Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements

30 June 2014

Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements
For the six-month period ended 30 June 2014

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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 30 June 2014 and the related consolidated interim statements of income and comprehensive income for the three month and six month periods then ended and consolidated interim statements of cash flows and changes in equity for the six 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

Signed by:
Ashraf Abu Sharkh
Partner
Registration No. 690

17 July 2014
Dubai, United Arab Emirates

Commercial Bank of Dubai PSC

Consolidated interim statement of financial position

As at 30 June 2014

	Notes	30 June 2014 AED'000 (Unaudited)	31 December 2013 AED'000 Audited	30 June 2013 AED'000 (Unaudited)
ASSETS				
Cash and balances with Central Bank	5	**6,977,425**	6,132,063	5,920,354
Due from banks	6	**619,933**	1,662,172	2,069,014
Loans and advances and Islamic financing	7	**31,318,128**	30,287,385	29,316,078
Investment securities	8	**5,233,055**	4,228,653	2,857,442
Investment in associate		**84,096**	72,862	65,922
Investment properties		**254,838**	259,853	236,797
Property and equipment		**323,001**	321,273	343,963
Other assets		**1,537,096**	1,511,930	1,557,441
Total assets		**46,347,572**	44,476,191	42,367,011
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks		**1,071,474**	499,259	1,131,668
Customers' deposits and Islamic customers' deposits	9	**32,288,000**	30,942,680	28,802,106
Notes and medium term borrowings	10	**4,018,403**	4,014,806	4,016,568
Other liabilities		**1,734,498**	1,803,057	1,787,621
Total liabilities		**39,112,375**	37,259,802	35,737,963
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 and cash flow hedge instruments		**115,760**	54,712	(32,028)
Reserve for proposed bonus issue		-	203,835	-
Proposed cash dividend		-	611,506	-
Proposed directors' remuneration		-	11,000	-
Retained earnings		**2,358,799**	1,778,533	2,091,557
Equity attributable to equity holders of the parent		**7,235,197**	7,216,389	6,616,202
Non-controlling interest		-	-	12,846
Total equity		**7,235,197**	7,216,389	6,629,048
Total liabilities and equity		**46,347,572**	44,476,191	42,367,011

The condensed consolidated interim financial statements were approved by the Board of Directors on 17th July 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 six-month period ended 30 June 2014

	Notes	Six-month period ended 30 June 2014 AED'000 (Unaudited)	30 June 2013 AED'000 (Unaudited)	Three-month period ended 30 June 2014 AED'000 (Unaudited)	30 June 2013 AED'000 (Unaudited)
Interest income and income from Islamic financing		**868,085**	859,847	**426,687**	415,426
Interest expense and distributions to Islamic depositors		**(126,921)**	(165,797)	**(58,805)**	(80,188)
Net interest income and net income from Islamic financing		**741,164**	694,050	**367,882**	335,238
Net fees and commission income		**181,736**	174,749	**97,808**	94,270
Net gains from foreign exchange and derivatives		**55,783**	56,765	**28,287**	28,941
Net gains/ (losses) from investments at fair value through profit or loss - held for trading		**1,704**	(132)	**900**	(505)
Net gains from sale of available-for-sale investments		**35,016**	26,779	**13,616**	10,454
Dividend income		**4,163**	5,794	**1,059**	459
Share of profit of associate		**17,024**	10,397	**4,570**	4,782
Other income		**15,779**	15,086	**8,501**	8,438
Total operating income before provisions		**1,052,369**	983,488	**522,623**	482,077
Impairment allowances on loans and advances and Islamic financing	*7*	**(159,073)**	(205,042)	**(68,049)**	(85,461)
Recoveries		**22,351**	13,196	**12,561**	9,102
Net operating income		**915,647**	791,642	**467,135**	405,718
General and administrative expenses		**(312,307)**	(271,304)	**(159,676)**	(142,972)
Depreciation and amortization		**(22,253)**	(23,820)	**(11,183)**	(11,816)
Total operating expenses		**(334,560)**	(295,124)	**(170,859)**	(154,788)
Net profit for the period		**581,087**	496,518	**296,276**	250,930
Attributed to :					
Equity holders of the parent		**581,087**	496,788	**296,276**	251,309
Non-controlling interest		**-**	(270)	**-**	(379)
Net profit for the period		**581,087**	496,518	**296,276**	250,930
Basic and diluted earnings per share	*12*	**AED 0.26**	AED 0.22	**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 six-month period ended 30 June 2014

	Six-month period ended		Three-month period ended	
	30 June 2014 AED'000 (Unaudited)	30 June 2013 AED'000 (Unaudited)	**30 June 2014 AED'000 (Unaudited)**	30 June 2013 AED'000 (Unaudited)
Net profit for the period	**581,087**	496,518	**296,276**	250,930
Other comprehensive income*:				
Changes in fair value of effective portion of cash flow hedge	**(428)**	-	(428)	-
Changes in available-for-sale investments:				
Realised gains on sale of available-for-sale investments	**(35,016)**	(26,779)	**(13,616)**	(10,454)
Amortisation of reclassified investments	**-**	3,608	**-**	1,290
Share of other comprehensive income of associate	**352**	-	**352**	(177)
Revaluation of available-for-sale investments	**96,140**	(31,390)	**21,608**	(65,311)
Net change in available-for-sale investments	**61,476**	(54,561)	**8,344**	(74,652)
Other comprehensive income for the period	**61,048**	(54,561)	**7,916**	(74,652)
Total comprehensive income for the period	**642,135**	441,957	**304,192**	176,278
Attributed to:				
Equity holders of the parent	**642,135**	442,227	**304,192**	176,657
Non-controlling interest	**-**	(270)	**-**	(379)
Total comprehensive income for the period	**642,135**	441,957	**304,192**	176,278

*All items included in other comprehensive income (as above) could be reclassified to income statement in subsequent periods.

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

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Commercial Bank of Dubai PSC

Consolidated interim statement of changes in equity

For the six-month period ended 30 June 2014

	Share capital	Legal reserve	Capital reserve	General reserve	Cumulative changes in fair values of AFS investments and cash flow hedge instruments	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	22,533	1,595,295	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	-	-	-	-	-	(526)	-	(526)	-	(526)
Redemption of units of funds	-	-	-	-	-	-	-	-	(461)	(461)
Comprehensive income										
Net profit for the period	-	-	-	-	-	496,788	-	496,788	(270)	496,518
Other comprehensive income for the period	-	-	-	-	(54,561)	-	-	(54,561)	-	(54,561)
Total comprehensive income	-	-	-	-	(54,561)	496,788	-	442,227	(270)	441,957
At 30 June 2013 (Unaudited)	2,038,352	1,379,683	38,638	1,100,000	(32,028)	2,091,557	-	6,616,202	12,846	6,629,048
At 1 January 2014	**2,038,352**	**1,379,813**	**38,638**	**1,100,000**	**54,712**	**1,778,533**	**826,341**	**7,216,389**	-	**7,216,389**
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)**
Share of Directors' remuneration of associate	-	-	-	-	-	**(821)**	-	**(821)**	-	**(821)**
Comprehensive income										
Net profit for the period	-	-	-	-	-	**581,087**	-	**581,087**	-	**581,087**
Other comprehensive income for the period	-	-	-	-	**61,048**	-	-	**61,048**	-	**61,048**
Total comprehensive income	-	-	-	-	**61,048**	**581,087**	-	**642,135**	-	**642,135**
At 30 June 2014 (Unaudited)	**2,242,187**	**1,379,813**	**38,638**	**1,100,000**	**115,760**	**2,358,799**	-	**7,235,197**	-	**7,235,197**

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 cash flows

For the six-month period ended 30 June 2014

	Note	**30 June 2014 AED'000 (Unaudited)**	30 June 2013 AED'000 (Unaudited)
OPERATING ACTIVITIES			
Profit for the period		**581,087**	496,518
Adjustments for:			
Depreciation and amortization		**22,253**	23,820
Gain on disposal of property and equipment		**(22)**	-
Dividend income		**(4,163)**	(5,794)
Amortization of investments		**29,995**	7,958
Increase in investment in associate		**(10,881)**	(3,986)
Net unrealized (gains) / loss on investments at fair value through profit or loss - held for trading net of forex translation		**(397)**	742
Realized gains on sale of investments		**(36,346)**	(27,161)
Net unrealized income on derivatives		**(830)**	(1,033)
Amortization of medium term borrowings		**3,597**	4,132
Directors' remuneration paid		**(11,000)**	(11,000)
Share of Directors' remuneration of associate		**(821)**	(526)
		572,472	483,670
Increase in statutory reserve with the Central Bank		**(311,486)**	(140,487)
Increase in loans and advances and Islamic financing		**(1,030,743)**	(2,114,468)
Increase in other assets		**(77,239)**	(33,876)
Increase in due from banks with original maturity of more than three months		**-**	(42,561)
Increase in customers' deposits and Islamic customers' deposits		**1,345,320**	750,117
(Decrease) /increase in other liabilities		**(16,082)**	123,368
Increase in due to banks with original maturity of more than three months		**-**	50,674
Net cash flows from /(used in) operating activities		**482,242**	(923,563)
INVESTING ACTIVITIES			
Purchase of investments		**(1,946,073)**	(1,634,261)
Purchase / transfer of property and equipment		**(29,858)**	68,619
Increase in investment properties		**(82)**	(74,916)
Dividend income		**4,163**	5,794
Proceeds from sale of investments		**1,009,540**	1,117,483
Proceeds from sale of property and equipment		**10,996**	-
Net cash flows used in investing activities		**(951,314)**	(517,281)
FINANCING ACTIVITIES			
Dividends paid		**(611,506)**	(611,506)
Issuance of Euro medium term notes		**-**	1,821,229
Net cash flows (used in) / from financing activities		**(611,506)**	1,209,723
Net decrease in cash and cash equivalents		**(1,080,578)**	(231,121)
Cash and cash equivalents at 1 January		**5,169,019**	5,083,345
Cash and cash equivalents at the end of the period	*13*	**4,088,441**	4,852,224

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 six-month period ended 30 June 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 six month period ended 30 June 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 six months ended 30 June 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

	30 June 2014 AED'000 (Unaudited)	31 December 2013 AED'000 Audited
Cash on hand	**366,725**	443,485
Balances with Central Bank		
-Clearing account balances	**173,257**	362,621
-Statutory reserves	**2,437,443**	2,125,957
-Negotiable certificates of deposit	**4,000,000**	3,200,000
	6,977,425	6,132,063

All the above balances are held in accounts within UAE.

6. DUE FROM BANKS

	30 June 2014 AED'000 (Unaudited)	31 December 2013 AED'000 Audited
Current and demand deposits	**95,626**	89,948
Placements	**524,307**	1,572,224
	619,933	1,662,172

The geographical concentration is as follows:

Within the U.A.E.	**160,716**	1,361,522
Outside the U.A.E	**459,217**	300,650
	619,933	1,662,172

7. LOANS AND ADVANCES AND ISLAMIC FINANCING

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

	30 June 2014 AED'000 (Unaudited)	31 December 2013 AED'000 Audited
Loans and advances		
Overdrafts	**5,199,439**	5,486,219
Loans	**25,591,469**	24,160,337
Advances against letters of credit and trust receipts	**590,288**	680,820
Bills discounted	**691,304**	677,948
Gross loans and advances	**32,072,500**	31,005,324
Islamic financing		
Murabaha	**838,528**	872,066
Ijara	**1,246,198**	982,413
Musharaka	**-**	101,691
Others	**163,054**	156,114
Gross Islamic financing	**2,247,780**	2,112,284
Gross loans and advances and Islamic financing	**34,320,280**	33,117,608
Less: provision for impairment losses	**(3,002,152)**	(2,830,223)
Net loans and advances and Islamic financing	**31,318,128**	30,287,385

7. LOANS AND ADVANCES AND ISLAMIC FINANCING (CONTINUED)

Analysis by sector	30 June 2014 AED'000 (Unaudited)	31 December 2013 AED'000 Audited
Commercial and business:-		
Agriculture and allied activities	92,680	99,424
Mining and quarrying	153,875	76,450
Manufacturing	1,189,687	1,197,095
Construction and real estate	2,454,941	2,812,172
Trade	8,571,721	8,091,338
Transport and communication	834,330	499,498
Services	5,423,795	5,147,322
Business and investment	7,101,561	7,065,767
Total commercial and business	25,822,590	24,989,066
Banks and financial institutions	374,793	421,160
Government and public sector entities	4,001,191	4,298,870
Personal – schematic	3,601,598	2,894,867
Others	520,108	513,645
Gross loans and advances and Islamic financing	34,320,280	33,117,608
Less: Provisions for impairment losses	(3,002,152)	(2,830,223)
Net loans and advances and Islamic financing	31,318,128	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	101,927	154,073	5,000	261,000
Less:				
Written-off	(7,795)	(25,816)	-	(33,611)
Recoveries /reversal to income	(34,373)	(21,087)	-	(55,460)
Closing Balance 30 June 2014 (Unaudited)	538,241	1,984,916	478,995	3,002,152

7. LOANS AND ADVANCES AND ISLAMIC FINANCING (CONTINUED)

	Interest suspended AED'000	Specific provisions AED'000	Collective provisions AED'000	Total AED'000
Opening balance 1 January 2013	395,001	1,538,093	440,743	2,373,837
Interest not recognized / new provisions raised	98,175	201,202	3,840	303,217
Less:				
Written-off	(12,847)	(9,453)	-	(22,300)
Recoveries / reversal to income	(48,813)	(8,417)	-	(57,230)
Closing Balance 30 June 2013 (Unaudited)	431,516	1,721,425	444,583	2,597,524

8. INVESTMENT SECURITIES

30 June 2014 (Unaudited)	Domestic AED'000	GCC AED'000	International AED'000	Total AED'000
Held for trading				
Equities	**1,086**	-	**870**	**1,956**
Fixed rate securities				
- Government	**16,066**	**8,225**	-	**24,291**
- Others	**7,964**	-	-	**7,964**
Available-for-sale				
Equities	**150,428**	-	-	**150,428**
Fund of funds	**15,654**	**31,779**	**213,010**	**260,443**
Fixed rate securities				
- Government	**1,798,431**	**81,703**	-	**1,880,134**
- Others	**1,395,291**	**763,572**	**360,047**	**2,518,910**
Floating rate securities				
- Government	**33,330**	-	-	**33,330**
- Others	**272,334**	**83,265**	-	**355,599**
Held-to-maturity				
Floating rate non government securities	-	-	-	-
Total investment securities	**3,690,584**	**968,544**	**573,927**	**5,233,055**

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 securities				
- Government	-	-	-	-
- Others	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	**30 June 2014 AED'000 (Unaudited)**	31 December 2013 AED'000 Audited
Current and demand accounts	**13,854,488**	12,106,932
Savings accounts	**1,364,882**	1,352,344
Time deposits	**11,340,893**	10,714,666
	26,560,263	24,173,942
Islamic customers' deposits		
Current and demand accounts	**769,714**	857,584
Mudaraba saving	**489,510**	504,915
Investment deposits and Wakala	**4,468,513**	5,406,239
	5,727,737	6,768,738
Total customers' deposits and Islamic customers' deposits	**32,288,000**	30,942,680

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 30 June 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 six and three month period ended 30 June 2014 attributable to the shareholders of the parent amounting to AED 581.1 million and AED 296.3 million respectively (*six and three month period ended 30 June 2013: AED 496.8 million and AED 251.3 million respectively)*, and on the weighted average number of shares in issue totaling 2,242,187,174 for all periods presented (after adjusting for bonus shares).

13. CASH AND CASH EQUIVALENTS

	30 June 2014 AED'000 (Unaudited)	30 June 2013 AED'000 (Unaudited)
Cash in hand	**366,725**	402,355
Balances with the Central Bank	**173,257**	354,933
Negotiable certificates of deposit with the Central Bank	**4,000,000**	3,150,000
Due from banks with original maturities less than three months	**619,933**	2,025,930
	5,159,915	5,933,218
Due to banks with original maturities less than three months	**(1,071,474)**	(1,080,994)
	4,088,441	4,852,224

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.

	30 June 2014 AED'000 (Unaudited)	31 December 2013 AED'000 Audited
Contingent liabilities:		
Letters of credit	**1,246,695**	1,157,129
Guarantees	**5,478,282**	5,107,403
	6,724,977	6,264,532
Credit commitments:		
Undrawn commitments to extend credit	**10,248,141**	9,927,716
Total contingent liabilities and credit commitments	**16,973,118**	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 six-month period was as follows:

30 June 2014 (Unaudited)	Corporate banking	Commercial banking	Personal banking	Treasury & investments	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Assets	**21,342,491**	**7,716,312**	**4,208,566**	**13,080,203**	**46,347,572**
Liabilities	**15,088,845**	**6,985,017**	**11,927,662**	**5,110,851**	**39,112,375**
31 December 2013(Audited)					
Assets	21,305,107	7,512,439	3,452,786	12,205,859	44,476,191
Liabilities	14,635,805	7,176,984	10,912,107	4,534,906	37,259,802
30 June 2014 (Unaudited)					
Interest Income and Income from Islamic Financing	**443,326**	**232,057**	**123,297**	**69,405**	**868,085**
Interest Expense and distribution to Islamic depositors	**(51,756)**	**(7,165)**	**(14,250)**	**(53,750)**	**(126,921)**
Net interest income and income from Islamic financing	**391,570**	**224,892**	**109,047**	**15,655**	**741,164**
Net inter segment income	**(78,944)**	**(15,978)**	**31,161**	**63,761**	**-**
Non-interest income	**71,736**	**60,834**	**88,736**	**66,492**	**287,798**
Other income	**7,912**	**6,709**	**8,786**	**-**	**23,407**
Total income	**392,274**	**276,457**	**237,730**	**145,908**	**1,052,369**
Allocated cost	**71,239**	**138,968**	**87,958**	**14,142**	**312,307**
Provisions for impairment losses net of recoveries	**99,891**	**22,594**	**14,237**	**-**	**136,722**
Depreciation	**8,090**	**4,076**	**9,556**	**531**	**22,253**
Total expenses	**179,220**	**165,638**	**111,751**	**14,673**	**471,282**
Net profit for the period	**213,054**	**110,819**	**125,979**	**131,235**	**581,087**
30 June 2013 (Unaudited)					
Interest Income and Income from Islamic Financing	493,620	221,385	101,500	43,342	859,847
Interest Expense and distribution to Islamic depositors	(110,001)	(8,256)	(12,267)	(35,273)	(165,797)
Net interest income and income from Islamic financing	383,619	213,129	89,233	8,069	694,050
Net inter segment income	(105,812)	1,986	30,418	73,408	-
Non-interest income	69,409	57,692	77,911	68,559	273,571
Other income	5,372	4,465	6,030	-	15,867
Total income	352,588	277,272	203,592	150,036	983,488
Allocated cost	62,566	129,040	67,366	12,332	271,304
Provisions for impairment losses net of recoveries	191,788	23,731	(23,673)	-	191,846
Depreciation	10,758	5,543	7,037	482	23,820
Total expenses	265,112	158,314	50,730	12,814	486,970
Net profit for the period	87,476	118,958	152,862	137,222	496,518

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 AED'000	Amortized Cost: Held-to-maturity AED'000	Amortized Cost: Loans and receivables AED'000	Available-for-sale at fair value AED'000	Other amortized cost AED'000	Total carrying amount AED'000
30 June 2014 (Unaudited)						
Cash and balances with Central Bank	-	-	-	-	**6,977,425**	**6,977,425**
Due from banks	-	-	-	-	**619,933**	**619,933**
Loans and advances and Islamic financing	-	-	**31,318,128**	-	-	**31,318,128**
Investment securities	**34,211**	-	-	**5,198,844**	-	**5,233,055**
Other assets	**14,639**	-	-	-	**1,383,586**	**1,398,225**
Total financial assets	**48,850**	-	**31,318,128**	**5,198,844**	**8,980,944**	**45,546,766**
Due to banks	-	-	-	-	**1,071,474**	**1,071,474**
Customers' deposits and Islamic customers' deposits	-	-	-	-	**32,288,000**	**32,288,000**
Notes and medium term borrowing	-	-	-	-	**4,018,403**	**4,018,403**
Other liabilities	**9,743**	-	-	-	**1,662,594**	**1,672,337**
Total financial liabilities	**9,743**	-	-	-	**39,040,471**	**39,050,214**
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	-	-	-	1,370,376	1,385,071
Total financial assets	47,992	35,261	30,287,385	4,160,095	9,164,611	43,695,344
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:

30 June 2014 (Unaudited)	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**
Investments			
Equity	**136,883**	**15,501**	**-**
Fund of funds	**-**	**260,443**	**-**
Fixed and floating rate securities	**4,820,228**	**-**	**-**
Forward foreign exchange contracts and other derivatives (net)	**-**	**4,896***	**-**
	4,957,111	**280,840**	**-**

31 December 2013 (Audited)	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 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	-

* This includes fair value of currency swaps amounting to AED 458 thousand with notional amounts of USD 11,435,227 and Chinese Yuan 72,000,000.

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	
	30 June 2014 AED'000 (Unaudited)	31 December 2013 AED'000 Audited	**30 June 2014 AED'000 (Unaudited)**	31 December 2013 AED'000 Audited
Loans and advances	**366,137**	377,155	**1,492,658**	1,344,759
Due from Banks	**-**	-	**-**	650,000
Investment securities	**-**	-	**838,239**	527,000
Acceptances	**2,904**	68,423	**-**	-
Letters of credit	**7,140**	8,619	**-**	-
Letters of Guarantees	**134,694**	145,401	**10,931**	3,116
Deposits	**608,333**	619,870	**4,229,328**	4,185,420

	30 June 2014 AED'000 (Unaudited)	30 June 2013 AED'000 (Unaudited)	**30 June 2014 AED'000 (Unaudited)**	30 June 2013 AED'000 (Unaudited)
Interest income	**10,388**	14,976	**15,964**	12,256
Interest expense	**2,678**	2,135	**10,747**	18,502

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 *(30 June 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.

Sitting fees paid to certain directors for attending sub-committee meetings during the six months period ended 30 June-14 was AED 680 thousand *(30 June 2013: Nil).*

17. RELATED PARTY TRANSACTIONS (CONTINUED)

Key management compensation

	30 June 2014 AED'000 (Unaudited)	30 June 2013 AED'000 (Unaudited)
Salaries	**5,624**	5,211
Post-employment benefits	**406**	646
Other benefits	**3,669**	2,778
	=====	=====

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:

	30 June 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	**2,358,799**	1,982,368
Tier 1 capital	**7,080,799**	6,500,533
Upper tier 2 capital		
Fair value reserve	**52,092**	24,620
Collective provisions	**475,110**	459,916
Tier 2 capital	**527,202**	484,536
Total capital base	**7,608,001**	6,985,069
Risk weighted assets (RWA) Pillar 1		
Credit risk	**35,579,197**	34,374,854
Market risk	**34,531**	23,336
Operational risk	**2,395,103**	2,395,103
Risk weighted assets	**38,008,831**	36,793,293
Tier 1 ratio	**18.63%**	17.67%
Capital adequacy ratio (Pillar) 1	**20.02%**	18.98%

19. COMPARATIVE FIGURES

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