposal of the foreign operations.

Zakat

As the Bank is not required to dispose Zakat by UAE laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, each shareholder is responsible of his or her own Zakat. In accordance with the Articles and Memorandum of Association of the Bank, Zakat is computed by the Bank and it is approved by the Fatwa and Shari'a Supervisory Board of the Bank. However, in few jurisdictions, Zakat of the Bank's branches and subsidiaries is mandatory by laws to be paid to a governmental entity responsible of Zakat, therefore, the Bank acts accordingly to these laws and pays the Zakat to these entities on behalf of the Shareholders and deducts the amount paid as Zakat from the total zakat amount and the Zakat amount per each outstanding share.

Zakat per share is calculated in accordance with AAOIFI's Accounting Standard number 9 & Shari'a Standard number 35, and the Group's Fatwa and Shari'a Supervisory Board Resolutions.

In accordance with the Memorandum of Association, the Group communicates the amount of Zakat per share and it is the responsibility of each shareholder to dispose personally his/her own Zakat (note 39).

Profit distribution

Profits or losses of Mudaraba based depositors' accounts are calculated and distributed in accordance with the Banking Service Agreement between the Bank and the investment account holders. Investment in subsidiaries is funded from the shareholders' funds, hence profit or losses from the subsidiaries are not distributed to the investment account holders. Investment in associates is funded jointly from the shareholders and investment account holders' funds, therefore, profits and losses of the associates are distributed among the shareholders and investment account holders. A part of the deserved profits relating to the Mudaraba based investment accounts profit can be reserved as "Profit Equalization Reserve" and shall be subsequently utilized in order to maintain certain level of profit distribution to the account holders.

The same allocation is applicable to Wakala deposits and any share of profit above the fixed Wakala fee and the initially expected profit agreed with the investment account holder, shall pertain to the Wakil (the Bank).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4 SIGNIFICANT ACCOUNTING POLICIES continued

Cash and cash equivalents

For the purpose of preparation of the consolidated statement of cash flow, cash and cash equivalents are considered to be cash and balances with central banks, due from banks and international murabahat. Cash equivalents are short-term liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less.

Trade and settlement date accounting

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

Prohibited income

According to the Fatwa and Shari'a Supervisory Board "FSSB", the Group is required to avoid any transaction or activity deemed to be not acceptable by Shari'a and to identify any income from such source and to set it aside in a separate account (charity account) to be disposed to charity by the Group under the supervision of the FSSB (as purification amount).

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

Foreign currencies

The Group's consolidated financial statements are presented in AED, which is the Bank's functional currency. That is the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the reporting date and their income statement is translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the consolidated income statement in 'net fees and commission income' over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement in 'credit loss expense'. Any financial guarantee liability remaining is recognized in the consolidated income statement in 'net fees and commission income' when the guarantee is discharged, cancelled or expires.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4 SIGNIFICANT ACCOUNTING POLICIES continued

Segment reporting

The Bank has presented the segment information in respect of its business and geographical segments in the same way as it is presented internally to the management.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Treasury shares and contracts on own equity instruments

Own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognised directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

5 INCOME FROM MURABAHA, MUDARABA, IJARA AND OTHER ISLAMIC FINANCING FROM CUSTOMERS

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
Vehicle murabaha	368,526	426,809
Goods murabaha	438,611	275,878
Share murabaha	1,019,742	893,583
Commodities murabaha – Al Khair	235,578	246,908
Other murabaha	<u>60,773</u>	<u>52,922</u>
Total murabaha	2,123,230	1,896,100
Mudaraba	115,036	91,203
Ijara	1,566,780	1,420,806
Islamic covered cards (murabaha)	281,640	224,155
Istisna'a	<u>13,911</u>	<u>14,856</u>
	<u>4,100,597</u>	<u>3,647,120</u>

6 INCOME FROM INVESTMENTS MEASURED AT FAIR VALUE

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
Income from Islamic sukuk measured at fair value through profit and loss	32,057	36,347
Income from other investment assets	9,972	19,565
Dividend income	7,949	8,728
Realised gain (loss) on sale of investments carried at fair value through profit and loss	20,718	(16,156)
Unrealised gain on investments carried at fair value through profit and loss	<u>228</u>	<u>2,889</u>
	<u>70,924</u>	<u>51,373</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7 FEES AND COMMISSION INCOME, NET

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
Fees and commission income		
Fees and commission income on cards	431,510	322,451
Trade related fees and commission	136,063	109,451
Accounts services fees	39,619	41,640
Projects and property management fees	39,661	40,781
Risk participation and arrangement fees	192,084	142,146
Brokerage fees and commission	86,273	42,435
Other fees and commissions	<u>144,147</u>	<u>105,459</u>
Total fees and commission income	<u>1,069,357</u>	<u>804,363</u>
Fees and commission expenses		
Card related fees and commission expenses	(281,467)	(196,881)
Other fees and commission expenses	<u>(49,255)</u>	<u>(37,296)</u>
Total fees and commission expenses	<u>(330,722)</u>	<u>(234,177)</u>
Fees and commission income, net	<u>738,635</u>	<u>570,186</u>

8 INCOME FROM INVESTMENT PROPERTIES

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
Proceeds from sale of investment properties	1,463	6,313
Less: net book value of properties sold	<u>(811)</u>	<u>(4,834)</u>
Gain on sale of investment properties	652	1,479
Rental income (note 22)	<u>11,347</u>	<u>15,959</u>
	<u>11,999</u>	<u>17,438</u>

9 EMPLOYEES' COSTS

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
Salaries and wages	1,132,192	927,907
End of service benefits	70,150	56,510
Other staff expenses	<u>61,141</u>	<u>39,320</u>
	<u>1,263,483</u>	<u>1,023,737</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

10 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2014</i>	<i>2013</i>
	<i>AED '000</i>	<i>AED '000</i>
Legal and professional expenses	110,086	78,244
Premises expenses	174,008	158,687
Marketing and advertising expenses	107,812	89,718
Communication expenses	59,970	59,968
Technology related expenses	71,150	55,789
Other operating expenses	<u>136,458</u>	<u>100,767</u>
	<u>659,484</u>	<u>543,173</u>

11 PROVISION FOR IMPAIRMENT, NET

	<i>Notes</i>	<i>2014</i>	<i>2013</i>
		<i>AED '000</i>	<i>AED '000</i>
Murabaha and mudaraba with financial institutions	16	33,639	37,086
Murabaha and other Islamic financing	17	379,968	404,451
Ijara financing	18	241,610	159,788
Direct write-off		4,012	4,664
Investment in Islamic sukuk measured at amortised cost	19	16,969	-
Investment in associates and joint ventures	21	-	(4,284)
Investment properties	22	1,236	8,165
Other assets	24	<u>80,349</u>	<u>170,528</u>
		<u>757,783</u>	<u>780,398</u>

The above provision for impairment includes AED 74,873 thousand (2013: AED 178,693 thousand) pertaining to Burooj Properties LLC, a real estate subsidiary of the Bank.

12 DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS

	<i>2014</i>	<i>2013</i>
	<i>AED '000</i>	<i>AED '000</i>
Saving accounts	131,481	106,713
Investment accounts	324,242	325,033
Sukuk holders and Tier 2 wakala capital	<u>172,562</u>	<u>201,475</u>
	<u>628,285</u>	<u>633,221</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

13 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of any financial instruments with dilutive effects.

The following reflects the income and shares data used in the earnings per share computations:

	<i>Notes</i>	2014	2013
Profit for the year attributable to equity holders (AED '000)		1,746,875	1,447,829
Less: profit attributable to Tier 1 sukuk holder (AED '000)	35	(234,158)	(212,674)
Less: profit attributable to Tier 1 sukuk holder - Government of Abu Dhabi (AED '000)	35	<u>(93,201)</u>	<u>(120,000)</u>
Profit for the year attributable to equity holders after deducting profit relating to Tier 1 sukuk (AED '000)		<u>1,419,516</u>	<u>1,115,155</u>
Weighted average number of ordinary shares at 1 January in issue (000's)		2,364,706	2,364,706
Bonus shares issued	31	<u>635,294</u>	<u>635,294</u>
Weighted average number of ordinary shares at 31 December in issue (000's)		<u>3,000,000</u>	<u>3,000,000</u>
Basic and diluted earnings per share (AED)		<u>0.473</u>	<u>0.372</u>

The Bank does not have any instruments which would have a dilutive impact on earnings per share when converted or exercised. Profit on Tier 1 sukuk is reflected in the EPS computation on the payment of such profit.

14 CASH AND BALANCES WITH CENTRAL BANKS

	2014	2013
	AED '000	AED '000
Cash on hand	2,231,856	1,596,784
Balances with central banks:		
- Current accounts	468,300	384,587
- Statutory reserve	8,357,314	6,129,940
- Islamic certificate of deposits	<u>7,700,110</u>	<u>14,109,420</u>
	<u>18,757,580</u>	<u>22,220,731</u>

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14 CASH AND BALANCES WITH CENTRAL BANKS continued

The Bank is required to maintain statutory reserves with the Central Bank of the UAE, Iraq and Sudan on demand, time and other deposits. The statutory reserves are not available for use in the Bank's day-to-day operations and cannot be withdrawn without the approval of the Central Bank. Cash on hand and current accounts are not profit-bearing. Islamic certificate of deposits are profit bearing, which is based on entering into international commodities Murabaha transaction in which Central Bank of the UAE is the buyer and the Bank is the seller.

The distribution of the cash and balances with central banks by geographic region is as follows:

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
UAE	18,483,541	22,012,055
Rest of the Middle East	179,361	83,618
Europe	828	430
Others	<u>93,850</u>	<u>124,628</u>
	<u>18,757,580</u>	<u>22,220,731</u>

15 BALANCES AND WAKALA DEPOSITS WITH ISLAMIC BANKS AND OTHER FINANCIAL INSTITUTIONS

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
Current accounts	363,476	265,657
Wakala deposits	<u>3,740,149</u>	<u>2,820,712</u>
	<u>4,103,625</u>	<u>3,086,369</u>

In accordance with Shari'a principles, deposits are invested only with Islamic financial institutions. The Bank does not earn profits on current accounts with banks and financial institutions.

The distribution of the balances and wakala deposits with Islamic banks and other financial institutions by geographic region is as follows:

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
UAE	1,058,617	1,320,533
Rest of the Middle East	1,176,433	129,110
Europe	120,961	148,050
Others	<u>1,747,614</u>	<u>1,488,676</u>
	<u>4,103,625</u>	<u>3,086,369</u>

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16 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
Murabaha	2,158,981	3,523,931
Mudaraba	<u>171,022</u>	<u>182,504</u>
	2,330,003	3,706,435
Less: provision for impairment	<u>(163,450)</u>	<u>(129,811)</u>
	<u>2,166,553</u>	<u>3,576,624</u>

In accordance with Shari'a principles, Mudaraba are with Islamic financial institutions or provided for the activities that are entirely Sharia' compliant.

The movement in the provision for impairment during the year was as follows:

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
At 1 January	129,811	129,811
Charge for the year (note 11)	33,639	37,086
Written off during the year	<u>-</u>	<u>(37,086)</u>
At 31 December	<u>163,450</u>	<u>129,811</u>

The distribution of the gross murabaha and mudaraba with financial institutions by geographic region is as follows:

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
UAE	1,921,425	3,333,628
Rest of the Middle East	293,062	221,191
Europe	-	60,830
Others	<u>115,516</u>	<u>90,786</u>
	<u>2,330,003</u>	<u>3,706,435</u>

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17 MURABAHA AND OTHER ISLAMIC FINANCING

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
Vehicle murabaha	6,324,106	6,594,148
Goods murabaha	7,457,263	5,396,213
Share murabaha	15,702,991	12,606,796
Commodities murabaha / advance murabaha – Al Khair	4,764,135	4,258,642
Other murabaha	<u>2,916,643</u>	<u>2,953,613</u>
Total murabaha	37,165,138	31,809,412
Mudaraba	1,527,907	1,884,140
Islamic covered cards (murabaha / advance murabaha)	8,769,776	6,678,090
Istisna'a	104,964	206,858
Other financing receivables	<u>119,552</u>	<u>179,876</u>
Total murabaha and other Islamic financing	47,687,337	40,758,376
Less: deferred income on murabaha	(12,082,680)	(10,375,064)
	35,604,657	30,383,312
Less: provision for impairment	<u>(1,402,030)</u>	<u>(2,117,729)</u>
	<u>34,202,627</u>	<u>28,265,583</u>

The above balances include advance under murabaha amounting to AED 20,141 thousand (2013: nil) paid as part of acquisition of retail banking business (note 45).

The movement in the provision for impairment during the year was as follows:

	<i>2014</i>			<i>2013</i>		
	<i>Individual impairment AED '000</i>	<i>Collective impairment AED '000</i>	<i>Total AED '000</i>	<i>Individual impairment AED '000</i>	<i>Collective impairment AED '000</i>	<i>Total AED '000</i>
At 1 January	1,662,499	455,230	2,117,729	1,588,375	408,085	1,996,460
Charge for the year (note 11)	(47,209)	427,177	379,968	357,306	47,145	404,451
Written off during the year	(1,105,786)	-	(1,105,786)	(283,182)	-	(283,182)
Other movements	<u>10,119</u>	-	<u>10,119</u>	-	-	-
At 31 December	<u>519,623</u>	<u>882,407</u>	<u>1,402,030</u>	<u>1,662,499</u>	<u>455,230</u>	<u>2,117,729</u>

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17 MURABAHA AND OTHER ISLAMIC FINANCING continued

The distribution of the gross murabaha and other Islamic financing by industry sector and geographic region was as follows:

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
Industry sector:		
Government	6,988	19,164
Public sector	524,228	519,488
Corporates	6,901,567	5,979,483
Financial institutions	380,829	526,687
Individuals	25,488,629	21,573,988
Small and medium enterprises	<u>2,302,416</u>	<u>1,764,502</u>
	<u>35,604,657</u>	<u>30,383,312</u>
Geographic region:		
UAE	34,053,254	28,708,626
Rest of the Middle East	921,067	1,268,312
Europe	297,382	388,346
Others	<u>332,954</u>	<u>18,028</u>
	<u>35,604,657</u>	<u>30,383,312</u>

18 IJARA FINANCING

This represents net investment in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The documentation includes a separate undertaking from the Bank to sell the leased assets to the lessee upon the maturity of the lease.

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
The aggregate future lease receivables are as follows:		
Due within one year	9,529,745	9,458,129
Due in the second to fifth year	21,465,987	19,300,619
Due after five years	<u>19,375,174</u>	<u>14,807,489</u>
Total ijara financing	50,370,906	43,566,237
Less: deferred income	(10,215,939)	<u>(8,840,944)</u>
Net present value of minimum lease payments receivable	40,154,967	34,725,293
Less: provision for impairment	<u>(1,351,313)</u>	<u>(1,243,250)</u>
	<u>38,803,654</u>	<u>33,482,043</u>

The above balance include advance under ijara amounting to AED 605,271 thousand (2013: nil) paid as part of acquisition of retail banking business (note 45).

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18 IJARA FINANCING continued

The movement in the provision for impairment during the year was as follows:

	2014			2013		
	<i>Individual impairment</i> <i>AED '000</i>	<i>Collective impairment</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>	<i>Individual impairment</i> <i>AED '000</i>	<i>Collective impairment</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
At 1 January	774,631	468,619	1,243,250	693,655	407,614	1,101,269
Charge for the year (note 11)	(83,007)	324,617	241,610	98,783	61,005	159,788
Written off during the year	(133,907)	-	(133,907)	(17,807)	-	(17,807)
Other movements	<u>360</u>	<u>-</u>	<u>360</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December	<u>558,077</u>	<u>793,236</u>	<u>1,351,313</u>	<u>774,631</u>	<u>468,619</u>	<u>1,243,250</u>

The distribution of the gross ijara financing by industry sector and geographic region was as follows:

	2014 <i>AED '000</i>	2013 <i>AED '000</i>
Industry sector:		
Government	36,274	38,705
Public sector	4,720,539	4,839,089
Corporates	18,585,937	15,591,560
Financial institutions	139,801	228,038
Individuals	16,225,785	13,589,343
Small and medium enterprises	323,650	359,306
Non-profit organisations	<u>122,981</u>	<u>79,252</u>
	<u>40,154,967</u>	<u>34,725,293</u>
Geographic region:		
UAE	38,659,120	33,848,070
Rest of the Middle East	939,979	518,922
Europe	1,254	-
Others	<u>554,614</u>	<u>358,301</u>
	<u>40,154,967</u>	<u>34,725,293</u>

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19 INVESTMENT IN ISLAMIC SUKUK MEASURED AT AMORTISED COST

	2014 AED '000	2013 AED '000
Sukuk	<u>5,421,527</u>	<u>4,762,100</u>

The movement in the provision for impairment during the year was as follows:

	2014 AED '000	2013 AED '000
At 1 January	81,308	81,308
Charge for the year (note 11)	<u>16,969</u>	-
At 31 December	<u>98,277</u>	<u>81,308</u>

The distribution of the gross investments by geographic region was as follows:

	2014 AED '000	2013 AED '000
UAE	3,725,228	3,596,132
Rest of the Middle East	1,065,093	997,856
Others	<u>729,483</u>	<u>249,420</u>
	<u>5,519,804</u>	<u>4,843,408</u>

20 INVESTMENTS MEASURED AT FAIR VALUE

	2014 AED '000	2013 AED '000
<i>Investments carried at fair value through profit or loss</i>		
Equities	-	29,975
Sukuk	<u>804,993</u>	<u>1,130,295</u>
	<u>804,993</u>	<u>1,160,270</u>
<i>Investments carried at fair value through other comprehensive income</i>		
Quoted investments		
Equities	<u>960</u>	<u>19,302</u>
Unquoted investments		
Funds	61,640	71,151
Private equities	<u>139,882</u>	<u>157,146</u>
	<u>201,522</u>	<u>228,297</u>
	<u>202,482</u>	<u>247,599</u>
	<u>1,007,475</u>	<u>1,407,869</u>

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20 INVESTMENTS MEASURED AT FAIR VALUE continued

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
The distribution of the gross investments by geographic region was as follows:		
UAE	527,333	834,214
Rest of the Middle East	167,245	217,460
Europe	77,533	185
Others	<u>235,364</u>	<u>356,010</u>
	<u>1,007,475</u>	<u>1,407,869</u>

21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
Cost of investment	931,759	851,401
Share of results	40,656	33,734
Dividend received	(15,994)	(9,651)
Foreign currency translation	<u>(149,026)</u>	<u>(126,078)</u>
	<u>807,395</u>	<u>749,406</u>

The movement in the provision for impairment during the year was as follows:

At 1 January	-	4,284
Reversal during the year (note 11)	<u>-</u>	<u>(4,284)</u>
At 31 December	<u><u>-</u></u>	<u><u>-</u></u>

Details of the Bank's investment in associates and joint ventures at 31 December is as follows:

	<i>Place of incorporation</i>	<i>Proportion of ownership interest</i>		<i>Principal activity</i>
		<i>2014</i> %	<i>2013</i> %	
<i>Associates</i>				
Abu Dhabi National Takaful PJSC	UAE	42	40	Islamic insurance
Bosna Bank International D.D	Bosnia	27	27	Islamic banking
<i>Joint ventures</i>				
Abu Dhabi Islamic Bank – Egypt (S.A.E.)	Egypt	49	49	Banking (under conversion to Islamic bank)
Saudi Finance Company CSJC (Formerly Saudi Installment House)*	Kingdom of Saudi Arabia	51	-	Islamic Retail Finance
Arab Link Money Transfer PSC **	UAE	51	-	Currency Exchange
Abu Dhabi Islamic Merchant Acquiring Company LLC***	UAE	51	-	Merchant acquiring

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21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES continued

Summarised financial information of investment in significant associates and joint venture are set out below:

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
<i>1 - Abu Dhabi National Takaful PJSC</i>		
<i>Share of associate's statement of financial position</i>		
Assets	266,960	228,970
Liabilities	<u>(179,840)</u>	<u>(153,519)</u>
Net assets	<u>87,120</u>	<u>75,451</u>
<i>Share of associate's revenue and profits:</i>		
Revenue for the year	<u>27,882</u>	<u>26,524</u>
Profit for the year	<u>11,452</u>	<u>13,957</u>
Dividends received during the year	<u>6,343</u>	<u>5,154</u>
<i>2 - Bosna Bank International D.D</i>		
<i>Share of associate's statement of financial position</i>		
Assets	350,061	344,309
Liabilities	<u>(294,586)</u>	<u>(304,827)</u>
Net assets	<u>55,475</u>	<u>39,482</u>
<i>Share of associate's revenue and profits:</i>		
Revenue for the year	<u>16,139</u>	<u>11,250</u>
Profit for the year	<u>2,086</u>	<u>2,539</u>
<i>3 - Abu Dhabi Islamic Bank – Egypt (S.A.E.)</i>		
<i>Share of joint venture's statement of financial position</i>		
Assets	4,584,564	4,018,145
Liabilities	<u>(4,396,800)</u>	<u>(3,920,532)</u>
Net assets	<u>187,764</u>	<u>97,613</u>
<i>Share of joint venture's revenue and profits:</i>		
Revenue for the year	<u>110,455</u>	<u>114,421</u>

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21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES continued

As of 31 December 2014, the Bank's share of the contingent liabilities and commitments of associates and joint ventures amounted to AED 258,550 thousand (2013: AED 247,609 thousand). The equity instruments of Abu Dhabi National Takaful PJSC are quoted in Abu Dhabi Securities Exchange, UAE and the quoted value of the Banks' share of investment at 31 December 2014 amounted to AED 262,458 thousand (2013: AED 227,988 thousand) and its carrying value as of 31 December 2014 amounted to AED 160,689 thousand (2013: AED 142,442 thousand).

The distribution of the gross investment in associates and joint ventures by geographic region was as follows:

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
UAE	163,223	142,442
Rest of the Middle East	58,022	-
Europe	54,322	59,603
Others	<u>531,828</u>	<u>547,361</u>
	<u>807,395</u>	<u>749,406</u>

* Effective 1 January 2014, the Group has entered into joint venture agreement to manage Saudi Finance Company (SFC), previously SFC was controlled by the Group.

** Effective 17 February 2014, the Group has acquired Arab Link Money Transfer PSC, a private joint stock company incorporated in United Arab Emirates ("the Company") as a joint venture for a consideration of AED 10.2 million.

*** During October 2014, the Group has entered into joint venture agreement with 51% stake in Abu Dhabi Islamic Merchant Acquiring Company LLC, a limited liability company incorporated in UAE. The consideration paid by the Group is AED 153 thousand.

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22 INVESTMENT PROPERTIES

The movement in investment properties balance during the year was as follows:

	<i>Land</i> <i>AED '000</i>	<i>Other</i> <i>properties</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
2014			
Cost:			
Balance at 1 January	30,131	303,600	333,731
Additions	-	21,792	21,792
Transfers from other assets	-	10,822	10,822
Disposals	<u>-</u>	<u>(898)</u>	<u>(898)</u>
Gross balance at 31 December	30,131	335,316	365,447
Less: provision for impairment	<u>(13,872)</u>	<u>(11,475)</u>	<u>(25,347)</u>
Net balance at 31 December	<u>16,259</u>	<u>323,841</u>	<u>340,100</u>
Accumulated depreciation:			
Balance at 1 January	-	28,340	28,340
Charge for the year	-	12,529	12,529
Relating to disposals	<u>-</u>	<u>(87)</u>	<u>(87)</u>
Balance at 31 December	<u>-</u>	<u>40,782</u>	<u>40,782</u>
Net book value at 31 December	<u>16,259</u>	<u>283,059</u>	<u>299,318</u>
2013			
Cost:			
Balance at 1 January	30,131	308,864	338,995
Disposals	<u>-</u>	<u>(5,264)</u>	<u>(5,264)</u>
Gross balance at 31 December	30,131	303,600	333,731
Less: provision for impairment	<u>(13,707)</u>	<u>(10,404)</u>	<u>(24,111)</u>
Net balance at 31 December	<u>16,424</u>	<u>293,196</u>	<u>309,620</u>
Accumulated depreciation:			
Balance at 1 January	-	16,638	16,638
Charge for the year	-	11,895	11,895
Relating to disposals	<u>-</u>	<u>(193)</u>	<u>(193)</u>
Balance at 31 December	<u>-</u>	<u>28,340</u>	<u>28,340</u>
Net book value at 31 December	<u>16,424</u>	<u>264,856</u>	<u>281,280</u>

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 11,347 thousand (2013: AED 15,959 thousand).

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22 INVESTMENT PROPERTIES continued

The fair values of investment properties at 31 December 2014 amounted to AED 446,210 thousand (2013: AED 378,450 thousand) are as per valuation conducted by professional valuers employed by a subsidiary of the Bank. The professional valuer is a member of various professional valuers' associations, and has appropriate qualifications and experience in the valuation of properties in the UAE. The fair value of the properties has been determined either based on transactions observable in the market or valuation models.

The valuation methodologies considered by external valuers include:

- a) Comparison method: This method derives the value by analyzing recent sales transactions of similar properties in a similar location.
- b) Investment method: This method derives the value by converting the future cash flow to a single current capital value.

The movement in provision for impairment during the year was as follows:

	<i>Land</i> <i>AED '000</i>	<i>Other</i> <i>properties</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
At 1 January 2013	5,542	10,641	16,183
Charge for the year (note 11)	8,165	-	8,165
Relating to disposals	<u>-</u>	<u>(237)</u>	<u>(237)</u>
At 1 January 2014	13,707	10,404	24,111
Charge for the year (note 11)	<u>165</u>	<u>1,071</u>	<u>1,236</u>
At 31 December 2014	<u>13,872</u>	<u>11,475</u>	<u>25,347</u>

The distribution of investment properties by geographic region was as follows:

	<i>Land</i> <i>AED '000</i>	<i>Other</i> <i>properties</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
2014:			
UAE	21,917	294,534	316,451
Middle East	<u>8,214</u>	<u>-</u>	<u>8,214</u>
	<u>30,131</u>	<u>294,534</u>	<u>324,665</u>
2013:			
UAE	21,917	275,260	297,177
Middle East	<u>8,214</u>	<u>-</u>	<u>8,214</u>
	<u>30,131</u>	<u>275,260</u>	<u>305,391</u>

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23 DEVELOPMENT PROPERTIES

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
Development properties	<u>837,381</u>	<u>837,381</u>

Development properties include land with a carrying value of AED 800,000 thousand (2013: AED 800,000 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

24 OTHER ASSETS

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
Advances against purchase of properties	1,286,956	1,266,602
Acceptances	874,806	1,067,512
Assets acquired in satisfaction of claims	207,025	106,392
Trade receivables	285,905	195,978
Prepaid expenses	544,750	392,208
Accrued profit	75,602	71,086
Advance to contractors	1,416	1,495
Advance for investments	183,625	183,625
Others	<u>238,363</u>	<u>125,219</u>
	3,698,448	3,410,117
Less: provision for impairment	<u>(297,960)</u>	<u>(339,575)</u>
	<u>3,400,488</u>	<u>3,070,542</u>

The movement in the provision for impairment during the year was as follows:

	<i>Advances against purchase of properties AED '000</i>	<i>Assets acquired against satisfaction of claims AED '000</i>	<i>Trade receivables AED '000</i>	<i>Others AED '000</i>	<i>Total AED '000</i>
At 1 January 2013	353,268	-	29,826	23,883	406,977
Charge for the year (note 11)	170,528	-	-	-	170,528
Written off during the year	<u>(237,930)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(237,930)</u>
At 1 January 2014	285,866	-	29,826	23,883	339,575
Charge for the year (note 11)	73,637	6,712	-	-	80,349
Written off during the year	<u>(103,088)</u>	<u>-</u>	<u>(18,876)</u>	<u>-</u>	<u>(121,964)</u>
At 31 December 2014	<u>256,415</u>	<u>6,712</u>	<u>10,950</u>	<u>23,883</u>	<u>297,960</u>

Assets acquired in exchange for claims in order to achieve an orderly realization are recorded as "Assets acquired in satisfaction of claims". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the claim (net of provision for impairment) at the date of exchange.

Abu Dhabi Islamic Bank PJSC

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25 PROPERTY AND EQUIPMENT

	<i>Land</i> <i>AED '000</i>	<i>Buildings</i> <i>AED '000</i>	<i>Furniture and fixtures</i> <i>AED '000</i>	<i>Computer and office equipment</i> <i>AED '000</i>	<i>Motor vehicles</i> <i>AED '000</i>	<i>Capital work-in- progress</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
2014							
Cost or revaluation:							
At 1 January	241,478	214,981	314,961	527,280	14,347	674,087	1,987,134
Additions	-	1,699	8,511	26,247	1,650	236,603	274,710
Acquisition of business (note 45)			1,974	-	-	-	1,974
Disposal of a subsidiary	-	-	(4,306)	(3,172)	(49)	(2,490)	(10,017)
Transfers from capital work-in-progress	-	10,003	17,762	98,239	-	(126,004)	-
Disposals	-	-	(242)	(696)	(1,178)	-	(2,116)
At 31 December	<u>241,478</u>	<u>226,683</u>	<u>338,660</u>	<u>647,898</u>	<u>14,770</u>	<u>782,196</u>	<u>2,251,685</u>
Depreciation:							
At 1 January	-	18,538	172,162	366,977	8,899	-	566,576
Charge for the year	-	7,495	38,204	72,909	2,156	-	120,764
Disposal of a subsidiary	-	-	(146)	(292)	(15)	-	(453)
Relating to disposals	-	-	(87)	(469)	(1,178)	-	(1,734)
At 31 December	<u>-</u>	<u>26,033</u>	<u>210,133</u>	<u>439,125</u>	<u>9,862</u>	<u>-</u>	<u>685,153</u>
Net book value:							
At 31 December	<u>241,478</u>	<u>200,650</u>	<u>128,527</u>	<u>208,773</u>	<u>4,908</u>	<u>782,196</u>	<u>1,566,532</u>
2013							
Cost or revaluation:							
At 1 January	241,478	214,981	284,033	457,688	13,850	469,346	1,681,376
Additions	-	-	29,796	31,482	4,077	261,078	326,433
Transfers from capital work-in-progress	-	-	13,999	42,338	-	(56,337)	-
Disposals	-	-	(12,867)	(4,228)	(3,580)	-	(20,675)
At 31 December	<u>241,478</u>	<u>214,981</u>	<u>314,961</u>	<u>527,280</u>	<u>14,347</u>	<u>674,087</u>	<u>1,987,134</u>
Depreciation:							
At 1 January	-	12,077	143,987	294,200	9,263	-	459,527
Charge for the year	-	6,461	36,633	76,452	2,330	-	121,876
Relating to disposals	-	-	(8,458)	(3,675)	(2,694)	-	(14,827)
At 31 December	<u>-</u>	<u>18,538</u>	<u>172,162</u>	<u>366,977</u>	<u>8,899</u>	<u>-</u>	<u>566,576</u>
Net book value:							
At 31 December	<u>241,478</u>	<u>196,443</u>	<u>142,799</u>	<u>160,303</u>	<u>5,448</u>	<u>674,087</u>	<u>1,420,558</u>

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26 GOODWILL AND INTANGIBLES

	<i>Other intangible assets</i>			<i>Total</i> <i>AED '000</i>
	<i>Goodwill</i> <i>AED '000</i>	<i>Customer relationship</i> <i>AED '000</i>	<i>Core deposit</i> <i>AED '000</i>	
Amounts recognized on acquisition of business (note 45)	109,888	364,797	73,215	547,900
Amortisation during the period	<u>-</u>	<u>(15,200)</u>	<u>(3,052)</u>	<u>(18,252)</u>
At 31 December 2014	<u>109,888</u>	<u>349,597</u>	<u>70,163</u>	<u>529,648</u>

On 6 April 2014, the Bank acquired retail banking business of Barclays Bank in the U.A.E. The customers of the business shall be transferred to the Bank in a Shari'a compliant manner. During the second quarter 2014, the acquisition was approved by the Central Bank of the UAE. Based on the provisional purchase price allocation, the Bank has recognized AED 438,012 thousand as intangible asset and AED 109,888 as goodwill (note 45).

Goodwill

For the purpose of impairment testing, goodwill is allocated to the Bank's operating divisions which represent the lowest level within the Bank at which the goodwill is monitored for internal management purposes.

Other intangible assets

Customer relationships	Customer relationship intangible asset represents the value attributable to the business expected to be generated from customers that existed at the acquisition date. In determining the fair value of customer relationships, covered cards customers were considered separately, given their differing risk profiles, relationships and loyalty. The relationships are expected to generate material recurring income in the form of customer revenues, fees and commissions.
Core deposit	The value of core deposit intangible asset arises from the fact that the expected profit distribution on these deposits, governed by their contractual terms, are expected to be lower than other wholesale or treasury sukuk instruments' expected profit distributions. The spread between the expected profit distributions on these deposits and sukuk instruments represents the value of the core deposit intangible.

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27 DUE TO FINANCIAL INSTITUTIONS

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
Current accounts	868,611	518,313
Investment deposits	4,607,123	5,633,719
Murabaha payable	<u>-</u>	<u>74,832</u>
	<u>5,475,734</u>	<u>6,226,864</u>

The distribution of due to financial institutions by geographic region was as follows:

UAE	2,151,467	3,578,061
Rest of the Middle East	2,150,545	2,251,246
Europe	366,343	88,725
Others	<u>807,379</u>	<u>308,832</u>
	<u>5,475,734</u>	<u>6,226,864</u>

28 DEPOSITORS' ACCOUNTS

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
Current accounts	25,595,658	20,920,478
Investment accounts	58,840,591	54,327,154
Profit equalisation reserve	<u>340,159</u>	<u>276,073</u>
	<u>84,776,408</u>	<u>75,523,705</u>

The movement in the profit equalisation reserve during the year was as follows:

At 1 January	276,073	223,594
Share of profit for the year	<u>64,086</u>	<u>52,479</u>
At 31 December	<u>340,159</u>	<u>276,073</u>

The distribution of the gross depositors' accounts by industry sector, geographic region and currency was as follows:

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
<i>Industry sector:</i>		
Government	3,555,308	9,900,900
Public sector	16,570,108	12,649,380
Corporates	11,017,798	5,380,645
Financial institutions	923,693	2,761,380
Individuals	42,778,421	36,317,865
Small and medium enterprises	7,006,797	5,623,091
Non-profit organisations	<u>2,924,283</u>	<u>2,890,444</u>
	<u>84,776,408</u>	<u>75,523,705</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28 DEPOSITORS' ACCOUNTS continued

	<i>2014</i>	<i>2013</i>
	<i>AED '000</i>	<i>AED '000</i>
Geographic region:		
UAE	80,786,044	72,590,027
Rest of the Middle East	3,277,313	2,662,036
Europe	151,261	127,385
Others	<u>561,790</u>	<u>144,257</u>
	<u>84,776,408</u>	<u>75,523,705</u>
Currencies:		
UAE Dirham	72,328,178	64,878,928
US Dollar	9,548,418	9,700,523
Euro	1,706,248	434,385
Sterling Pound	307,676	191,485
Others	<u>885,888</u>	<u>318,384</u>
	<u>84,776,408</u>	<u>75,523,705</u>

The Bank invests all of its investment accounts including saving accounts, adjusted for UAE, Iraq and Sudan Central Bank reserve requirements and the Group's liquidity requirements.

With respect to investment deposits, the Bank is liable only in case of misconduct, negligence or breach of contract otherwise it is on the account of the fund's provider (Rab Al Mal) or the principal (the Muwakkil).

29 OTHER LIABILITIES

	<i>2014</i>	<i>2013</i>
	<i>AED '000</i>	<i>AED '000</i>
Accounts payable	435,958	644,458
Acceptances	874,806	1,067,512
Payable for purchase of properties	22,160	22,160
Accrued profit for distribution to depositors and sukuk holders	224,881	178,804
Bankers' cheques	360,568	470,479
Provision for staff benefits and other expenses	375,682	284,184
Retentions payable	39,704	83,160
Advances from customers	156,300	107,974
Accrued expenses	160,797	163,800
Unclaimed dividends	144,740	128,350
Deferred income	211,254	160,114
Charity account	9,274	8,435
Donation account	11,440	73
Negative fair value on Shari'a compliant alternatives of derivative financial instruments (note 38)	17,968	19,676
Others	<u>328,837</u>	<u>406,221</u>
	<u>3,374,369</u>	<u>3,745,400</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30 SUKUK FINANCING INSTRUMENTS

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
Second issue	2,754,375	2,754,375
Third issue	<u>1,836,250</u>	<u>1,836,250</u>
	<u>4,590,625</u>	<u>4,590,625</u>

Second issue - USD 750 million

In November 2010, the Bank through a Shari'a compliant sukuk arrangement, raised medium term sukuk amounting to AED 2,754,375 thousand (USD 750 million) as the second issue under a USD 5 billion programme. The sukuk are listed on the London Stock Exchange. The sukuk will mature in November 2015. The sukuk deserved profit is distributed in accordance with fixed profit rate.

Third issue - USD 500 million

In November 2011, the Bank through a Shari'a compliant sukuk arrangement, raised medium term sukuk amounting to AED 1,836,250 thousand (USD 500 million) as the third issue under a USD 5 billion programme. The sukuk are listed on the London Stock Exchange. The sukuk will mature in November 2016. The sukuk deserved profit is distributed in accordance with fixed profit rate.

Terms of arrangement

The terms of the arrangement include transfer of the ownership of certain assets ("the Co-Owned Assets"), including original ijara assets of the Bank, to a sukuk company, ADIB Sukuk Company Ltd - the Issuer, a subsidiary of the Bank, specially formed for the sukuk transaction. The assets are owned by the investors, however the assets are controlled by the Bank and shall continue to be serviced by the Bank as the managing agent.

The issuer will pay the quarterly distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to the sukuk holders on the quarterly distribution dates. Upon maturity of the sukuk, the Bank has undertaken to repurchase the assets at an exercise price which equals the value of the Issuer's co-ownership interest in the unpaid rental installments due and payable in respect of the Co-Owned Assets, which may equal the amount of AED 4,590,625 thousand (USD 1,250 million) (31 December 2013: AED 4,590,625 thousand (USD 1,250 million)).

31 SHARE CAPITAL

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
Authorised share capital:		
3,000,000 thousand (2013: 3,000,000 thousand)		
ordinary shares of AED 1 each (2013: AED 1 each)	<u>3,000,000</u>	<u>3,000,000</u>
Issued and fully paid share capital:		
At 1 January		
2,364,706 thousand (2013: 2,364,706 thousand)		
ordinary shares of AED 1 each (2013: AED 1 each)	2,364,706	2,364,706
Bonus shares issued (note 33)	<u>635,294</u>	-
At 31 December		
3,000,000 thousand (2013: 2,364,706 thousand)		
ordinary shares of AED 1 each (2013: AED 1 each)	<u>3,000,000</u>	<u>2,364,706</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32 RESERVES

32.1 Legal reserve

As required by the UAE Federal Commercial Companies Law No. 8 of 1984 (as amended) and the Articles of Association of the Bank and its subsidiaries, 10% of the profit for the year is transferred to the legal reserve. The Bank shall resolve to discontinue such annual transfers as the reserve equals to or more than 50% of the paid up share capital of the Bank. The legal reserve is not available for distribution to the shareholders.

As per Article 203 of UAE Federal Commercial Companies Law No. 8 of 1984 (as amended), the Bank has transferred the share premium amounting to AED 1,529,412 thousand to the legal reserve. As the balance of the reserve exceeds 50% of the total paid up share capital, no transfer to the legal reserve has been made from the profit during the year for the Bank.

32.2 General reserve

Under Article 57(2) of the Bank's Articles of Association, the Annual General Assembly of the Bank, upon recommendation of the Board of Directors, have resolved to transfer 10% of the profit for the year to the general reserve. This reserve shall be used in the future for purposes determined by the shareholders' General Assembly upon the recommendation of the Board of Directors.

32.3 Credit risk reserve

Upon the recommendation of the Board of Directors, the Bank has established a special reserve for credit risk which is subject to the approval by the shareholders in the Annual General Assembly. Contributions to the reserve are voluntary.

33 PROPOSED DIVIDENDS

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
Cash dividend: AED 0.2334 per share of AED 1 each (2013: AED 0.3066 per share of AED 1 each)	700,200	725,123
Bonus share dividend: Nil (2013: AED 0.2687 per share of AED 1 each)	<u> -</u>	<u>635,294</u>
	<u>700,200</u>	<u>1,360,417</u>

Cash dividend of 23.34% (2013: 30.66%) of the paid up capital relating to year ended 31 December 2014 amounting to AED 700,200 thousand (2013: AED 725,123 thousand) and bonus share dividend of Nil (2013: 26.87% of the paid up capital and amounting to AED 635,294 thousand) shall be paid after the approval by the shareholders in the Annual General Assembly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34 OTHER RESERVES

	<i>Cumulative changes in fair values AED '000</i>	<i>Land revaluation reserve AED '000</i>	<i>Foreign currency translation reserve AED '000</i>	<i>Hedging reserve AED '000</i>	<i>Total AED '000</i>
At 1 January 2013	(128,179)	143,000	(73,350)	(27,521)	(86,050)
Net loss on valuation of investments carried at FVTOCI	(29,881)	-	-	-	(29,881)
Exchange differences arising on translation of foreign operations	-	-	(51,256)	-	(51,256)
Loss on hedge of foreign operations	-	-	(8,276)	-	(8,276)
Fair value gain on cash flow hedges	-	-	-	<u>6,795</u>	<u>6,795</u>
At 1 January 2014	(158,060)	143,000	(132,882)	(20,726)	(168,668)
Net loss on valuation of investments carried at FVTOCI	(14,348)	-	-	-	(14,348)
Loss on disposal of investment carried at FVTOCI	368	-	-	-	368
Exchange differences arising on translation of foreign operations	-	-	(36,887)	-	(36,887)
Gain on hedge of foreign operations	-	-	18,729	-	18,729
Fair value gain on cash flow hedges	-	-	-	<u>6,162</u>	<u>6,162</u>
At 31 December 2014	<u>(172,040)</u>	<u>143,000</u>	<u>(151,040)</u>	<u>(14,564)</u>	<u>(194,644)</u>

35 TIER 1 SUKUK

	<i>2014 AED '000</i>	<i>2013 AED '000</i>
Tier 1 sukuk	3,643,109	3,625,492
Tier 1 sukuk – Government of Abu Dhabi	<u>2,000,000</u>	<u>2,000,000</u>
	<u>5,643,109</u>	<u>5,625,492</u>

Tier 1 sukuk

On 19 November 2012, the Bank through a Shari'a compliant sukuk arrangement has issued Tier 1 sukuk (the "Sukuk") amounting to AED 3,672,500 thousand (USD 1 billion). This Sukuk was issued under the authorities approved by the shareholders of the Bank in the Extraordinary General Meeting held on 21 October 2012. As of 31 December 2014, sukuk with a face value of AED 29,391 thousand (USD 8.0 million) were repurchased by the Bank (31 December 2013: AED 47,008 thousand (USD 12.8 million). Issuance costs amounting to AED 37,281 thousand were incurred.

This Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitute direct, unsecured, subordinated obligations of the Bank subject to the terms and conditions of the Mudaraba. The Sukuk is callable by the Bank after period ending on 16 October 2018 (the "First Call Date") or any profit payment date thereafter subject to certain conditions. The Sukuk bear an expected Mudaraba profit rate of 6.375% payable during the initial period of six years semi-annually in arrears. After the initial period, and for every 6th year thereafter, resets to a new expected Mudaraba profit rate based on the then 6 year LIBOR rate plus an expected margin of 5.393%. Profit distributions will be reported in the consolidated statement of changes in equity.

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35 TIER 1 SUKUK continued

Tier 1 sukuk continued

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of two consecutive expected mudaraba profit distribution.

Tier 1 sukuk – Government of Abu Dhabi

On 16 April 2009, under the Government of Abu Dhabi Bank capitalisation programme, the Bank has issued Tier 1 sukuk (the "Sukuk-Gov") to the Department of Finance of the Government of Abu Dhabi, with a principal amount of AED 2,000,000 thousand. Issuance of this Sukuk-Gov was approved by the shareholders of the Bank in the Extraordinary General Meeting held on 22 March 2009.

This Sukuk-Gov is a perpetual security in respect of which there is no fixed redemption date and constitute direct, unsecured, subordinated obligations of the Bank subject to the terms and conditions of the Mudaraba. The Sukuk-Gov is callable by the Bank subject to certain conditions. The Sukuk-Gov bear an expected mudaraba profit rate of 6% payable during the initial period of five years semi-annually in arrears and, after the initial period, bear an expected variable mudaraba profit rate payable of 6 months EIBOR plus an expected margin of 2.3%. Profit distributions will be reported in the consolidated statement of changes in equity.

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of two consecutive expected mudaraba profit distribution.

36 NON-CONTROLLING INTEREST

Non-controlling interest represents the minority shareholder's proportionate share in the aggregate value of the net assets of subsidiaries.

37 CONTINGENT LIABILITIES AND COMMITMENTS

Credit related commitments include commitments to extend Islamic credit facilities, standby letters of credit, guarantees, which are designed to meet the requirements of the Bank's customers.

Commitments to extend Islamic credit facilities represent contractual commitments under Islamic financing contracts. Commitments generally have fixed expiration dates, or other termination clauses and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

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37 CONTINGENT LIABILITIES AND COMMITMENTS continued

Standby letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of contracts.

The Bank has the following credit related contingencies, commitments and other capital commitments:

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
<i>Contingent liabilities</i>		
Letters of credit	2,918,790	2,467,324
Letters of guarantee	<u>9,972,187</u>	<u>9,190,144</u>
	<u>12,890,977</u>	<u>11,657,468</u>
<i>Commitments</i>		
Undrawn facilities commitments	357,229	226,210
Future capital expenditure	74,358	103,006
Investment and development properties	<u>151,199</u>	<u>625,333</u>
	<u>582,786</u>	<u>954,549</u>
	<u>13,473,763</u>	<u>12,612,017</u>

38 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS

Shari'a compliant alternatives of swaps are based on a unilateral Wa'ad (promise) structure between two parties to buy a specific Shari'a compliant commodity at an agreed price on an agreed date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. For Shari'a compliant alternatives of swap, counter parties enter into two separate and independent Murabaha transactions, the results of which are exchanged between them in a manner that enables one of them to receive the equivalent of the fixed reference rate and the other counterparty to receive the equivalent of the reference floating rate, where the profit payments are based on a notional value in a single currency.

The table below shows the fair values of Shari'a compliant alternatives of derivative financial instruments, together with the notional amounts analysed by term of maturity. The notional amount is based on the amount of the underlying transaction, reference rate or index and is the basis upon which changes in the value of transactions are measured. The notional amounts indicate the volume of transactions outstanding at the reporting date and are neither indicative of the market risk nor credit risk.

	<i>Negative fair value AED '000</i>	<i>Notional amount AED '000</i>	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>
<i>31 December 2014: Notional amount by term to maturity</i>						
Shari'a compliant alternatives of swap (note 29)	<u>17,968</u>	<u>3,595,168</u>	<u>206,732</u>	<u>243,362</u>	<u>2,352,030</u>	<u>793,044</u>
<i>31 December 2013: Notional amount by term to maturity</i>						
Shari'a compliant alternatives of swap (note 29)	<u>19,676</u>	<u>941,287</u>	<u>117,520</u>	<u>377,320</u>	<u>446,447</u>	<u>-</u>

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39 ZAKAT

As the Bank is not required to pay Zakat by laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, accordingly the responsibility of paying Zakat is that of the shareholders. Based on the management valuation of the Bank's net assets, which are subject to Zakat, the share value, for Zakat purposes based on Gregorian year, was estimated at AED 158,999 thousand (2013: AED 156,132 thousand) and accordingly, Zakat is estimated at AED 0.05300 (2013: AED 0.06603) per outstanding share.

However, in few jurisdictions, Zakat of the Bank's branches and subsidiaries is mandatory by law and it is to be paid to a respective governmental entity responsible for Zakat. Therefore, the Bank has acted according to the law and paid the Zakat to these entities on behalf of the Shareholders and deducted the amount paid from the above total Zakat amount and accordingly adjusted the Zakat amount per each outstanding share.

40 CASH AND CASH EQUIVALENTS

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
Cash and balances with central banks, short term	10,400,266	9,481,488
Balances and wakala deposits with Islamic banks and other financial institutions, short term	2,694,913	2,630,478
Murabaha and mudaraba with financial institutions, short term	1,766,399	3,425,567
Due to financial institutions, short term	<u>(5,071,305)</u>	<u>(6,070,437)</u>
	<u>9,790,273</u>	<u>9,467,096</u>

The following significant non-cash transactions have been excluded from the consolidated statement of cash flows:

Transfer from other assets to investment properties (note 22)	<u>10,822</u>	<u>-</u>
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41 RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank enters into transactions with related parties, comprising associates, directors, major shareholders, key management and their related concerns. The Bank obtains collateral, including charges over real estate properties and securities, the extent of which is dependent on the Bank's assessment of the credit risk of the related party. All financial assets are performing and free of any provision for impairment.

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.

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41 RELATED PARTY TRANSACTIONS continued

Profit rates earned on balances and wakala deposits with banks and financial institutions and customer financing extended to related parties during the year has ranged from 0% to 9% (2013: 0% to 9% per annum).

Profit rates paid on due to financial institution and customers' deposits placed by related parties during the year have ranged from 0% to 2.3% per annum (2013: 0% to 2.3% per annum).

Fees and commissions earned on transactions with related parties during the year was 1.5% per annum (2013: 1.5% per annum).

During the year, significant transactions with related parties included in the consolidated income statement were as follows:

	<i>Major shareholder AED '000</i>	<i>Directors AED '000</i>	<i>Associates AED '000</i>	<i>Others AED '000</i>	<i>Total AED '000</i>
31 December 2014					
Income from murabaha, mudaraba and wakala with financial institutions	<u>-</u>	<u>-</u>	<u>1,647</u>	<u>-</u>	<u>1,647</u>
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	<u>72,055</u>	<u>1,492</u>	<u>26</u>	<u>122,848</u>	<u>196,421</u>
Investment income	<u>782</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>782</u>
Fees and commission income, net	<u>281</u>	<u>27</u>	<u>691</u>	<u>5,563</u>	<u>6,562</u>
Operating expenses	<u>-</u>	<u>432</u>	<u>-</u>	<u>-</u>	<u>432</u>
Distribution to depositors and sukuk holders	<u>-</u>	<u>38</u>	<u>255</u>	<u>196</u>	<u>489</u>
31 December 2013					
Income from murabaha, mudaraba and wakala with financial institutions	<u>-</u>	<u>-</u>	<u>871</u>	<u>-</u>	<u>871</u>
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	<u>72,035</u>	<u>1,171</u>	<u>-</u>	<u>129,789</u>	<u>202,995</u>
Investment income	<u>8,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,000</u>
Fees and commission income, net	<u>281</u>	<u>-</u>	<u>-</u>	<u>1,334</u>	<u>1,615</u>
Operating expenses	<u>-</u>	<u>459</u>	<u>-</u>	<u>-</u>	<u>459</u>
Distribution to depositors and sukuk holders	<u>71</u>	<u>34</u>	<u>244</u>	<u>196</u>	<u>545</u>

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41 RELATED PARTY TRANSACTIONS continued

The related party balances included in the consolidated statement of financial position were as follows:

	<i>Major shareholder AED '000</i>	<i>Directors AED '000</i>	<i>Associates AED '000</i>	<i>Others AED '000</i>	<i>Total AED '000</i>
31 December 2014					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	1,580,965	-	1,580,965
Murabaha and Mudaraba with financial institutions	-	-	78,398	-	78,398
Murabaha, mudaraba, ijara and other Islamic financing	2,523,480	29,072	20,027	3,376,992	5,949,571
Other assets	-	-	11,413	183,625	195,038
	<u>2,523,480</u>	<u>29,072</u>	<u>1,690,803</u>	<u>3,560,617</u>	<u>7,803,972</u>
Due to financial institutions	-	-	14,861	-	14,861
Depositors' accounts	30	18,260	78,478	244,595	341,363
Other liabilities	-	-	25	261	286
	<u>30</u>	<u>18,260</u>	<u>93,364</u>	<u>244,856</u>	<u>356,510</u>
Undrawn facilities commitments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
31 December 2013					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	1,276,073	-	1,276,073
Murabaha, mudaraba, ijara and other Islamic financing	2,452,108	32,554	-	3,230,363	5,715,025
Other assets	-	-	-	183,625	183,625
	<u>2,452,108</u>	<u>32,554</u>	<u>1,276,073</u>	<u>3,413,988</u>	<u>7,174,723</u>
Due to financial institutions	-	-	41,332	-	41,332
Depositors' accounts	168	12,524	41,279	68,852	122,823
Other liabilities	-	174	336	163	673
	<u>168</u>	<u>12,698</u>	<u>82,947</u>	<u>69,015</u>	<u>164,828</u>
Undrawn facilities commitments	<u>-</u>	<u>-</u>	<u>-</u>	<u>83</u>	<u>83</u>

The Bank and its major shareholder jointly own a controlling stake in Abu Dhabi Islamic Bank – Egypt (S.A.E.) ("ADIB-Egypt") and have a formal joint control arrangement for their investment in ADIB-Egypt (note 21).

Compensation of key management personnel

The compensation of key management personnel during the year was as follows:

	<i>2014 AED '000</i>	<i>2013 AED '000</i>
Salaries and other benefits	30,923	29,665
Employees' end of service benefits	<u>3,158</u>	<u>2,979</u>
	<u>34,081</u>	<u>32,644</u>

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31 December 2014

41 RELATED PARTY TRANSACTIONS continued

In accordance with the Ministry of Economy and Commerce interpretation of Article 118 of Federal Law No. 8 of 1984 (as amended), Directors' remuneration is recognised in the consolidated statement of comprehensive income.

Board of Directors remuneration for the year ended 31 December 2014 amounting to AED 4,900 thousand is subject to the approval of the shareholders at the forthcoming Annual General Assembly. During 2014, AED 4,900 thousand was paid to Board of Directors pertaining to the year ended 31 December 2013 after the approval by the shareholders in the Annual General Assembly held on 26 March 2014.

42 SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision makers of the Bank in order to allocate resources to the segment and to assess its performance. Information reported to the chief operating decision makers for the purpose of resource allocation and assessment of performance is based on following strategic business units offering products and services to the different markets.

Retail banking - Principally handling small and medium businesses and individual customers' deposits, providing consumer and commercial murabahat, Ijara, Islamic covered card and funds transfer facilities and trade finance facilities.

Wholesale banking – Principally handling financing and other credit facilities and deposits and current accounts for corporate and institutional customers.

Private banking - Principally handling financing and other credit facilities, deposits and current accounts for high net worth individual customers.

Capital markets – Principally handling money market brokerage, trading and treasury services, as well as the management of the Bank's funding operations by use of investment deposits.

Real estate – Subsidiaries of the Bank handling the acquisition, selling, development and leasing including both land and buildings, management and resale of properties and all associated activities.

Other operations - Other operations comprises mainly of Head Office, foreign branches and subsidiaries other than above categories including unallocated costs.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

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42 SEGMENT INFORMATION continued

Business segments information for the year ended 31 December 2014 were as follows:

	<i>Retail banking AED '000</i>	<i>Wholesale banking AED '000</i>	<i>Private banking AED '000</i>	<i>Capital markets AED '000</i>	<i>Real estate AED '000</i>	<i>Other operations AED '000</i>	<i>Total AED '000</i>
Revenue and results							
Segment revenues, net	2,929,203	1,266,191	177,677	133,158	67,225	9,531	4,582,985
Operating expenses excluding provision for impairment, net	<u>(1,368,785)</u>	<u>(291,366)</u>	<u>(99,230)</u>	<u>(69,647)</u>	<u>(106,132)</u>	<u>(139,352)</u>	<u>(2,074,512)</u>
Operating profit (margin)	1,560,418	974,825	78,447	63,511	(38,907)	(129,821)	2,508,473
Provision for impairment, net	<u>(353,935)</u>	<u>(351,776)</u>	<u>42,778</u>	<u>-</u>	<u>(74,873)</u>	<u>(19,977)</u>	<u>(757,783)</u>
Profit (loss) for the year	<u>1,206,483</u>	<u>623,049</u>	<u>121,225</u>	<u>63,511</u>	<u>(113,780)</u>	<u>(149,798)</u>	<u>1,750,690</u>
Non-controlling interest	-	-	-	(3,815)	-	-	(3,815)
Profit (loss) for the year attributable to equity holders of the Bank	<u>1,206,483</u>	<u>623,049</u>	<u>121,225</u>	<u>59,696</u>	<u>(113,780)</u>	<u>(149,798)</u>	<u>1,746,875</u>
Assets							
Segmental assets	<u>40,818,218</u>	<u>30,651,912</u>	<u>5,537,088</u>	<u>28,474,494</u>	<u>2,658,595</u>	<u>3,763,506</u>	<u>111,903,803</u>
Liabilities							
Segmental liabilities	<u>45,339,932</u>	<u>28,026,788</u>	<u>2,720,868</u>	<u>16,246,976</u>	<u>372,570</u>	<u>5,510,002</u>	<u>98,217,136</u>

Business segments information for the year ended 31 December 2013 were as follows:

	<i>Retail banking AED '000</i>	<i>Wholesale banking AED '000</i>	<i>Private banking AED '000</i>	<i>Capital markets AED '000</i>	<i>Real estate AED '000</i>	<i>Other operations AED '000</i>	<i>Total AED '000</i>
Revenue and results							
Segment revenues, net	2,572,241	1,008,833	180,142	124,689	18,348	27,072	3,931,325
Operating expenses excluding provision for impairment, net	<u>(1,120,299)</u>	<u>(227,130)</u>	<u>(93,837)</u>	<u>(62,520)</u>	<u>(76,644)</u>	<u>(120,251)</u>	<u>(1,700,681)</u>
Operating profit (margin)	1,451,942	781,703	86,305	62,169	(58,296)	(93,179)	2,230,644
Provision for impairment, net	<u>(239,303)</u>	<u>(262,010)</u>	<u>(85,680)</u>	<u>4,284</u>	<u>(178,692)</u>	<u>(18,997)</u>	<u>(780,398)</u>
Profit (loss) for the year	<u>1,212,639</u>	<u>519,693</u>	<u>625</u>	<u>66,453</u>	<u>(236,988)</u>	<u>(112,176)</u>	<u>1,450,246</u>
Non-controlling interest	-	-	-	(1,485)	-	(932)	(2,417)
Profit (loss) for the year attributable to equity holders of the Bank	<u>1,212,639</u>	<u>519,693</u>	<u>625</u>	<u>64,968</u>	<u>(236,988)</u>	<u>(113,108)</u>	<u>1,447,829</u>
Assets							
Segmental assets	<u>32,660,961</u>	<u>27,287,240</u>	<u>5,115,204</u>	<u>32,441,996</u>	<u>2,662,202</u>	<u>2,992,883</u>	<u>103,160,486</u>
Liabilities							
Segmental liabilities	<u>38,066,130</u>	<u>22,354,716</u>	<u>2,440,477</u>	<u>22,164,705</u>	<u>306,129</u>	<u>4,754,437</u>	<u>90,086,594</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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42 SEGMENT INFORMATION continued

The following is the analysis of the total segment revenues of each segment between revenues from external parties and inter-segment:

	<i>Retail banking</i> AED '000	<i>Wholesale banking</i> AED '000	<i>Private banking</i> AED '000	<i>Capital markets</i> AED '000	<i>Real estate</i> AED '000	<i>Other operations</i> AED '000	<i>Total</i> AED '000
2014							
External revenues, net	2,785,525	1,323,994	237,623	207,621	67,225	(39,003)	4,582,985
Inter-segment revenues, net	<u>143,678</u>	<u>(57,803)</u>	<u>(59,946)</u>	<u>(74,463)</u>	-	48,534	-
Segment revenues, net	<u>2,929,203</u>	<u>1,266,191</u>	<u>177,677</u>	<u>133,158</u>	<u>67,225</u>	<u>9,531</u>	<u>4,582,985</u>
2013							
External revenues, net	2,476,195	1,146,236	248,578	59,521	18,348	(17,553)	3,931,325
Inter-segment revenues, net	<u>96,046</u>	<u>(137,403)</u>	<u>(68,436)</u>	<u>65,168</u>	-	44,625	-
Segment revenues, net	<u>2,572,241</u>	<u>1,008,833</u>	<u>180,142</u>	<u>124,689</u>	<u>18,348</u>	<u>27,072</u>	<u>3,931,325</u>

Geographical information

The Group operates in two principal geographic areas that are domestic and international. The United Arab Emirates is designated as domestic area which represents the operations of the Group that originates from the U.A.E. branches, associates and subsidiaries; and international area represents the operations of the Bank that originates from its branches in Iraq, Qatar and Sudan and through its subsidiaries and associates outside U.A.E. Given that, UAE contributes the majority of the revenues and the Group's total assets in UAE represent a significant portion of its total assets and liabilities, hence no further geographical analysis of segment revenues, expenses, operating profit (margin), assets and liabilities is presented.

43 RISK MANAGEMENT

43.1 Introduction

Risk is inherent in all of the Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls in accordance with regulatory and Board requirements. The Group is exposed principally to credit risk, liquidity risk, market risk and operational risk but other risks such as reputational risk, legal risk and the various risks defined by the Basel accord are also monitored and managed.

43.1.1 Risk management governance structure

The Board of Directors ("Board") continues to have overall responsibility for the establishment and oversight of the Bank's risk management framework, as well as for approving the Bank's overall risk appetite, and ensuring that business is conducted within this framework. The Board is the ultimate sanctioning authority. In early 2014, the Board refreshed the charters of the various Board committees.

Strategy Committee

The Strategy Committee is appointed by the Board. This committee is given the authority by the Board to guide the Group's Executive Management to develop the Group's strategic objectives and business strategy, conduct periodic review of the achievement of strategic objectives and business plans and direct corrective actions wherever required. In addition, this committee also acts as a conduit between the Board and senior management on business issues.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.1 Risk management governance structure continued

Risk and Investment Approval Committee

The Risk and Investment Approval Committee is appointed by the Board to consider and approve the Group's risk exposures, high value transactions and major items of capital expenditure. In addition, the Committee is also responsible for monitoring credit portfolio quality and provisions.

The Governance and Risk Policy Committee

The Governance and Risk Policy Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibilities in respect of the following for the Bank and all of its subsidiaries and material affiliates:

- Review the risk profile of the Group keeping in view the requirement pertaining to enterprise risk management and to make recommendations to calibrate the risk profile of the Group in line with the applicable regulatory requirements, rating considerations and business strategy;
- Assist the Board in overseeing the Group's response to the risks it faces through the approval of the Group's risk policies and standards; and
- Review and recommend the corporate governance framework and risk strategy to the Board in alignment with the business growth requirements of the Group.

Audit Committee

The Audit Committee is appointed by the Board to assist it in fulfilling its oversight responsibilities in respect of the following for the Bank and all its subsidiaries and material affiliates:

- To assist the Board in fulfilling its oversight responsibility relating to the integrity of the Group's consolidated financial statements and financial reporting process;
- To review the financial and internal control systems, quality assurance and risk management framework;
- To review the performance of the internal audit function;
- To review the internal controls over financial reporting and annual independent audit of the Group's consolidated financial statements;
- To recommend to the Board the engagement of the external auditors and evaluation of their qualifications, independence and performance;
- To ensure compliance by the Group with legal and regulatory requirements as pertaining to its business activities.

The duties and responsibilities of the committees are governed by formally approved charters.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.2 The Risk Management Group (“RMG”)

The Risk Management Group is an independent risk organization that works in close partnership with the business units to support their activities, whilst safeguarding the risk profile of the Bank. The RMG is led by the Group Chief Risk Officer (GCRO) and has six main responsibilities:

- Ensure adherence to risk policies and procedures across the Group
- Ensure compliance with risk related legal and regulatory guidelines in the UAE and in our overseas markets
- Maintain the primary relationship with local regulators with respect to risk related issues
- Approve commercial and consumer financing transactions with its delegated authorities
- Maintain prudent risk control systems and processes, and
- Ensure a robust credit process is maintained in support of all business lines

Reporting to the GCRO are senior, experienced risk specialists who manage specific areas of risk, including Wholesale Banking, Private Banking, Retail Banking, Operational Risk, Credit Control, Remedial Management, Portfolio Management, Regulation & Policy. RMG responsibilities extend across all the business units of the bank in all of the geographies in which the bank operates.

Credit Committee

All customer related business proposals are reviewed and approved by a credit committee with delegated authority approved by the Board. The credit committee consists of designated credit officers and senior credit officers appointed following a rigorous and extended process of qualification. These appointments are made by the Chief Executive Officer upon the recommendation of the GCRO. The credit approval process and the authorities vested with the committee members are laid out in the Bank’s Credit Policy & Procedures Manual. The manual is revised periodically.

43.1.3 Risk measurement and reporting systems

In order to effectively monitor and control risks, the RMG maintains a capability that allows it to:

- Prepare portfolio reports across a range of indicators such as portfolio concentrations by geography, industry type, product and risk rating, which are used to analyse and monitor overall portfolio quality;
- Monitor the integrity and consistency of data, including risk ratings, risk migrations, exposures and losses, including the maintenance of a central loss database for the monitoring and analysis of losses;
- Set parameters to be used for the calculation of expected loss and risk capital requirements;
- Consolidate portfolio management data and reports for use by Executive Management and the Board; and
- Establish and maintain a set of early warning indicators to identify emerging risk problems.

Detailed reporting of industry, customer and geographic risks acquired takes place frequently. These reports are examined and discussed closely in a series of quarterly portfolio reviews held with senior business and risk managers. Decisions on risk appetite, adjustments to financing criteria and other initiatives are taken as a result of these meetings. Risk reports are presented to the Chief Executive Officer, the Governance & Risk Policy Committee and the Board regularly. Senior management assesses the adequacy of the provision for credit losses on a monthly basis.

The Bank actively uses collateral to reduce its credit risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

43 RISK MANAGEMENT continued

43.1 Introduction continued

43.1.4 Risk concentration

The Bank seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers or in specific locations or businesses. It also obtains security when appropriate.

Details of the composition of the financing portfolio are provided in notes 17 and 18.

43.1.5 Group Internal Audit

Risk management processes throughout the Bank are reviewed periodically by the internal audit function that reviews both the adequacy of the procedures and the Bank's compliance with the procedures. Group Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee. The Head of Group Internal Audit has a direct reporting lines to the Audit Committee thus demonstrating his independence and objectivity in all audit engagements undertaken within the Bank.

43.1.6 Basel II / Internal Capital Adequacy Assessment Process ("ICAAP")

Since 2009, the UAE Central Bank, as part of the international Basel II regulatory regime, has required each UAE bank to submit a report on its internal capital adequacy assessment process – this is known as "ICAAP". The Bank has prepared and submitted its ICAAP report in each of the past four years. The process aligns the Bank's risk appetite with its risk capacity which, in turn, produces an enterprise-wide set of risk limits set within and relevant to the Bank's overall strategy.

43.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank controls credit risk by the use of a focused target market discipline which defines who the Bank is prepared to deal with from a risk profile perspective and the use of risk acceptance criteria, which define what type and volume of risk the Bank is prepared to undertake with each counterparty. These critical tools are used in conjunction with close monitoring of credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of all counter-parties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counter-parties to mitigate credit risk.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

All commercial credit risk exposures are risk rated using Moody's Risk Analyst risk rating system, recognized as an industry wide standard. This platform supports a number of different rating models for various businesses which are now well embedded. Facility Risk Ratings are also applied. Consumer exposures are rated using a pool concept as required by Basel II.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letters of guarantee. They expose the Bank to similar risks as financing and these are mitigated by the same control processes and policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.1 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 for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	<i>Notes</i>	<i>Gross maximum exposure 2014 AED '000</i>	<i>Gross maximum exposure 2013 AED '000</i>
Balances and wakala deposits with Islamic banks and other financial institutions	15	4,103,625	3,086,369
Murabaha and mudaraba with financial institutions	16	2,330,003	3,706,435
Murabaha and other Islamic financing	17	35,604,657	30,383,312
Ijara financing	18	40,154,967	34,725,293
Investment in Islamic sukuk measured at amortised cost	19	5,519,804	4,843,408
Investments measured at fair value	20	804,993	1,130,295
Other assets		<u>1,476,092</u>	<u>1,461,290</u>
		<u>89,994,141</u>	<u>79,336,402</u>
Contingent liabilities	37	12,890,977	11,657,468
Commitments		<u>357,229</u>	<u>226,210</u>
Total		<u>13,248,206</u>	<u>11,883,678</u>
Total credit risk exposure		<u>103,242,347</u>	<u>91,220,080</u>

43.2.2 Credit risk concentration

Concentration of risk is managed by customer/counterparty, by geographical region and by industry sector. The credit exposure to the top 5 customers as of 31 December 2014 was AED 7,324,399 thousand (2013: AED 6,221,303 thousand) before taking account of collateral or other credit enhancements.

The concentration of the Group's assets and liabilities by geographical segment is based primarily upon the location of the counter party.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.2 Credit risk concentration continued

The distribution of the Group's financial assets which are subject to credit risk by geographic region is as follows:

	<i>Balances and wakala deposits with Islamic banks and other financial institutions</i> AED '000	<i>Murabaha and mudaraba with financial institutions</i> AED '000	<i>Murabaha and other Islamic financing</i> AED '000	<i>Ijara financing</i> AED '000	<i>Investment in Islamic sukuk measured at amortised cost</i> AED '000	<i>Investment measured at fair value</i> AED '000	<i>Other assets</i> AED '000	<i>Total</i> AED '000
31 December 2014								
UAE	1,058,617	1,921,425	34,053,254	38,659,120	3,725,228	451,423	1,298,065	81,167,132
Rest of Middle East	1,176,433	293,062	921,067	939,979	1,065,093	70,110	121,209	4,586,953
Europe	120,961	-	297,382	1,254	-	77,361	-	496,958
Others	1,747,614	115,516	332,954	554,614	729,483	206,099	56,818	3,743,098
Financial assets subject to credit risk	<u>4,103,625</u>	<u>2,330,003</u>	<u>35,604,657</u>	<u>40,154,967</u>	<u>5,519,804</u>	<u>804,993</u>	<u>1,476,092</u>	<u>89,994,141</u>
31 December 2013								
UAE	1,320,533	3,333,628	28,708,626	33,848,070	3,596,132	711,078	1,296,727	72,814,794
Rest of Middle East	129,110	221,191	1,268,312	518,922	997,856	114,249	102,216	3,351,856
Europe	148,050	60,830	388,346	-	-	-	-	597,226
Others	1,488,676	90,786	18,028	358,301	249,420	304,968	62,347	2,572,526
Financial assets subject to credit risk	<u>3,086,369</u>	<u>3,706,435</u>	<u>30,383,312</u>	<u>34,725,293</u>	<u>4,843,408</u>	<u>1,130,295</u>	<u>1,461,290</u>	<u>79,336,402</u>

The credit risk arising from off-balance sheet items mentioned in note 43.2.1 are mainly relating to the UAE.

The distribution of the Group's financial assets by industry sector is as follows:

	2014 AED '000	2013 AED '000
Government	1,992,762	2,078,846
Public sector	5,244,767	6,394,038
Financial institutions	8,645,603	8,717,091
Trading and manufacturing	11,087,465	10,403,298
Construction and real estate	9,693,666	5,779,281
Energy	504,006	1,048,529
Personal	41,740,633	35,237,751
Others	11,085,239	9,677,568
Financial assets subject to credit risk	<u>89,994,141</u>	<u>79,366,402</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.3 Impairment assessment

The main consideration for the impairment assessment include whether any payments of principal or profit are overdue by more than 90 days or there are any known difficulties in the cash flows of the counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed impairment losses and collective impairment provisions on financing assets.

Individually assessed impairment losses on financing assets

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

Collective impairment provisions on financing assets

Collective impairment provisions are assessed for losses on customer financing that are not individually significant where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

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

Write-off of financing assets

Board approved policies are in place covering the timing and amount of provisions and write offs for all the financing portfolios of the bank. These reflect both the UAE Central bank guidelines and rules, accepted international accounting standards, and market and industry best practice and are stringently adhered to.

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43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.4 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 repurchase and reverse repurchase transactions, cash or securities,
- For commercial financing, charges over real estate properties, inventory, trade receivables and securities,
- For retail financing, charge over assets, mortgage of properties and assignment of salaries in favour of the Bank.

The table below shows the lower of the collateral value or the outstanding balance of customer financing as at the reporting date:

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
<i>Against customer financing not impaired</i>		
Property	20,665,157	18,289,727
Securities	1,095,418	1,569,040
Cash margin and lien over deposits	675,726	491,208
Others	<u>6,226,067</u>	<u>6,011,505</u>
	<u>28,662,368</u>	<u>26,361,480</u>
<i>Against individually impaired</i>		
Property	1,319,528	1,660,443
Securities	71,873	-
Cash margin and lien over deposits	8,700	16,100
Others	<u>105,656</u>	<u>101,134</u>
	<u>1,505,757</u>	<u>1,777,677</u>
	<u>30,168,125</u>	<u>28,139,157</u>

The Bank also obtains guarantees from parent companies for financing their subsidiaries, but their benefits are not included in the above table.

Management regularly monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and assesses the market value of collateral obtained during its review of the adequacy of the provision for impairment losses

The Bank also makes use of master netting agreements with counterparties.

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43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.5 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for balance and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, murabaha, ijara and other Islamic financing based on the Bank's credit rating system.

	<i>Moody's equivalent grade</i>	<i>2014 AED '000</i>	<i>2013 AED '000</i>
Low risk			
Risk rating class 1	Aaa	28,166	9,383
Risk rating classes 2 and 3	Aa1-A3	1,883,289	1,575,423
Risk rating class 4	Baa1-Baa3	13,884,115	9,526,287
Risk rating classes 5 and 6	Ba1-B3	55,588,890	46,953,925
Fair risk			
Risk rating class 7	Caa1-Caa3	7,730,149	9,497,103
Impaired			
Risk rating class 8, 9 and 10		<u>3,078,643</u>	<u>4,339,288</u>
		<u>82,193,252</u>	<u>71,901,409</u>

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class. In accordance with the requirements of Basel II a number of new rating models aligned to specific business segments, were introduced during the course of the year.

Renegotiated murabaha, ijara and other Islamic financings

The total carrying amount of financing whose terms have been renegotiated during the year amounted to AED 2,008,012 thousand (2013: AED 1,306,170 thousand).

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43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.5 Credit quality per class of financial assets continued

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset and impairment losses, if any. The table shows the maximum exposure to credit risk / price risk for murabaha, mudaraba, ijara, other Islamic financing and investment in islamic sukuk measured at amortised cost.

	<i>Balances and wakala deposits with Islamic banks and other financial institutions</i>		<i>Murabaha and mudaraba with financial institutions</i>		<i>Murabaha and other Islamic financing</i>		<i>Ijara financing</i>		<i>Investment in islamic sukuk measured at amortised cost</i>	
	<i>31 December</i>		<i>31 December</i>		<i>31 December</i>		<i>31 December</i>		<i>31 December</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
Individually impaired										
Substandard	-	-	-	-	107,201	372,421	1,098,368	647,266	-	12,802
Doubtful	-	-	67,278	-	253,055	605,563	899,563	1,410,713	12,802	91,813
Loss	-	-	129,811	129,811	396,865	974,529	126,502	198,985	91,813	-
Gross amount	-	-	197,089	129,811	757,121	1,952,513	2,124,433	2,256,964	104,615	104,615
Provision for individual impairment	-	-	(163,450)	(129,811)	(519,623)	(1,662,499)	(558,077)	(774,631)	(98,277)	(81,308)
	-	-	33,639	-	237,498	290,014	1,566,356	1,482,333	6,338	23,307
Past due but not impaired										
Less than 90 days	-	-	-	-	215,983	129,380	209,366	198,895	-	-
More than 90 days	-	-	-	-	14,890	337,318	412,714	831,747	-	-
	-	-	-	-	230,873	466,698	622,080	1,030,642	-	-
Neither past due nor impaired	4,103,625	3,086,369	2,132,914	3,576,624	34,616,663	27,964,101	37,408,454	31,437,687	5,415,189	4,738,793
Collective allowance for impairment	-	-	-	-	(882,407)	(455,230)	(793,236)	(468,619)	-	-
Carrying amount	4,103,625	3,086,369	2,166,553	3,576,624	34,202,627	28,265,583	38,803,654	33,482,043	5,421,527	4,762,100

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31 December 2014

43 RISK MANAGEMENT continued

43.2 Credit risk continued

43.2.5 Credit quality per class of financial assets continued

An analysis of past due financing, by age, is provided below:

Ageing analysis of past due but not impaired

	<i>Less than 30 days AED '000</i>	<i>31 -60 days AED '000</i>	<i>61 -90 days AED '000</i>	<i>More than 90 days AED '000</i>	<i>Total AED '000</i>
2014					
Murabaha and other Islamic financing	158,083	40,917	16,983	14,890	230,873
Ijara financing	<u>175,131</u>	<u>29,673</u>	<u>4,562</u>	<u>412,714</u>	<u>622,080</u>
	<u>333,214</u>	<u>70,590</u>	<u>21,545</u>	<u>427,604</u>	<u>852,953</u>
2013					
Murabaha and other Islamic financing	82,078	37,860	9,442	337,318	466,698
Ijara financing	<u>100,382</u>	<u>71,343</u>	<u>27,170</u>	<u>831,747</u>	<u>1,030,642</u>
	<u>182,460</u>	<u>109,203</u>	<u>36,612</u>	<u>1,169,065</u>	<u>1,497,340</u>

More detailed information in respect of the allowance for impairment losses on murabaha and other islamic financing and ijara financing have been disclosed in notes 17 and 18 respectively.

43.3 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 Bank 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 Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains statutory deposits with the Central Bank. The liquidity position is assessed and managed under a variety of scenarios, given due consideration to stress factors relating to both the market in general and specifically to the Bank.

The high quality of the asset portfolio ensure its liquidity and coupled with the Bank's own funds and "evergreen" customer deposits help these form a stable funding source. Even under adverse conditions, the Bank 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.

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43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

43.3.1 Treasury

Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Bank.

43.3.2 Asset & Liability Committee ("ALCO")

The Asset & Liability Management ("ALM") process focusses on planning, acquiring, and directing the flow of funds through the organization. The ultimate objective of this process is to generate adequate stable earnings and to steadily build equity over time, while taking measured business risk aligned to the overall risk appetite of the Bank. The Bank has a defined ALM policy which describes the objective, role and function of the ALCO. This process revolves around ALCO, the body within the Bank that holds the responsibility to make strategic decisions relating to the management of financial position related risks. The ALCO consists of the Bank's senior management including the CEO and normally meets once a month.

43.3.3 Liquidity risk management process

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

43.3.4 Analysis of financial assets and financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial assets and liabilities at reporting date based on contractual maturities.

	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>	<i>Total AED '000</i>
31 December 2014					
ASSETS					
Cash and balances with central banks	18,757,580	-	-	-	18,757,580
Balances and wakala deposits with Islamic banks and other financial institutions	3,063,607	315,928	724,090	-	4,103,625
Murabaha and mudaraba with financial institutions	2,023,459	143,094	-	-	2,166,553
Murabaha and other Islamic financing	3,252,902	7,921,449	16,077,954	6,950,322	34,202,627
Ijara financing	1,063,931	4,803,799	18,810,999	14,124,925	38,803,654
Investments in Islamic sukuk measured at amortised cost	-	-	2,928,286	2,493,241	5,421,527
Investments measured at fair value	-	984,549	22,926	-	1,007,475
Investment in associates and joint ventures	-	-	-	807,395	807,395
Other assets	1,260,475	147,244	201,399	9,054	1,618,172
Financial assets	29,421,954	14,316,063	38,765,654	24,384,937	106,888,608
Non-financial assets	-	-	-	-	5,015,195
Total assets	-	-	-	-	111,903,803
LIABILITIES					
Due to financial institutions	5,475,734	-	-	-	5,475,734
Depositors' accounts	76,056,513	7,795,053	924,842	-	84,776,408
Other liabilities	2,153,499	429,348	791,522	-	3,374,369
Sukuk financing instruments	-	2,754,375	1,836,250	-	4,590,625
Total liabilities	83,685,746	10,978,776	3,552,614	-	98,217,136
31 December 2013					
ASSETS					
Cash and balances with central banks	12,966,213	9,254,518	-	-	22,220,731
Balances and wakala deposits with Islamic banks and other financial institutions	2,872,737	169,197	44,435	-	3,086,369
Murabaha and mudaraba with financial institutions	3,425,649	21,503	129,472	-	3,576,624
Murabaha and other Islamic financing	1,927,611	6,548,641	14,664,528	5,124,803	28,265,583
Ijara financing	1,111,201	3,184,201	17,144,085	12,042,556	33,482,043
Investments in Islamic sukuk measured at amortised cost	-	414,194	1,851,196	2,496,710	4,762,100
Investments measured at fair value	-	1,161,229	246,640	-	1,407,869
Investment in associates and joint ventures	-	-	-	749,406	749,406
Other assets	1,339,042	219,090	24,020	9,054	1,591,206
Financial assets	23,642,453	20,972,573	34,104,376	20,422,529	99,141,931
Non-financial assets	-	-	-	-	4,018,555
Total assets	-	-	-	-	103,160,486
LIABILITIES					
Due to financial institutions	6,148,997	3,035	74,832	-	6,226,864
Depositors' accounts	67,503,474	6,000,834	2,019,397	-	75,523,705
Other liabilities	2,675,721	628,054	441,625	-	3,745,400
Sukuk financing instruments	-	-	4,590,625	-	4,590,625
Total liabilities	76,328,192	6,631,923	7,126,479	-	90,086,594

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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43 RISK MANAGEMENT continued

43.3 Liquidity risk and funding management continued

43.3.4 Analysis of financial assets and financial liabilities by remaining contractual maturities continued

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations, including cash flows pertaining to principal repayment and profit payable to maturity.

	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>	<i>Total AED '000</i>
31 December 2014					
LIABILITIES					
Due to financial institutions	5,476,934	-	-	-	5,476,934
Depositors' accounts	76,062,776	7,797,549	933,032	-	84,793,357
Other liabilities	2,153,499	429,348	791,522	-	3,374,369
Sukuk financing instruments	-	2,725,210	1,969,366	-	4,694,576
Total liabilities	<u>83,693,209</u>	<u>10,952,107</u>	<u>3,693,920</u>	<u>-</u>	<u>98,339,236</u>
31 December 2013					
LIABILITIES					
Due to financial institutions	6,150,073	3,038	74,832	-	6,227,943
Depositors' accounts	67,523,606	6,035,361	2,074,618	-	75,633,585
Other liabilities	2,675,721	628,054	441,625	-	3,745,400
Sukuk financing instruments	-	-	4,862,653	-	4,862,653
Total liabilities	<u>76,349,400</u>	<u>6,666,453</u>	<u>7,453,728</u>	<u>-</u>	<u>90,469,581</u>

The disclosed financial instruments in the above table are the gross undiscounted cash flows.

The table below shows the contractual expiry of the Bank's contingent liabilities and commitments. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>	<i>Total AED '000</i>
2014					
Contingent liabilities	10,924,372	1,696,458	265,074	5,073	12,890,977
Commitments	7,500	72,717	145,340	-	225,557
Total	<u>10,931,872</u>	<u>1,769,175</u>	<u>410,414</u>	<u>5,073</u>	<u>13,116,534</u>
2013					
Contingent liabilities	9,886,806	1,453,414	317,248	-	11,657,468
Commitments	17,940	334,782	375,617	-	728,339
Total	<u>9,904,746</u>	<u>1,788,196</u>	<u>692,865</u>	<u>-</u>	<u>12,385,807</u>

The Bank does not expect that all of the contingent liabilities or commitments will be drawn before expiry.

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43 RISK MANAGEMENT continued

43.4 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 the 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 of the following elements:

- Limit to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by the senior management.
- Independent mark-to-market valuation, reconciliation of positions and tracking of stop-losses for trading positions on 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 viewed periodically to ensure they remain in line with the Group's general market risk policy. The ALCO ensure 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.

43.4.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability of 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-statement of financial position 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 instrument is the rate that, when used in 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 instrument or an instrument carried at fair value.

The following table estimates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Group's consolidated income statement. The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates (whether increase or decrease) on the net profit for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December.

	<i>Increase in basis points 2014</i>	<i>Sensitivity of profit on financial assets and liabilities AED '000</i>	<i>Increase in basis points 2013</i>	<i>Sensitivity of profit on financial assets and liabilities AED '000</i>
Currency				
AED	25	53,978	25	47,287
USD	25	11,704	25	11,915
Euro	25	(343)	25	2,032
Other currencies	25	1,656	25	961

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The table below indicates the extent to which the Group was exposed to currency risk at 31 December 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 AED with all other variable held constant on the consolidated income statement (due to the changes in fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated in consolidated income statement on investments carried at fair value through other comprehensive income - equity instruments and investment in associates and joint venture).

	<i>% Increase currency rates</i>	<i>Effect on net profit AED '000</i>	<i>Effect on equity AED '000</i>
31 December 2014			
<i>Currency</i>			
USD	5	124,288	6,600
Euro	5	(2,763)	2,721
GBP	5	(3,050)	-
Other currencies	5	(36,077)	29,761
31 December 2013			
<i>Currency</i>			
USD	5	146,384	7,236
Euro	5	(3,134)	2,986
GBP	5	(9,694)	-
Other currencies	5	(35,886)	28,285

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31 December 2014

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.2 Currency risk continued

The table below shows the Group's exposure to foreign currencies.

	<i>AED</i> <i>AED '000</i>	<i>USD</i> <i>AED '000</i>	<i>Euro</i> <i>AED '000</i>	<i>GBP</i> <i>AED '000</i>	<i>Others</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
31 December 2014						
Financial assets						
Cash and balances with central banks	17,891,901	706,743	2,064	902	155,970	18,757,580
Balances and wakala deposits with Islamic banks and other financial institutions	1,010,707	1,326,058	142,299	251,214	1,373,347	4,103,625
Murabaha and mudaraba with financial institutions	1,000,038	531,794	491,325	-	143,396	2,166,553
Murabaha and other Islamic financing	30,943,222	2,340,518	99,663	598,192	221,032	34,202,627
Ijara financing	29,388,731	9,216,202	82,423	3	116,295	38,803,654
Investments in Islamic sukuk measured at amortised cost	-	5,391,600	-	29,927	-	5,421,527
Investments measured at fair value	93,564	796,803	96	77,361	39,651	1,007,475
Investment in associates and joint ventures	163,223	-	54,322	-	589,850	807,395
Other assets	<u>2,894,293</u>	<u>(1,080,282)</u>	<u>951,458</u>	<u>25,534</u>	<u>(1,172,831)</u>	<u>1,618,172</u>
	<u>83,385,679</u>	<u>19,229,436</u>	<u>1,823,650</u>	<u>983,133</u>	<u>1,466,710</u>	<u>106,888,608</u>
Financial liabilities						
Due to financial institutions	2,348,296	1,966,932	57,988	727,012	375,506	5,475,734
Depositors' accounts	72,328,178	9,548,418	1,706,250	307,674	885,888	84,776,408
Other liabilities	2,329,866	637,709	60,340	9,441	337,013	3,374,369
Sukuk financing instruments	-	4,590,625	-	-	-	4,590,625
	<u>77,006,340</u>	<u>16,743,684</u>	<u>1,824,578</u>	<u>1,044,127</u>	<u>1,598,407</u>	<u>98,217,136</u>
31 December 2013						
Financial assets						
Cash and balances with central banks	21,658,801	446,062	3,485	433	111,950	22,220,731
Balances and wakala deposits with Islamic banks and other financial institutions	952,706	1,640,280	33,905	166,598	292,880	3,086,369
Murabaha and mudaraba with financial institutions	-	2,836,529	355,640	174,980	209,475	3,576,624
Murabaha and other Islamic financing	25,382,785	2,399,626	92,356	43,960	346,856	28,265,583
Ijara financing	25,474,903	7,746,331	101,934	-	158,875	33,482,043
Investments in Islamic sukuk measured at amortised cost	52,231	4,709,869	-	-	-	4,762,100
Investments measured at fair value	292,077	1,080,787	109	-	34,896	1,407,869
Investment in associates and joint ventures	142,442	-	59,603	-	547,361	749,406
Other assets	<u>2,772,226</u>	<u>(315,928)</u>	<u>24,788</u>	<u>(98,973)</u>	<u>(790,907)</u>	<u>1,591,206</u>
	<u>76,728,171</u>	<u>20,543,556</u>	<u>671,820</u>	<u>286,998</u>	<u>911,386</u>	<u>99,141,931</u>
Financial liabilities						
Due to financial institutions	3,390,014	2,299,917	128,893	138,743	269,297	6,226,864
Depositors' accounts	64,878,928	9,700,523	434,385	191,485	318,384	75,523,705
Other liabilities	2,227,347	1,025,812	111,516	3,634	377,091	3,745,400
Sukuk financing instruments	-	4,590,625	-	-	-	4,590,625
	<u>70,496,289</u>	<u>17,616,877</u>	<u>674,794</u>	<u>333,862</u>	<u>964,772</u>	<u>90,086,594</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.3 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 equity price risk exposure arises from the Group's quoted investments in the investment portfolio.

The following table estimates the sensitivity to a possible change in equity markets on the Bank's consolidated income statement. Sensitivity is the effect of the assumed change in the reference equity benchmark in the fair value of investments carried at fair value through profit and loss on the consolidated income statement,

	<i>% Increase in market indices 2014</i>	<i>Effect on net profit 2014 AED '000</i>	<i>%Increase in market indices 2013</i>	<i>Effect on net profit 2013 AED '000</i>
<i>Investments carried at fair value through profit and loss</i>				
Abu Dhabi Stock Market	10	-	10	1,233
Dubai Financial Market	10	-	10	1,764

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

	<i>% Increase in market indices 2014</i>	<i>Effect on equity 2014 AED '000</i>	<i>%Increase in market indices 2013</i>	<i>Effect on equity 2013 AED '000</i>
<i>Investments carried at fair value through other comprehensive income</i>				
Others	10	96	10	1,834

43.4.4 Operational risk

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

The Bank has implemented a detailed operational risk framework in accordance with Basel II guidelines. The framework articulates clearly defined roles and responsibilities of individuals / units across different functions of the Bank involved in performing various operational risk management tasks. The Operational Risk Management Framework ensures that operational risks within the Bank are properly identified, monitored, reported and actively managed. Key elements of the framework include process mapping, management of an operational loss database, key risk indicators, regular business unit level self-assessment, risk analysis and risk management reporting.

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 operational risk in their respective functional areas. They operate within the Bank's operational risk management framework and ensure that risk is being actively identified, monitored and managed within their respective business units. The day-to-day operational risk is managed also through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedures to monitor transaction positions and documentation, as well as maintenance of key backup procedures and business contingency planning, which is regularly assessed and tested.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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43 RISK MANAGEMENT continued

43.4.5 Compliance risk review

Given its commitment to best practice governance, the Bank has appointed a legal counsel (the “Firm”) to assist in reviewing its compliance with economic sanctions laws and its compliance processes generally. The Firm is yet to complete its review and to the extent that this review assists the Bank in the identification of any additional steps that can be taken to ensure compliance with applicable sanctions laws, the Bank will enhance its processes accordingly.

43.5 Capital management

The Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The Central Bank of the UAE vide circular No. 4004/2009 dated 30 August 2009, requires all banks operating in the UAE to maintain a risk asset ratio at a minimum of 12% (2013: 12%) at all times in which Tier 1 capital should not be less than 8% (2013: 8%) of the total risk weighted assets. In implementing current capital requirements of the Central Bank of the U.A.E, the Group maintains the required ratio of the regulatory capital to total risk weighted assets.

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

- Tier 1 capital, which includes ordinary share capital, retained earnings, translation reserve, non-controlling interest and Tier 1 sukuk after deductions of goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment provisions on financing assets and the element of the fair value reserve relating to unrealised gains and losses on financial instruments classified as investments carried at fair value through other comprehensive income, gains or losses arising on translation of foreign operations and unrealised gains or losses arising on Sharia'a compliant financial instruments designated as cash flow hedges.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or to adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

The Central Bank of the U.A.E vide its notice 27/2009 dated 17 November 2009, requires all the banks operating in the U.A.E. to implement Standardised approach of Basel II. For credit and market risks, the Central Bank of the U.A.E. has issued guidelines for implementation of Standardised approach. For operational risk, the Central Bank of the U.A.E. has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Basic Indicators approach.

Furthermore, as required by the above circular, certain Basel II pillar 3 disclosures will be included in the annual report issued by the Bank for the year 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

43 RISK MANAGEMENT continued

43.5 Capital management continued

The table below shows summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2014 and 2013. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject:

	<i>Basel II</i>	
	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
<i>Tier 1 capital</i>		
Share capital	3,000,000	2,364,706
Legal reserve	1,766,465	1,759,597
General reserve	1,098,560	911,695
Credit risk reserve	400,000	400,000
Retained earnings	1,244,781	744,466
Proposed dividends	700,200	1,360,417
Proposed dividends to charity	20,000	20,000
Foreign currency translation reserve	(151,040)	(132,882)
Tier 1 sukuk	5,643,109	5,625,492
Non-controlling interest	<u>8,196</u>	<u>56,187</u>
	13,730,271	13,109,678
Goodwill and intangibles	(529,648)	-
Deductions for Tier 1 capital	<u>(403,697)</u>	<u>(374,703)</u>
Total Tier 1	<u>12,796,926</u>	<u>12,734,975</u>
<i>Tier 2 capital</i>		
Cumulative changes in fair value	(186,604)	(178,786)
Collective impairment provision for financing assets	<u>1,040,470</u>	<u>896,135</u>
	853,866	717,349
Deductions for Tier 2 capital	<u>(403,698)</u>	<u>(374,703)</u>
Total Tier 2	<u>450,168</u>	<u>342,646</u>
Total capital base	<u>13,247,094</u>	<u>13,077,621</u>
<i>Risk weighted assets</i>		
Credit risk	83,237,585	71,690,770
Market risk	2,170,413	1,683,208
Operational risk	<u>6,826,723</u>	<u>4,193,937</u>
Total risk weighted assets	<u>92,234,721</u>	<u>77,567,915</u>
<i>Capital ratios</i>		
Total regulatory capital expressed as a percentage of total risk weighted assets	<u>14.36%</u>	<u>16.86%</u>
Tier 1 capital expressed as a percentage of total risk weighted assets	<u>13.87%</u>	<u>16.42%</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

44 FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted investments – at fair value

Quoted investments represent marketable equities and sukuk that are measured at fair value. The fair values of these investments are based on quoted prices as of the reporting date. For investments carried at fair value through other comprehensive income, the impact of change in fair valuation from previous carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

Unquoted investments – at fair value

The consolidated financial statements include investments in unquoted funds and private equities which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalization of sustainable earnings basis. The valuation models include some assumptions that are not supported by observable market prices or rates. The impact of change in fair value from previous carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

In the opinion of management, the estimated carrying values and fair values of those financial assets and liabilities that are not carried at fair value in the consolidated financial statements are not materially different (except investment carried at amortised cost and investment in associates and joint ventures (note 21), since those financial assets and liabilities are either short term in nature or in the case of deposits and financing asset, are frequently repriced. The fair value of investments carried at amortised cost is disclosed below.

	<i>Carrying value 2014 AED '000</i>	<i>Fair value 2014 AED '000</i>	<i>Carrying value 2013 AED '000</i>	<i>Fair value 2013 AED '000</i>
<i>Fair value of investments - at amortised cost</i>				
Investments carried at amortised cost - sukuk (note 19)	<u>5,421,527</u>	<u>5,569,155</u>	<u>4,762,100</u>	<u>4,819,369</u>

Fair value measurement recognized in the consolidated statement of financial position

The Group uses the following hierarchy for determining and disclosing the fair value of financial instrument by valuation technique:

Level 1: quoted (unadjusted prices in active markets for identical assets or liabilities).

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

44 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Fair value measurement recognized in the consolidated statement of financial position continued

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which the fair value is observable.

	<i>Level 1</i> <i>AED '000</i>	<i>Level 2</i> <i>AED '000</i>	<i>Level 3</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
31 December 2014				
Assets and liabilities measured at fair value:				
Financial assets				
<i>Investments carried at fair value through profit and loss</i>				
Equities	-	-	-	-
Sukuk	<u>804,993</u>	<u>-</u>	<u>-</u>	<u>804,993</u>
	<u>804,993</u>	<u>-</u>	<u>-</u>	<u>804,993</u>
<i>Investments carried at fair value through other comprehensive income</i>				
<i>Quoted investments</i>				
Equities	<u>960</u>	<u>-</u>	<u>-</u>	<u>960</u>
<i>Unquoted investments</i>				
Funds	-	-	61,640	61,640
Private equities	<u>-</u>	<u>-</u>	<u>139,882</u>	<u>139,882</u>
	<u>-</u>	<u>-</u>	<u>201,522</u>	<u>201,522</u>
	<u>960</u>	<u>-</u>	<u>201,522</u>	<u>202,482</u>
Financial liabilities				
Shari'a compliant alternatives of swap (note 38)	<u>-</u>	<u>17,968</u>	<u>-</u>	<u>17,968</u>
Assets for which fair values are disclosed:				
Investment properties (note 22)	<u>-</u>	<u>446,210</u>	<u>-</u>	<u>446,210</u>
Investment carried at amortised cost- Sukuk	<u>5,569,155</u>	<u>-</u>	<u>-</u>	<u>5,569,155</u>
31 December 2013				
Assets and liabilities measured at fair value:				
Financial assets				
<i>Investments carried at fair value through profit and loss</i>				
Equities	29,975	-	-	29,975
Sukuk	<u>1,130,295</u>	<u>-</u>	<u>-</u>	<u>1,130,295</u>
	<u>1,160,270</u>	<u>-</u>	<u>-</u>	<u>1,160,270</u>
<i>Investments carried at fair value through other comprehensive income</i>				
<i>Quoted investments</i>				
Equities	<u>19,302</u>	<u>-</u>	<u>-</u>	<u>19,302</u>
<i>Unquoted investments</i>				
Funds	-	-	71,151	71,151
Private equities	<u>-</u>	<u>-</u>	<u>157,146</u>	<u>157,146</u>
	<u>-</u>	<u>-</u>	<u>228,297</u>	<u>228,297</u>
	<u>19,302</u>	<u>-</u>	<u>228,297</u>	<u>247,599</u>
Financial liabilities				
Shari'a compliant alternatives of swap (note 38)	<u>-</u>	<u>19,676</u>	<u>-</u>	<u>19,676</u>
Assets for which fair values are disclosed:				
Investment properties (note 22)	<u>-</u>	<u>378,450</u>	<u>-</u>	<u>378,450</u>
Investment carried at amortised cost- Sukuk	<u>4,819,369</u>	<u>-</u>	<u>-</u>	<u>4,819,369</u>

There were no transfers between level 1, 2 and 3 during the current year and in the prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

44 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Fair value measurement recognized in the consolidated statement of financial position continued

A significant part of the investments classified under Level 3 are valued using inputs from investment managers and in the opinion of the management it is not practical to disclose the sensitivity of inputs to the valuation techniques used.

The following table shows a reconciliation of the opening and closing amount of level 3 of financial assets which are recorded at fair value:

	<i>2014</i> <i>AED '000</i>	<i>2013</i> <i>AED '000</i>
At 1 January	228,297	328,177
Net disposals	(18,813)	(42,133)
Loss recorded in equity	<u>(7,962)</u>	<u>(57,747)</u>
At 31 December	<u>201,522</u>	<u>228,297</u>

45 BUSINESS COMBINATION

On 6 April 2014, the Bank acquired retail banking business (the “business”) of Barclays Bank in the U.A.E. The customers of the business shall be transferred to the Bank in a Shari’a compliant manner. During the second quarter 2014, the acquisition was approved by the Central Bank of the UAE. Based on the provisional purchase price allocation, the Bank has recognized AED 438,012 thousand as intangible assets and AED 109,888 as goodwill (note 26).

The acquisition would provide opportunities for the Bank to grow its retail business and is in line with the strategy for the expansion in the expatriate market segment without disrupting the existing customer base.

The fair value of the identifiable assets and liabilities of the business as at the acquisition date was assessed as follows:

	<i>Recognised on acquisition</i> <i>AED '000</i>
Advanced for financing assets (to be migrated to ijara)	1,146,240
Advanced for financing assets (to be migrated to commodities murabaha related to covered cards)	778,105
Advanced for financing assets (to be migrated to commodities murabaha related to Al Khair financing)	191,145
Property and equipment	1,974
Identifiable intangible assets	<u>438,012</u>
Total assets	<u>2,555,476</u>
Customers’ deposits	(1,304,863)
Other liabilities	<u>(13,468)</u>
Total liabilities	<u>(1,318,331)</u>
Fair value of identifiable net assets	1,237,145
Goodwill arising on acquisition	<u>109,888</u>
Consideration for acquisition - cash	<u>1,347,033</u>