Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements

31 March 2015

Commercial Bank of Dubai PSC

Condensed consolidated interim financial statements
For the three-month period ended 31 March 2015

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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 subsidiaries (collectively referred to as the "Group"), which comprise the consolidated interim statement of financial position as at 31 March 2015 and the related consolidated interim statements of income and 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

22 April 2015
Dubai, United Arab Emirates

Commercial Bank of Dubai PSC

Consolidated interim statement of financial position

As at 31 March 2015

	Notes	31 March 2015 AED'000 (Unaudited)	31 December 2014 AED'000 Audited	31 March 2014 AED'000 (Unaudited)
ASSETS				
Cash and balances with Central Bank	*5*	**5,228,971**	5,450,145	6,039,386
Due from banks	*6*	**1,836,480**	1,565,312	1,210,536
Loans and advances and Islamic financing	*7*	**33,804,455**	32,128,517	29,901,979
Investment securities	*8*	**5,532,038**	5,587,998	4,500,690
Investment in associate		**81,158**	84,590	79,993
Investment properties		**248,232**	249,991	257,285
Property and equipment		**328,447**	323,852	317,788
Other assets		**1,645,420**	1,488,150	1,440,062
Total assets		**48,705,201**	46,878,555	43,747,719
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks		**586,726**	1,097,926	446,202
Customers' deposits and Islamic customers' deposits	*9*	**34,707,521**	32,161,339	30,512,487
Notes and medium term borrowings	*10*	**4,023,732**	4,021,998	4,016,583
Other liabilities		**1,841,571**	1,786,879	1,841,254
Total liabilities		**41,159,550**	39,068,142	36,816,526
EQUITY				
Share capital	*11*	**2,802,734**	2,242,187	2,242,187
Legal reserve		**1,380,495**	1,380,495	1,379,813
Capital reserve		**38,638**	38,638	38,638
General reserve		**1,121,095**	1,121,095	1,100,000
Cumulative changes in fair values of AFS investments and cash flow hedge instruments		**81,054**	69,808	107,844
Reserve for proposed bonus issue		-	560,547	-
Proposed cash dividend		-	560,547	-
Proposed directors' remuneration		-	10,540	-
Retained earnings		**2,121,635**	1,826,556	2,062,711
Total equity		**7,545,651**	7,810,413	6,931,193
Total liabilities and equity		**48,705,201**	46,878,555	43,747,719

The condensed consolidated interim financial statements were approved by the Board of Directors on 22nd April 2015.

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 2015

	Notes	**31 March 2015 AED'000 (Unaudited)**	31 March 2014 AED'000 (Unaudited)
Interest income and income from Islamic financing		**468,095**	441,398
Interest expense and distributions to Islamic depositors		**(60,499)**	(68,116)
Net interest income and net income from Islamic financing		**407,596**	373,282
Net fees and commission income		**114,473**	83,928
Net gains from foreign exchange and derivatives		**34,008**	27,496
Net gains from investments at fair value through profit or loss - held for trading		**579**	804
Net gains from sale of available-for-sale investments		**8,991**	21,400
Dividend and other investment income		**4,607**	3,104
Share of profit of associate		**3,221**	12,454
Other income		**7,669**	7,278
Total operating income before provisions		**581,144**	529,746
Impairment allowances on loans and advances and Islamic financing	*7*	**(130,566)**	(91,024)
Recoveries		**36,406**	9,790
Net operating income		**486,984**	448,512
General and administrative expenses		**(179,919)**	(152,631)
Depreciation and amortization		**(11,986)**	(11,070)
Total operating expenses		**(191,905)**	(163,701)
Net profit for the period		**295,079**	284,811
Basic and diluted earnings per share	*12*	**AED 0.11**	AED 0.10

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 2015

	31 March 2015 AED'000 (Unaudited)	31 March 2014 AED'000 (Unaudited)
Net profit for the period	**295,079**	284,811
Other comprehensive income*:		
Changes in fair value of effective portion of cash flow hedge	**(143)**	-
Changes in available-for-sale investments:		
Realised gains on sale of available-for-sale investments	**(8,991)**	(21,400)
Revaluation of available-for-sale investments	**20,380**	74,532
Net change in available-for-sale investments	**11,389**	53,132
Other comprehensive income for the period	**11,246**	53,132
Total comprehensive income for the period	**306,325**	337,943

*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 (Unaudited)

For the three month period ended 31 March 2015

	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	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
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
Transactions with owners, recorded directly in equity								
Cash dividend paid for 2013 (30%)	-	-	-	-	-	-	(611,506)	(611,506)
Bonus shares issued for 2013 (10%)	203,835	-	-	-	-	-	(203,835)	-
Directors' remuneration paid for 2013	-	-	-	-	-	-	(11,000)	(11,000)
Comprehensive income								
Net profit for the period	-	-	-	-	-	284,811	-	284,811
Other comprehensive income for the period	-	-	-	-	53,132	-	-	53,132
Total comprehensive income	-	-	-	-	53,132	284,811	-	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
At 1 January 2015	**2,242,187**	**1,380,495**	**38,638**	**1,121,095**	**69,808**	**1,826,556**	**1,131,634**	**7,810,413**
Transactions with owners, recorded directly in equity								
Cash dividend paid for 2014 (25%)	-	-	-	-	-	-	**(560,547)**	**(560,547)**
Bonus shares issued for 2014 (25%)	**560,547**	-	-	-	-	-	**(560,547)**	-
Directors' remuneration paid for 2014	-	-	-	-	-	-	**(10,540)**	**(10,540)**
Comprehensive income								
Net profit for the period	-	-	-	-	-	**295,079**	-	**295,079**
Other comprehensive income for the period	-	-	-	-	**11,246**	-	-	**11,246**
Total comprehensive income	-	-	-	-	**11,246**	**295,079**	-	**306,325**
At 31 March 2015 (Unaudited)	**2,802,734**	**1,380,495**	**38,638**	**1,121,095**	**81,054**	**2,121,635**	-	**7,545,651**

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 three month period ended 31 March 2015

	Note	31 March 2015 AED'000 (Unaudited)	31 March 2014 AED'000 (Unaudited)
OPERATING ACTIVITIES			
Profit for the period		**295,079**	284,811
Adjustments for:			
Depreciation and amortization		**11,986**	11,070
Loss /(gain) on disposal of property and equipment		**3**	(21)
Dividend income		**(4,607)**	(3,104)
Amortization of investments		**14,412**	15,005
Decrease / (increase) in investment in associate		**3,432**	(7,131)
Net unrealized loss / (gains) on investments at fair value through profit or loss - held for trading net of forex translation		**3,390**	(373)
Realized gains on sale of investments		**(9,523)**	(21,938)
Net unrealized (income) / loss on derivatives		**(5,300)**	4,485
Amortization of medium term borrowings		**1,734**	1,777
		310,606	284,581
Increase in statutory reserve with the Central Bank		**(94,238)**	(101,255)
(Increase) / decrease in loans and advances and Islamic financing		**(1,675,938)**	353,563
Increase in other assets		**(54,023)**	(894)
Increase / (decrease) in customers' deposits and Islamic customers' deposits		**2,546,182**	(430,193)
Decrease / (increase) in other liabilities		**(43,398)**	137,684
Directors' remuneration paid		**(10,540)**	(11,000)
Net cash flows from operating activities		**978,651**	232,486
INVESTING ACTIVITIES			
Purchase of investments		**(610,672)**	(692,633)
Purchase of property and equipment		**(14,902)**	(6,178)
Increase in investment properties		**(314)**	-
Dividend income		**4,607**	3,104
Proceeds from sale of investments		**669,745**	481,034
Proceeds from sale of property and equipment		**388**	1,182
Net cash flows from /(used in) investing activities		**48,852**	(213,491)
FINANCING ACTIVITIES			
Dividends paid		**(560,547)**	(611,506)
Cash flows used in financing activities		**(560,547)**	(611,506)
Net increase/ (decrease) in cash and cash equivalents		**466,956**	(592,511)
Cash and cash equivalents at 1 January		**3,462,213**	5,169,019
Cash and cash equivalents at the end of the period	*13*	**3,929,169**	4,576,508

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 (U.A.E.) 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 Bank's principal activity is commercial banking.
The consolidated financial statements of the Group for the three-month period ended 31 March 2015 comprise the results of the Bank and its subsidiaries (together referred to as "the Group").

Details about subsidiaries and associates

CBD Financial Services LLC, is registered as a limited liability company in accordance with Federal Law No. 8 of 1984 (as amended) in Dubai, United Arab Emirates. The Bank holds a 100% interest. Its principal activity is broking for local shares and bonds.
Attijari Properties LLC, is registered as a limited liability company in accordance with Federal Law No. 8 of 1984 (as amended) in Dubai, United Arab Emirates. The Bank holds a 100% interest. Its principal activity is buying & selling of real estate and self-owned property management services.
National General Insurance Co. (PSC) is an associate of the Bank and is listed in Dubai Financial Market. It underwrites all classes of life and general insurance business as well as certain reinsurance business. The Bank holds 17.8% interest in "National General Insurance Co. (PSC)". The management believes that it has significant influence on the associate by virtue of it having representation on the board of directors of the Associate.
The registered address of the Bank 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 2014. In addition, results for the three months ended 31 March 2015 are not necessarily indication of the results that may be expected for the financial year ending 31 December 2015.

(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, are consistent with the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2014.

3. SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the accounting policies and methods of computation used for the preparation of the last published annual audited consolidated financial statements as at and for the year ended 31 December 2014.

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 2014.

5. CASH AND BALANCES WITH CENTRAL BANK

	31 March 2015 AED'000 (Unaudited)	31 December 2014 AED'000 Audited
Cash on hand	**409,901**	445,682
Balances with Central Bank		
-Clearing account balances	**119,514**	99,145
-Statutory reserves	**2,499,556**	2,405,318
-Negotiable certificates of deposit	**2,200,000**	2,500,000
	5,228,971	5,450,145

All the above balances are held in accounts within UAE.

6. DUE FROM BANKS

	31 March 2015 AED'000 (Unaudited)	31 December 2014 AED'000 Audited
Current and demand deposits	**280,529**	187,897
Placements	**1,555,951**	1,377,415
	1,836,480	1,565,312

The geographical concentration is as follows:

Within the U.A.E.	**1,108,586**	766,353
Outside the U.A.E	**727,894**	798,959
	1,836,480	1,565,312

7. LOANS AND ADVANCES AND ISLAMIC FINANCING

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

	31 March 2015 AED'000 (Unaudited)	31 December 2014 AED'000 Audited
Loans and advances		
Overdrafts	**5,150,989**	5,241,049
Loans	**26,902,909**	25,795,578
Advances against letters of credit and trust receipts	**1,097,364**	885,449
Bills discounted	**801,122**	881,213
Gross loans and advances	**33,952,384**	32,803,289
Islamic financing		
Murabaha	**935,613**	828,832
Ijara	**1,513,624**	1,434,813
Musharaka	**9,157**	-
Others	**115,051**	98,524
Gross Islamic financing	**2,573,445**	2,362,169
Gross loans and advances and Islamic financing	**36,525,829**	35,165,458
Less: provision for impairment losses	**(2,721,374)**	(3,036,941)
Net loans and advances and Islamic financing	**33,804,455**	32,128,517

7. LOANS AND ADVANCES AND ISLAMIC FINANCING (CONTINUED)

Analysis by sector	**31 March 2015 AED'000 (Unaudited)**	31 December 2014 AED'000 Audited
Commercial and business:-		
Manufacturing	**1,038,023**	1,155,848
Construction	**1,415,549**	1,537,185
Real estate	**3,243,980**	3,102,825
Trade	**7,297,244**	7,537,430
Services	**5,376,380**	4,815,229
Business and investment	**8,586,753**	8,227,527
Total commercial and business	**26,957,929**	26,376,044
Banks and financial institutions	**1,036,315**	643,802
Government and public sector entities	**3,680,572**	3,614,228
Personal - mortgage	**1,668,408**	1,664,463
Personal - schematic	**2,542,548**	2,233,956
Others	**640,057**	632,965
Gross loans and advances and Islamic financing	**36,525,829**	35,165,458
Less: Provisions for impairment losses	**(2,721,374)**	(3,036,941)
Net loans and advances and Islamic financing	**33,804,455**	32,128,517

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 2015	**497,642**	**2,014,080**	**525,219**	**3,036,941**
Interest not recognized / new provisions raised	**45,432**	**100,566**	**30,000**	**175,998**
Less:				
Written-off	**(112,404)**	**(301,767)**	**-**	**(414,171)**
Recoveries /reversal to income	**(41,284)**	**(36,110)**	**-**	**(77,394)**
Closing Balance 31 March 2015 (Unaudited)	**389,386**	**1,776,769**	**555,219**	**2,721,374**

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 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

Commercial Bank of Dubai PSC

Notes to the condensed consolidated interim financial statements (continued)
For the three month period ended 31 March 2015

8. INVESTMENT SECURITIES

31 March 2015 (Unaudited)	Domestic AED'000	GCC AED'000	International AED'000	Total AED'000
Held for trading				
Equities	2	-	1,406	1,408
Fixed rate securities				
- Government	8,374	3,655	-	12,029
- Others	19,422	7,359	7,365	34,146
Available-for-sale				
Equities	143,590	-	-	143,590
Fund of funds	15,321	35,943	228,363	279,627
Fixed rate securities				
- Government	1,710,967	254,699	-	1,965,666
- Others	1,399,807	667,268	535,340	2,602,415
Floating rate non-government securities	326,718	102,211	64,228	493,157
Total investment securities	3,624,201	1,071,135	836,702	5,532,038

31 December 2014 Audited	Domestic AED'000	GCC AED'000	International AED'000	Total AED'000
Held for trading				
Equities	771	-	993	1,764
Fixed rate securities				
- Government	23,675	3,932	-	27,607
- Others	-	-	-	-
Available-for-sale				
Equities	157,247	-	-	157,247
Fund of funds	15,328	36,815	220,542	272,685
Fixed rate securities				
- Government	1,750,825	312,076	-	2,062,901
- Others	1,317,490	729,809	537,186	2,584,485
Floating rate non-government securities	320,925	96,705	63,679	481,309
Total investment securities	3,586,261	1,179,337	822,400	5,587,998

9. CUSTOMERS' DEPOSITS AND ISLAMIC CUSTOMERS' DEPOSITS

Customers' deposits	31 March 2015 AED'000 (Unaudited)	31 December 2014 AED'000 Audited
Current and demand accounts	**14,815,191**	13,085,481
Savings accounts	**1,493,414**	1,411,014
Time deposits	**12,203,549**	10,880,955
	28,512,154	25,377,450
Islamic customers' deposits		
Current and demand accounts	**1,063,782**	955,337
Mudaraba saving	**500,657**	467,467
Investment deposits and Wakala	**4,630,928**	5,361,085
	6,195,367	6,783,889
Total customers' deposits and Islamic customers' deposits	**34,707,521**	32,161,339

10. NOTES AND MEDIUM TERM BORROWINGS

Syndicated loan
In December 2013, the Group entered into a club deal of USD 450 million (AED 1,653 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 (AED 551 million) with arrangements to repurchase them at a fixed future date in July 2017.

These securities are carried at fair value amounting to USD 181.7 million (AED 667.3 million) as at 31 March 2015.

Euro medium term notes
In 2013 CBD activated its Euro Medium Term Note (EMTN) program, which was launched in 2008. The maximum issuance under the program is USD 2 billion (AED 7.3 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 (AED 1,836.5 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 2015 comprised 2,802,733,968 ordinary shares of AED 1 each *(31 December 2014: 2,242,187,174 shares of AED 1 each)*. The movement in no. of shares during the period is as follows:

	For the three month period ended 31 March 2015 (Unaudited)	For the year ended 31 December 2014 Audited
As at the beginning of the period / year	**2,242,187,174**	2,038,351,976
Bonus shares issued during the period / year	**560,546,794**	203,835,198
At the end of the period / year	**2,802,733,968**	2,242,187,174

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 2015 attributable to the shareholders of the parent amounting to AED 295.1 million (three month period ended 31 March 2014: AED 284.8 million), and on the weighted average number of shares in issue totaling 2,802,733,968 for all periods presented (after adjusting for bonus shares).

13. CASH AND CASH EQUIVALENTS

	31 March 2015 AED'000 (Unaudited)	31 March 2014 AED'000 (Unaudited)
Cash in hand	**409,901**	374,443
Balances with the Central Bank	**119,514**	537,731
Negotiable certificates of deposit with the Central Bank with original maturity less than three months	**2,100,000**	2,900,000
Due from banks with original maturities less than three months	**1,836,480**	1,210,536
	4,465,895	5,022,710
Due to banks with original maturities less than three months	**(536,726)**	(446,202)
	3,929,169	4,576,508

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 2015 AED'000 (Unaudited)	31 December 2014 AED'000 Audited
Contingent liabilities:		
Letters of credit	**1,129,268**	1,091,458
Guarantees	**7,341,065**	6,656,419
	8,470,333	7,747,877
Credit commitments:		
Undrawn commitments to extend credit	**12,980,468**	11,900,926
Total contingent liabilities and credit commitments	**21,450,801**	19,648,803

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 a mutually agreed 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.
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 business (small) clients, 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 to 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 2015(Unaudited)	**Corporate banking**	**Commercial banking**	**Personal banking**	**Treasury & investments**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Assets	**21,792,157**	**8,760,241**	**5,365,084**	**12,787,719**	**48,705,201**
Liabilities	**16,818,060**	**6,664,031**	**13,003,544**	**4,673,915**	**41,159,550**
31 December 2014(Audited)					
Assets	21,046,632	8,203,749	4,861,396	12,766,778	46,878,555
Liabilities	15,474,946	6,028,734	12,417,019	5,147,443	39,068,142
31 March 2015(Unaudited)					
Net interest income and net income from Islamic financing	**142,025**	**97,837**	**89,886**	**77,848**	**407,596**
Non-Interest & Other Income	**53,441**	**43,808**	**55,579**	**20,720**	**173,548**
Total operating income	**195,466**	**141,645**	**145,465**	**98,568**	**581,144**
Direct and allocated cost					**179,919**
Provisions for impairment losses net of recoveries					**94,160**
Depreciation					**11,986**
Total expenses					**286,065**
Net profit for the period					**295,079**
31 March 2014 (Unaudited)					
Net interest income and net income from Islamic financing	140,370	89,857	74,785	68,270	373,282
Non-Interest & Other Income	34,309	25,268	41,850	55,037	156,464
Total operating income	174.679	115.125	116.635	123.307	529,746
Direct and allocated cost					152,631
Provisions for impairment losses net of recoveries					81,234
Depreciation					11,070
Total expenses					244,935
Net profit for the period					284,811

Comparative figures have been adjusted to reflect current period presentation.

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
31 March 2015 (Unaudited)						
Cash and balances with Central Bank	-	-	-	-	5,228,971	5,228,971
Due from banks	-	-	-	-	1,836,480	1,836,480
Loans and advances and Islamic financing	-	-	33,804,455	-	-	33,804,455
Investment securities	47,583	-	-	5,484,455	-	5,532,038
Other assets	43,343	-	-	-	1,460,079	1,503,422
Total financial assets	90,926	-	33,804,455	5,484,455	8,525,530	47,905,366
Due to banks	-	-	-	-	586,726	586,726
Customers' deposits and Islamic customers' deposits	-	-	-	-	34,707,521	34,707,521
Notes and medium term borrowing	-	-	-	-	4,023,732	4,023,732
Other liabilities	36,710	-	-	-	1,694,001	1,730,711
Total financial liabilities	36,710	-	-	-	41,011,980	41,048,690
31 December 2014 (Audited)						
Cash and balances with Central Bank	-	-	-	-	5,450,145	5,450,145
Due from banks	-	-	-	-	1,565,312	1,565,312
Loans and advances and Islamic financing	-	-	32,128,517	-	-	32,128,517
Investment securities	29,371	-	-	5,558,627	-	5,587,998
Other assets	23,159	-	-	-	1,337,435	1,360,594
Total financial assets	52,530	-	32,128,517	5,558,627	8,352,892	46,092,566
Due to banks	-	-	-	-	1,097,926	1,097,926
Customers' deposits and Islamic customers' deposits	-	-	-	-	32,161,339	32,161,339
Notes and medium term borrowing	-	-	-	-	4,021,998	4,021,998
Other liabilities	21,683	-	-	-	1,650,649	1,672,332
Total financial liabilities	21,683	-	-	-	38,931,912	38,953,595

The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different to their fair values.

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 2015 (Unaudited)	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**
Investments			
Equity	**144,998**	**-**	**-**
Fund of funds	**-**	**279,627**	**-**
Fixed and floating rate securities	**5,107,413**	**-**	**-**
Forward foreign exchange contracts and other derivatives (net)	**-**	**6,633**	**-**
	5,252,411	**286,260**	**-**

31 December 2014 (Audited)	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**
Investments			
Equity	159,011	-	-
Fund of funds	-	272,685	-
Fixed and floating rate securities	5,156,302	-	-
Forward foreign exchange contracts and other derivatives (net)	-	1,476	-
	5,315,313	274,161	-

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 2015 AED'000 (Unaudited)	31 December 2014 AED'000 Audited	**31 March 2015 AED'000 (Unaudited)**	31 December 2014 AED'000 Audited
Loans and advances	**54,316**	41,906	**2,026,896**	1,632,617
Due from Banks	**-**	-	**1,442**	211,910
Investment securities	**-**	-	**799,909**	803,397
Acceptances	**-**	-	**4,775**	11,268
Letters of credit	**-**	-	**13,752**	14,453
Letters of Guarantees	**-**	-	**107,598**	321,511
Undrawn commitments to extend credit	**22,983**	21,909	**1,037,751**	675,556
Deposits	**20,271**	16,151	**5,293,333**	3,903,387

	31 March 2015 AED'000 (Unaudited)	31 March 2014 AED'000 (Unaudited)	**31 March 2015 AED'000 (Unaudited)**	31 March 2014 AED'000 (Unaudited)
Interest income and commission income	**637**	589	**11,187**	9,313
Interest expense	**1**	2	**5,763**	6,647

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 September 2013: NIL).*

The loans issued to directors are unsecured and repayable monthly over a maximum period of 5 years *(31 December 2014: 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 three months period ended 31 March 2015 was AED 915 thousand *(31 March 2014: Nil).*

17. RELATED PARTY TRANSACTIONS (CONTINUED)

Key management compensation

	31 March 2015 AED'000 (Unaudited)	31 March 2014 AED'000 (Unaudited)
Salaries	**2,815**	2,735
Post-employment benefits	**134**	133
Other benefits	**3,563**	1,831

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 credit risk weighted assets (2014: 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 2015 AED'000 (Unaudited)	31 December 2014 AED'000 (Audited)
Core tier 1 capital		
Share capital	**2,802,734**	2,242,187
Legal reserve	**1,380,495**	1,380,495
General reserve	**1,121,095**	1,121,095
Retained earnings	**2,121,635**	2,387,103
Tier 1 capital	**7,425,959**	7,130,880
Upper tier 2 capital		
Fair value reserve	**36,474**	31,414
Collective provisions (up to allowable limit)	**494,773**	525,219
Tier 2 capital	**531,247**	556,633
Total capital base	**7,957,206**	7,687,513
Risk weighted assets (RWA) Pillar 1		
Credit risk	**39,860,829**	38,614,847
Market risk	**93,906**	78,145
Operational risk	**3,832,044**	3,832,044
Risk weighted assets	**43,786,779**	42,525,036
Tier 1 ratio	**16.96%**	16.77%
Capital adequacy ratio (Pillar) 1	**18.17%**	18.08%

19. COMPARATIVE FIGURES

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

20. SUBSEQUENT EVENTS

The Group has agreed to acquire a corporate loan portfolio of approx. AED 3 billion (inclusive of unutilized commitments to extend credit) from Royal Bank of Scotland plc (RBS) in the United Arab Emirates (UAE).

The transfer is expected to be completed during Q2 of 2015 after all legal and administrative formalities are complied. The Group will fund this transaction with its own funds.