Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements

31 March 2014

Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements
For the three-month period ended 31 March 2014

Contents

Building a better working world

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF COMMERCIAL BANK OF DUBAI PSC

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of Commercial Bank of Dubai PSC (the "Bank") and its subsidiary (collectively referred to as the "Group"), which comprise the consolidated interim statement of financial position as at 31 March 2014 and the related consolidated interim statements of income, comprehensive income, cash flows and changes in equity for the three month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Ernst & Young
Signed by:
Joseph Murphy
Partner
Registration No. 492

23 April 2014
Dubai, United Arab Emirates

Commercial Bank of Dubai PSC

Consolidated interim statement of financial position

As at 31 March 2014

	Note	31 March 2014 AED'000 (Unaudited)	31 December 2013 AED'000 Audited	31 March 2013 AED'000 (Unaudited)
ASSETS				
Cash and balances with Central Bank	*5*	**6,039,386**	6,132,063	5,112,981
Due from banks	*6*	**1,210,536**	1,662,172	1,313,141
Loans and advances and Islamic financing	*7*	**29,933,822**	30,287,385	27,933,708
Investment securities	*8*	**4,500,690**	4,228,653	2,554,815
Investment in associate		**79,993**	72,862	61,666
Investment properties		**257,285**	259,853	164,263
Property and equipment		**317,788**	321,273	424,769
Other assets		**1,440,062**	1,511,297	1,382,220
Total assets		**43,779,562**	44,475,558	38,947,563
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks		**446,202**	499,259	416,821
Customers' deposits and Islamic customers' deposits	*9*	**30,512,487**	30,942,680	28,056,964
Notes and medium term borrowings	*10*	**4,016,583**	4,014,806	2,193,273
Other liabilities		**1,873,097**	1,803,057	1,826,925
Total liabilities		**36,848,369**	37,259,802	32,493,983
EQUITY				
Share capital	*11*	**2,242,187**	2,038,352	2,038,352
Legal reserve		**1,379,813**	1,379,813	1,379,683
Capital reserve		**38,638**	38,638	38,638
General reserve		**1,100,000**	1,100,000	1,100,000
Cumulative changes in fair values of AFS investments		**107,844**	54,712	44,337
Reserve for proposed bonus issue		-	203,835	-
Proposed cash dividend		-	611,506	-
Proposed directors' remuneration		-	11,000	-
Retained earnings		**2,062,711**	1,777,900	1,838,884
Equity attributable to equity holders of the parent		**6,931,193**	7,215,756	6,439,894
Non-controlling interest		-	-	13,686
Total equity		**6,931,193**	7,215,756	6,453,580
Total liabilities and equity		**43,779,562**	44,475,558	38,947,563

The condensed consolidated interim financial statements were approved by the Board of Directors on 23rd April 2014.

Mr. Saeed Ahmed Ghobash
Chairman

Mr. Peter Baltussen
Chief Executive Officer

The attached notes on pages 7 to 21 form part of these condensed consolidated interim financial statements.
The review report of the Auditors is set out on page 1.

Commercial Bank of Dubai PSC

Consolidated interim income statement

For the three-month period ended 31 March 2014

	Note	31 March 2014 AED'000 (Unaudited)	31 March 2013 AED'000 (Unaudited)
Interest income and income from Islamic financing		441,398	444,421
Interest expense and distributions to Islamic depositors		(68,116)	(85,609)
Net interest income and net income from Islamic financing		**373,282**	358,812
Net fees and commission income		83,928	80,479
Net gains from foreign exchange and derivatives		27,496	27,824
Net gains from investments at fair value through profit or loss - held for trading		804	373
Net gains from sale of available-for-sale investments		21,400	16,325
Dividend and other investment income		3,104	5,751
Share of profit of associate		12,454	5,615
Other income		7,278	6,232
Total operating income before provisions		**529,746**	501,411
Impairment allowances on loans and advances and Islamic financing	*7*	(91,024)	(119,581)
Recoveries		9,790	4,094
Net operating income		**448,512**	385,924
General and administrative expenses		(152,631)	(128,332)
Depreciation and amortization		(11,070)	(12,004)
Total operating expenses		**(163,701)**	(140,336)
Net profit for the period		**284,811**	245,588
Attributed to :			
Equity holders of the parent		**284,811**	245,479
Non-controlling interest		**-**	109
Net profit for the period		**284,811**	245,588
Basic and diluted earnings per share	*12*	**AED 0.13**	AED 0.11

The attached notes on pages 7 to 21 form part of these condensed consolidated interim financial statements.

The review report of the Auditors is set out on page 1.

Commercial Bank of Dubai PSC

Consolidated interim statement of comprehensive income

For the three-month period ended 31 March 2014

	31 March 2014 AED'000 (Unaudited)	31 March 2013 AED'000 (Unaudited)
Net profit for the period	**284,811**	245,588
Other comprehensive income*:		
Changes in available-for-sale investments:		
Realised gains on sale of available-for-sale investments	(21,400)	(16,325)
Amortisation of reclassified investments	-	2,318
Share of other comprehensive income of associate	-	177
Revaluation of available-for-sale investments	74,532	33,921
Net change in available-for-sale investments	53,132	20,091
Other comprehensive income for the period	53,132	20,091
Total comprehensive income for the period	337,943	265,679
Attributed to:		
Equity holders of the parent	337,943	265,570
Non-controlling interest	-	109
Total comprehensive income for the period	337,943	265,679

*All items included in other comprehensive income (as above) for the three month ended 31March 2014 and 2013 could be reclassified to income statement in subsequent periods.

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Commercial Bank of Dubai PSC

Consolidated interim statement of changes in equity

For the three-month period ended 31 March 2014

	Share capital	Legal reserve	Capital reserve	General reserve	Cumulative changes in fair values of AFS investments	Retained earnings	Proposed distributions	Attributable to equity of the parent	Non-controlling interest	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At 1 January 2013	2,038,352	1,379,683	38,638	1,100,000	24,246	1,593,582	622,506	6,797,007	13,577	6,810,584
Transactions with owners, recorded directly in equity										
Cash dividend paid for 2012 (30%)	-	-	-	-	-	-	(611,506)	(611,506)	-	(611,506)
Directors' remuneration paid for 2012	-	-	-	-	-	-	(11,000)	(11,000)	-	(11,000)
Share of Directors' remuneration of associate	-	-	-	-	-	(177)	-	(177)	-	(177)
Comprehensive income										
Net profit for the period	-	-	-	-	-	245,479	-	245,479	109	245,588
Other comprehensive income for the period	-	-	-	-	20,091	-	-	20,091	-	20,091
Total comprehensive income	-	-	-	-	20,091	245,479	-	265,570	109	265,679
At 31 March 2013 (Unaudited)	2,038,352	1,379,683	38,638	1,100,000	44,337	1,838,884	-	6,439,894	13,686	6,453,580
At 1 January 2014	**2,038,352**	**1,379,813**	**38,638**	**1,100,000**	**54,712**	**1,777,900**	**826,341**	**7,215,756**	-	**7,215,756**
Transactions with owners, recorded directly in equity										
Cash dividend paid for 2013 (30%)	-	-	-	-	-	-	**(611,506)**	**(611,506)**	-	**(611,506)**
Bonus shares issued for 2013 (10%)	**203,835**	-	-	-	-	-	**(203,835)**	-	-	-
Directors' remuneration paid for 2013	-	-	-	-	-	-	**(11,000)**	**(11,000)**	-	**(11,000)**
Comprehensive income										
Net profit for the period	-	-	-	-	-	**284,811**	-	**284,811**	-	**284,811**
Other comprehensive income for the period	-	-	-	-	**53,132**	-	-	**53,132**	-	**53,132**
Total comprehensive income	-	-	-	-	**53,132**	**284,811**	-	**337,943**	-	**337,943**
At 31 March 2014 (Unaudited)	**2,242,187**	**1,379,813**	**38,638**	**1,100,000**	**107,844**	**2,062,711**	-	**6,931,193**	-	**6,931,193**

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Commercial Bank of Dubai PSC

Consolidated interim statement of cash flows

For the three-month period ended 31 March 2014

	Note	31 March 2014 AED'000 (Unaudited)	31 March 2013 AED'000 (Unaudited)
OPERATING ACTIVITIES			
Profit for the period		**284,811**	245,588
Adjustments for:			
Depreciation and amortization		**11,070**	12,004
Gain on disposal of property and equipment		**(21)**	-
Dividend income		**(3,104)**	(5,332)
Amortization of securities		**15,005**	2,113
Increase in investment in associate		**(7,131)**	(292)
Net unrealised (gains) / loss on investments at fair value through profit or loss - held for trading net of forex translation		**(373)**	3
Realised gains on sale of investments		**(21,938)**	(16,570)
Net unrealized loss / (income) on derivatives		**4,485**	(115)
Amortization of medium term borrowings		**1,777**	2,066
Directors' remuneration paid		**(11,000)**	(11,000)
		273,581	228,465
Increase in statutory reserve with the Central Bank		**(101,255)**	(14,107)
Decrease / (increase) in loans and advances and Islamic financing		**353,563**	(736,188)
Increase in other assets		**(894)**	(16,646)
(Decrease) / increase in customers' deposits and Islamic customers' deposits		**(430,193)**	4,975
Increase in other liabilities		**137,684**	326,055
Net cash flows from /(used in) operating activities		**232,486**	(207,446)
INVESTING ACTIVITIES			
Purchase of investments		**(692,633)**	(554,145)
Purchase of property and equipment		**(6,178)**	(2,736)
Increase in investment properties		**-**	(17)
Dividend income		**3,104**	5,332
Proceeds from sale of investments		**481,034**	409,604
Proceeds from sale of property and equipment		**1,182**	-
Net cash flows used in investing activities		**(213,491)**	(141,962)
FINANCING ACTIVITIES			
Dividends paid		**(611,506)**	(611,506)
Net cash flows used in financing activities		**(611,506)**	(611,506)
Net decrease in cash and cash equivalents		**(592,511)**	(960,914)
Cash and cash equivalents at 1 January		**5,169,019**	5,083,529
Cash and cash equivalents at the end of the period	*13*	**4,576,508**	4,122,615

The attached notes on pages 7 to 21 form part of these condensed consolidated interim financial statements.
The review report of the Auditors is set out on page 1.

1. LEGAL STATUS AND ACTIVITIES

Commercial Bank of Dubai PSC ("the Bank") was incorporated in Dubai, United Arab Emirates in 1969 and is registered as a Public Shareholding Company (PSC) in accordance with Federal Law No. 8 of 1984 (as amended). The Bank is listed on the Dubai Financial Market.

The condensed consolidated interim financial statements of the Bank for the three-month period ended 31 March 2014 comprise the Bank and its subsidiary "CBD Financial Services LLC" (collectively referred to as "the Group"). CBD Financial Services was incorporated on 9 March 2005 in Dubai, United Arab Emirates and is registered as a limited liability company in accordance with Federal Law No. 8 of 1984 (as amended) and commenced its operations from 9 October 2005. The Bank effectively holds 100% interest in CBD Financial Services LLC. The Bank's principal activity is commercial banking while that of CBD Financial Services LLC is to act as a broker for shares and bonds. The financial statements for the three month period ended 31 March 2013 also consolidated the financial statements of Al Dana Global Fixed Income Manager Selection Fund (fund) in which the Bank held 52.35 % interest and exercised control. This investment was sold during the quarter ended 30 September 2013. The fund is an open ended fund managed by CBD.

The registered address of the Group is Al Ittihad Street, P.O. Box 2668, Dubai, United Arab Emirates.

2. BASIS OF PREPARATION

(a) Statement of Compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") IAS 34 Interim Financial Reporting. These condensed consolidated interim financial statements do not include all the information required for full annual audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2013. In addition, results for the three months ended 31 March 2014 are not necessarily indication of the results that may be expected for the financial year ending 31 December 2014.

(b) Use of estimates and judgment

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty, as was the case in the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2013.

3. SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the accounting policies and methods of computation used for the preparation of last published annual audited consolidated financial statements as at and for the year ended 31 December 2013.

4. RISK GOVERNANCE AND FINANCIAL RISK MANAGEMENT

The Group's Risk Governance and Financial Risk Management objectives, policies and procedures are consistent with those disclosed in the annual audited consolidated financial statements as at and for the year ended 31 December 2013.

5. CASH AND BALANCES WITH CENTRAL BANK

	31 March 2014 AED'000 (Unaudited)	31 December 2013 AED'000 Audited
Cash on hand	374,443	443,485
Balances with Central Bank		
-Clearing account balances	537,731	362,621
-Statutory reserves	2,227,212	2,125,957
-Negotiable certificates of deposit	2,900,000	3,200,000
	6,039,386	6,132,063

All the above balances are held in accounts within UAE.

6. DUE FROM BANKS

	31 March 2014 AED'000 (Unaudited)	31 December 2013 AED'000 Audited
Current and demand deposits	222,914	89,948
Placements	987,622	1,572,224
	1,210,536	1,662,172

The Geographical concentration is as follows:

Within the U.A.E.	702,137	1,361,522
Outside U.A.E	508,399	300,650
	1,210,536	1,662,172

7. LOANS AND ADVANCES AND ISLAMIC FINANCING

The composition of the loans and advances and Islamic financing portfolio is as follows:

	31 March 2014 AED'000 (Unaudited)	31 December 2013 AED'000 Audited
Loans and advances		
Overdrafts	4,932,971	5,486,219
Loans	24,456,033	24,160,337
Advances against letters of credit and trust receipts	663,452	680,820
Bills discounted	605,971	677,948
Gross loans and advances	30,658,427	31,005,324
Islamic financing		
Murabaha	835,770	872,066
Ijara	1,129,273	982,413
Musharaka	74,000	101,691
Others	148,787	156,114
Gross Islamic financing	2,187,830	2,112,284
Gross loans and advances and Islamic financing	32,846,257	33,117,608
Less: provision for impairment losses	(2,912,435)	(2,830,223)
Net loans and advances and Islamic financing	29,933,822	30,287,385

7. LOANS AND ADVANCES AND ISLAMIC FINANCING (CONTINUED)

Analysis by sector	31 March 2014 AED'000 (Unaudited)	31 December 2013 AED'000 Audited
Commercial and business:-		
Agriculture & allied activities	94,948	99,424
Mining & quarrying	83,335	76,450
Manufacturing	1,112,104	1,197,095
Construction & real estate	2,788,772	2,812,172
Trade	8,004,305	8,091,338
Transport & communication	455,179	499,498
Services	5,315,015	5,147,322
Business and investment	6,730,852	7,065,767
Total commercial and business	24,584,510	24,989,066
Banks and financial institutions	363,359	421,160
Government and public sector entities	4,309,808	4,298,870
Personal – schematic	3,109,534	2,894,867
Others	479,046	513,645
Gross loans and advances and Islamic financing	32,846,257	33,117,608
Less: Provisions for impairment losses	(2,912,435)	(2,830,223)
Net loans and advances and Islamic financing	29,933,822	30,287,385

The movement in provisions for impairment losses is as follows:

	Interest suspended AED'000	Specific provisions AED'000	Collective provisions AED'000	Total AED'000
Opening balance 1 January 2014	478,482	1,877,746	473,995	2,830,223
Interest not recognized / new provisions raised	50,342	91,024	-	141,366
Less:				
Written-off	(5,602)	(24,367)	-	(29,969)
Recoveries /reversal to income	(20,189)	(8,996)	-	(29,185)
Closing Balance 31 March 2014 (Unaudited)	503,033	1,935,407	473,995	2,912,435

7. LOANS AND ADVANCES AND ISLAMIC FINANCING (CONTINUED)

	Interest suspended	Specific provisions	Collective provisions	Total
	AED'000	AED'000	AED'000	AED'000
Opening balance 1 January 2013	395,001	1,538,093	440,743	2,373,837
Interest not recognized / new provisions raised	50,130	119,581	-	169,711
Less:				
Written-off	(418)	(52)	-	(470)
Recoveries / reversal to income	(37,939)	(2,878)	-	(40,817)
Closing Balance 31 March 2013 (Unaudited)	406,774	1,654,744	440,743	2,502,261

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)
For the three-month period ended 31 March 2014

8. INVESTMENT SECURITIES

31 March 2014 (Unaudited)	Domestic AED'000	GCC AED'000	International AED'000	Total AED'000
Held for trading				
Equities	1,604	-	2,025	3,629
Fixed rate government securities	15,871	-	-	15,871
Available-for-sale				
Equities	112,369	-	-	112,369
Fund of funds	15,263	20,321	155,633	191,217
Fixed rate securities				
- Government	1,462,731	186,399	-	1,649,130
- Others	1,303,461	663,447	235,319	2,202,227
Floating rate securitie				
- Government	33,644	-	-	33,644
- Others	187,743	69,599	-	257,342
Held-to-maturity				
Floating rate non government securities	35,261	-	-	35,261
Total investment securities	3,167,947	939,766	392,977	4,500,690

31 December 2013 (Audited)	Domestic AED'000	GCC AED'000	International AED'000	Total AED'000
Held for trading				
Equities	834	-	817	1,651
Fixed rate securities				
- Government	13,262	7,311	-	20,573
- Others	-	11,073	-	11,073
Available-for-sale				
Equities	101,353	-	-	101,353
Fund of funds	15,475	18,077	155,272	188,824
Fixed rate securities				
- Government	1,544,530	182,111	-	1,726,641
- Others	1,272,524	522,921	207,610	2,003,055
Floating rate non government securities	71,363	68,859	-	140,222
Held-to-maturity				
Floating rate non government securities	35,261	-	-	35,261
Total investment securities	3,054,602	810,352	363,699	4,228,653

9. CUSTOMERS' DEPOSITS AND ISLAMIC CUSTOMERS' DEPOSITS

Customers' deposits	**31 March 2014 AED'000 (Unaudited)**	31 December 2013 AED'000 Audited
Current and demand accounts	**13,571,159**	12,106,932
Savings accounts	**1,333,880**	1,352,344
Time deposits	**10,109,748**	10,714,666
	25,014,787	24,173,942
Islamic customers' deposits		
Current and demand accounts	**902,536**	857,584
Mudaraba saving	**375,329**	504,915
Investment deposits and Wakala	**4,219,835**	5,406,239
	5,497,700	6,768,738
Total customers' deposits and Islamic customers' deposits	**30,512,487**	30,942,680

Subordinated term loans

Customers' deposits included deposits received by the Group in 2008, aggregating to AED *1,841.526 million* from the UAE Ministry of Finance. On 9 December 2009 (the re-categorization date), the Group entered into an agreement with the UAE Ministry of Finance, by which these deposits were subordinated to other claims and were treated as lower Tier 2 capital in agreement with the UAE Central Bank. The subordinated 7 years term loan bore a fixed interest rate of 4% per annum for first two years and stepped up to 4.5% per annum and 5% per annum in the third and fourth years and from fifth years onwards to 5.25% per annum. Interest was payable quarterly from the date of re-categorization.

The agreement contained certain conditions relating to the Group's minimum Tier 1 Capital requirement and also stipulated certain conditions under which MOF had the right to convert the loan amount together with accrued interest into share capital upon occurrence of the conversion events as per the terms of the agreement.

The Bank had the option at any time during the option period to repay the loans in whole or in part subject to meeting certain conditions. The Group exercised this option and repaid the entire loan in two tranches: AED 1,500 million in May 2013 and AED 341.526 million in July 2013.

10. NOTES AND MEDIUM TERM BORROWINGS

Syndicated loan

In December 2013, the Group entered into a club deal of USD 450 million for a term of 3 years with an option to roll over on a quarterly or semi-annual basis. This replaced the syndicated loan arrangement of USD 450 million maturing in August 2014, which was prepaid in October 2013 and carried interest at the rate of 3 month LIBOR plus 175 basis points payable on a quarterly basis. The current arrangement carries interest at the rate of 3 month LIBOR plus 125 basis points payable on a quarterly basis.

Repurchase agreements

In July 2012, the Group entered into Repo transactions to obtain financing against the sale of certain debt securities, amounting to USD 150.1 million with arrangements to repurchase them at a fixed future date in July 2017.

Euro medium term notes

In 2013 CBD has activated its Euro Medium Term Note (EMTN) program, which was launched in 2008. The maximum issuance under the program is USD 2 billion. These notes can be distributed by way of private or public placements and in each case on a syndicated or non-syndicated basis. These notes can be priced at fixed rate, floating rate or can be index linked.

In May 2013, CBD issued USD 500 million of conventional bonds. These notes were priced at 3.375 per cent fixed rate and mature on 21 May 2018.

11. EQUITY

Share capital

The issued and fully paid up ordinary share capital as at 31 March 2014 comprised 2,242,187,174 ordinary shares of AED 1 each *(31 December 2013: 2,038,351,976 shares of AED 1 each).*

12. BASIC AND DILUTED EARNINGS PER SHARE

The earnings per share is based on the Group's profit for the three month period ended 31 March 2014 attributable to the shareholders amounting to AED 284.8 million (*three month period ended 31 March 2013: AED 245.5 million)*, and on the weighted average number of shares in issue totaling 2,242,187,174 for both 31 March 2013 and 31 March 2014 (after adjusting for bonus shares).

13. CASH AND CASH EQUIVALENTS

	31 March 2014 AED'000 (Unaudited)	31 March 2013 AED'000 (Unaudited)
Cash in hand	**374,443**	411,902
Balances with the Central Bank	**537,731**	364,393
Negotiable certificates of deposit with the Central Bank	**2,900,000**	2,450,000
Due from banks with original maturities less than three months	**1,210,536**	1,313,141
	5,022,710	4,539,436
Due to banks with original maturities less than three months	**(446,202)**	(416,821)
	4,576,508	4,122,615

14. CONTINGENT LIABILITIES AND COMMITMENTS

The Group in the ordinary course of business enters into various types of transactions that involve undertaking certain commitments such as letters of credit, guarantees and undrawn loan commitments.

	31 March 2014 AED'000 (Unaudited)	31 December 2013 AED'000 Audited
Contingent liabilities:		
Letters of credit	**1,203,376**	1,157,129
Guarantees	**5,112,122**	5,107,403
	6,315,498	6,264,532
Credit commitments:		
Undrawn commitments to extend credit	**10,004,619**	9,927,716
Total contingent liabilities and credit commitments	**16,320,117**	16,192,248

15. SEGMENTAL REPORTING

The primary format, business segments, is based on the Group's management and internal reporting structure that are regularly reviewed by the Business Committee in order to allocate resources to the segment and to assess its performance.

Business segments pay to and receive interest from the Treasury on an arm's length basis to reflect the allocation of capital and funding costs.

Business segments

Corporate banking	Includes loan and other credit facilities, deposits, trade finance products and e-commerce solutions to large corporate clients (including Government related entities).
Commercial banking	Includes loans, working capital financing, trade finance and deposits products to commercial (mid-sized) clients and business (small) clients.
Personal banking	Includes current accounts, easy access saving accounts, fixed rate deposit accounts, personal loans, overdraft facilities, vehicle finance, mortgage products, loans and other credit facilities to high net-worth (Al Dana), mid-tier clients (personal) and modest income group (direct).
Treasury and investments	Undertakes balance sheet management deals in derivatives for trading and for risk management purposes and manages the Group's proprietary investment portfolio.

Interest is charged or credited to business segments and branches at match funding transfer pricing rates which approximate the replacement cost of funds. Other central costs are allocated to business segments on a reasonable basis.

Geographical

The Group operates in one geographic area, the United Arab Emirates.

15. SEGMENTAL REPORTING (CONTINUED)

Segmental analysis for the three-month period was as follows:

31 March 2014 (Unaudited)	Corporate banking	Commercial banking	Personal banking	Treasury & investments	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Assets	**20,662,435**	**7,557,163**	**3,600,052**	**11,959,912**	**43,779,562**
Liabilities	**13,582,011**	**9,854,022**	**8,910,397**	**4,501,939**	**36,848,369**
31 December 2013(Audited)					
Assets	21,305,107	7,620,751	3,344,474	12,205,226	44,475,558
Liabilities	14,635,805	9,462,992	8,626,099	4,534,906	37,259,802
31 March 2014 (Unaudited)					
Interest Income and Income from Islamic Financing	**231,508**	**119,673**	**55,445**	**34,772**	**441,398**
Interest Expense and distribution to Islamic depositors	**(31,619)**	**(3,699)**	**(6,114)**	**(26,684)**	**(68,116)**
Net interest income and income from Islamic financing	**199,889**	**115,974**	**49,331**	**8,088**	**373,282**
Net inter segment income	**(37,745)**	**(2,825)**	**10,695**	**29,875**	**-**
Other operating income	**30,140**	**45,944**	**33,952**	**46,428**	**156,464**
Total income	**192,284**	**159,093**	**93,978**	**84,391**	**529,746**
Allocated cost	**33,613**	**68,111**	**44,630**	**6,277**	**152,631**
Provisions for impairment losses net of recoveries	**58,386**	**24,186**	**(1,338)**	**-**	**81,234**
Depreciation	**4,153**	**2,150**	**4,505**	**262**	**11,070**
Total expenses	**96,152**	**94,447**	**47,797**	**6,539**	**244,935**
Net profit for the period	**96,132**	**64,646**	**46,181**	**77,852**	**284,811**
31 March 2013 (Unaudited)					
Interest Income and Income from Islamic Financing	262,023	118,071	43,355	20,972	444,421
Interest Expense and distribution to Islamic depositors	(59,825)	(5,261)	(6,681)	(13,842)	(85,609)
Net interest income and income from Islamic financing	202,198	112,810	36,674	7,130	358,812
Net inter segment income	(43,180)	(928)	10,649	33,459	-
Other operating income	25,278	35,055	29,857	52,409	142,599
Total income	184,296	146,937	77,180	92,998	501,411
Allocated cost	31,696	56,375	35,162	5,099	128,332
Provisions for impairment losses net of recoveries	83,998	22,757	8,732	-	115,487
Depreciation	5,494	2,754	3,500	256	12,004
Total expenses	121,188	81,886	47,394	5,355	255,823
Net profit for the period	63,108	65,051	29,786	87,643	245,588

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)
For the three-month period ended 31 March 2014

16. FINANCIAL ASSETS AND LIABILITIES

16.1 Financial assets and liabilities classification

The table below sets out the Group's assets and liabilities classification in accordance with the categories of financial instruments as per IAS 39:

	Fair value through Profit or loss	Amortized Cost		Available-for-sale at fair value	Other amortized cost	Total carrying amount
		Held-to-maturity	Loans and receivables			
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 March 2014 (Unaudited)						
Cash and balances with Central Bank	-	-	-	-	6,039,386	6,039,386
Due from banks	-	-	-	-	1,210,536	1,210,536
Loans and advances and Islamic financing	-	-	29,933,822	-	-	29,933,822
Investment securities	19,500	35,261	-	4,445,929	-	4,500,690
Other assets	11,901	-	-	-	1,295,108	1,307,009
Total financial assets	31,401	35,261	29,933,822	4,445,929	8,545,030	42,991,443
Due to banks	-	-	-	-	446,202	446,202
Customers' deposits and Islamic customers' deposits	-	-	-	-	30,512,487	30,512,487
Notes and medium term borrowing	-	-	-	-	4,016,583	4,016,583
Other liabilities	11,997	-	-	-	1,798,558	1,810,555
Total financial liabilities	11,997	-	-	-	36,773,830	36,785,827
31 December 2013 (Audited)						
Cash and balances with Central Bank	-	-	-	-	6,132,063	6,132,063
Due from banks	-	-	-	-	1,662,172	1,662,172
Loans and advances and Islamic financing	-	-	30,287,385	-	-	30,287,385
Investment securities	33,297	35,261	-	4,160,095	-	4,228,653
Other assets	14,695	-	-	-	1,369,743	1,384,438
Total financial assets	47,992	35,261	30,287,385	4,160,095	9,163,978	43,694,711
Due to banks	-	-	-	-	499,259	499,259
Customers' deposits and Islamic customers' deposits	-	-	-	-	30,942,680	30,942,680
Notes and medium term borrowing	-	-	-	-	4,014,806	4,014,806
Other liabilities	10,203	-	-	-	1,731,968	1,742,171
Total financial liabilities	10,203	-	-	-	37,188,713	37,198,916

16. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

16.2 Fair value measurement – Fair value hierarchy:

The below table, shows the hierarchy used by the Group to determine the fair value of the financial assets and financial liabilities carried at fair value:

31 March 2014 (Unaudited)	**Level 1**	**Level 2**	**Level 3**
	AED'000	**AED'000**	**AED'000**
Investments			
Equity	**100,041**	**15,957**	**-**
Fund of funds	**-**	**191,217**	**-**
Fixed and floating rate securities	**4,158,214**	**-**	**-**
Forward foreign exchange contracts and other derivatives (net)	**-**	**(96)**	**-**
	4,258,255	**207,078**	**-**

31 December 2013 (Audited)	**Level 1**	**Level 2**	**Level 3**
	AED'000	**AED'000**	**AED'000**
Investments			
Equity	84,129	18,875	-
Fund of funds	-	188,824	-
Fixed and floating rate securities	3,901,564	-	-
Forward foreign exchange contracts and other derivatives (net)	-	4,492	-
	3,985,693	212,191	-

During the period there were no transfers between Level 1 and Level 2 of the fair value hierarchy above and no transfer into and out of level 3 fair value measurements. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments during the period.

17. RELATED PARTY TRANSACTIONS

The Group enters into transactions with major shareholders, directors, key management personnel and their related entities. The terms of these transactions are approved by the Group's Board:

	Directors and key management personnel		**Other related parties**	
	31 March 2014 AED'000 (Unaudited)	31 December 2013 AED'000 Audited	**31 March 2014 AED'000 (Unaudited)**	31 December 2013 AED'000 Audited
Loans and advances	**397,065**	377,155	**1,350,052**	1,344,759
Due from Banks	**-**	-	**-**	650,000
Investment securities	**-**	-	**502,315**	527,000
Acceptances	**46,261**	68,423	**-**	-
Letters of credit	**8,804**	8,619	**-**	-
Letters of Guarantees	**140,232**	145,401	**3,116**	3,116
Deposits	**706,589**	619,870	**1,847,428**	4,185,420

	31 March 2014 AED'000 (Unaudited)	31 March 2013 AED'000 (Unaudited)	**31 March 2014 AED'000 (Unaudited)**	31 March 2013 AED'000 (Unaudited)
Interest income	**4,124**	5,751	**6,230**	4,892
Interest expense	**1,164**	852	**5,317**	7,944

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Other related parties represent major shareholders and parties related to Directors, key management personnel.

No provisions for impairment have been recognised in respect of loans given to related parties *(31 March 2013: NIL).*

The loans issued to directors are unsecured and repayable monthly over a maximum period of 5 years *(31 December 2013: 5 years)* and carry interest at the rates comparable to the third party loans.

17. RELATED PARTY TRANSACTIONS (CONTINUED)

Key management compensation

	31 March 2014 AED'000 (Unaudited)	31 March 2013 AED'000 (Unaudited)
Salaries	**2,735**	2,458
Post-employment benefits	**133**	130
Other benefits	**1,831**	1,364

18. CAPITAL ADEQUACY

The Group's regulatory capital adequacy ratio is set by the Central Bank of UAE ('the Central Bank'). The Group has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the period. The capital adequacy ratio should be a minimum of 12% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 8% as mandated by the Central Bank.

The Group's objectives when managing capital are as follows:

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

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

- Tier 1 capital, which includes ordinary share capital, translation reserve and retained earnings; and
- Tier 2 capital, which includes fair value reserves relating to unrealized gains / losses on investments classified as available-for-sale and derivatives held as cash flow hedges, general collective provision and subordinated term loans.

  The following limits have been applied for Tier 2 capital:

  - Total tier 2 capital shall not exceed 67% of tier 1 capital;
  - Subordinated liabilities shall not exceed 50% of total tier 1 capital; and
  - General Collective provision shall not exceed 1.25% of total risk weighted assets.

18. CAPITAL ADEQUACY (CONTINUED)

The table below summarizes the composition of regulatory capital and capital adequacy ratio calculation as per Basel II, of the Group:

	31 March 2014 AED'000 (Unaudited)	31 December 2013 AED'000 (Audited)
Core tier 1 capital		
Share capital	**2,242,187**	2,038,352
Legal reserve	**1,379,813**	1,379,813
General reserve	**1,100,000**	1,100,000
Retained earnings	**2,062,711**	1,981,735
Tier 1 capital	**6,784,711**	6,499,900
Upper tier 2 capital		
Fair value reserve	**48,530**	24,620
Collective provisions	**459,881**	459,916
Tier 2 capital	**508,411**	484,536
Total capital base	**7,293,122**	6,984,436
Risk weighted assets (RWA) Pillar 1		
Credit risk	**34,367,498**	34,374,854
Market risk	**27,901**	23,336
Operation risk	**2,395,103**	2,395,103
Risk weighted assets	**36,790,502**	36,793,293
Tier 1 ratio	**18.44%**	17.67%
Capital adequacy ratio (Pillar) 1	**19.82%**	18.98%

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in these condensed consolidated interim financial statements.