Annual Report
2013

بنك أم القيوين

NBQ

His Highness Sheikh

SAUD BIN RASHID AL-MUALLA

Member of the Supreme Council of the United Arab Emirates

&

Ruler of Umm Al Qaiwain

His Highness Sheikh

RASHID BIN SAUD BIN RASHID AL-MUALLA

Crown Prince of Umm Al Qaiwain


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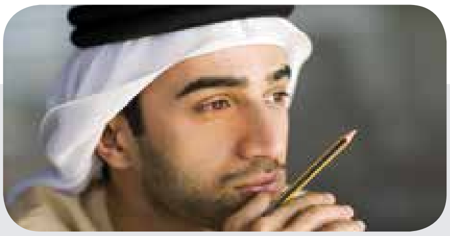

Umm Al Qaiwain Branches

NBQ Building (Head Office)
King Faisal Street
P.O. Box 800
Umm Al Qaiwain

Falaj Al Mualla Branch
NBQ Building
Shaikh Zayed Street
P.O. Box 11074 Falaj Al Mualla

Al Salama Branch
Al Itihad Road
P.O. Box 800
Umm Al Qaiwain

Dubai Branches

Dubai Main Branch
NBQ Building
Khalid Bin Al Waleed Street
P.O. Box 9175 Dubai

Deira Branch
Opposite Dubai Police Head Quarters
Al Ittihad Street
P.O. Box 8898 Deira, Dubai

Al Awir Branch
Ras Al Khor
P.O. Box 296363 Dubai

Al Ghusais Branch
Junction of Halab St. and Damascus St.,
Near Spinneys
P.O. Box 232883 Dubai

Sheikh Zayed Road Branch
Al Shafar Building, Sheikh Zayed Road
Al Qouz Industrial No.1
P.O. Box 37753 Al Quoz, Dubai

Abu Dhabi Branches

Abu Dhabi Branch
Hamdan Bin Mohammed Street (No.5)
P.O. Box 3915 Abu Dhabi

Mussafah Branch
P.O. Box 9770 Abu Dhabi

Al Ain Branch
Ali Bin talib Street
P.O. Box 17888 Al Ain

Sharjah Branches

Sharjah Branch
King Faisal Street
P.O. Box 23000 Sharjah

Sharjah Industrial Branch
Khansaheb Building
Sharjah Industrial Number 10
Third Industrial Street
P.O. Box 80400

Ajman Branches

City Center Branch
Ajman City Center
P.O. Box 4133 Ajman

Masfout Branch
NBQ Building
Main Street
P.O. Box 12550 Masfout, Ajman

Fujairah Branch

Fujairah Branch
Fujairah Insurance Co. Building
Hamad Bin Abdulla Road
P.O. Box 1444 Fujairah

Ras Al Khaimah Branch

Ras Al Khaimah Branch
Corniche Al Qawasim Road
P.O. Box 32253
Ras Al Khaimah

بنك أم القيوين
NBQ

Board of Directors

H.H. Sheikh Rashid Bin Saud Bin Rashid Al-Mualla
Chairman

Mr. Abdulla Ahmad Al Moosa
Deputy Chairman

Sheikh Nasser Bin Rashid Al-Moalla
Managing Director & Chief Executive Officer

Mr. Abduljaleel Yousuf Darwish
Director

Mr. Issa Abdulrahman Ateeq
Director

Mr. Salem Abdulla Salem Al Housani
Director

Mr. Marwan Abdulla Hassan Al Rostamani
Director

Management

Sheikh Nasser Bin Rashid Al-Moalla
Managing Director & Chief Executive Officer

Mr. Ramachandra Iyer
General Manager

Chairman's Report

On behalf of the Board, I am pleased to welcome you all to the 31st annual general meeting of National Bank of Umm Al Qaiwain (NBQ) and present the annual report of the Board of Directors for the year ended 31st Dec 2013.

I am pleased to inform you that following a policy of balancing prudence with profitability, NBQ has achieved total revenue of AED 659.928 million for the year ending 31st December 2013 (2012: AED 623.194 million) and net Operating profit before provision figure of AED 441.329 million (2012 : 369.824 million). The net profit of AED 368 million achieved for the same year is 12% higher than the net profit of AED 328.525 million recorded for 2012. Total assets amounted to AED 12.538 billion, Loans portfolio stood at AED 7.077 billion while Customer deposits amounted to AED 7.441 billion.

Shareholders' funds at AED 3.702 billion as at 31.12.2013, registered an increase of 8.2% over the figure of AED 3.419 billion as 31/12/2012. Earnings per share increased to 23 fils for 2013, from 21 fils in 2012.

In line with the strategy adopted since 2008 to maintain high liquidity, as at 31st Dec 2013, liquidity ratio stood at 30.17%. The bank continues to maintain one of the highest Capital Adequacy ratios in the country, and as at 31st Dec 2013, recorded a Capital Adequacy ratio of 33.8 % well over the minimum 12% stipulated by the UAE Central Bank, which is highlighting the Bank's financial strength. Likewise the Tier 1 ratio of 32.2 % is also well in excess of the minimum 7% stipulated by the UAE Central Bank.

In order to strengthen the shareholders' funds further by retaining a portion of the profit earned, the Board has recommended payment of cash dividend of 16% and share dividend of 5% of the Share Capital for the year ending 31st December 2013.

The decline to the global economy during the earlier four years was to some extent arrested during 2013, and in particular, the US economy registered a small growth and the euro area is crawling out of recession. The UAE economy is likely to register a growth of around 4 % for 2014, thanks to a robust 4.5% growth in non-oil economy according to the IMF estimates. Dubai's winning bid to host the Expo 2020 is seen as a major catalyst in its economic rebound according to most economists and analysts. The US tapering is expected to have an impact on interest rates in the medium to long term. Both the DFM and ADX bourses received the upgrade to the emerging market status by MSCI during the year, which resulted in them recording one of their highest growths in the recent years. Overall, the banking sector in the UAE has seen a good growth in 2013 amidst positive macroeconomic performances. Looking ahead, the global activity is expected to strengthen moderately and the outlook for 2014, with improved investor sentiments, GDP is expected to improve to 4.5% according to the IMF estimates.

NBQ continued to adopt a cautious approach towards credit expansion and concentrated its efforts on close monitoring of the existing credit portfolio. Going forward, the Bank has a clear strategy in place to further enhance shareholder returns and take advantage of the expected growth opportunities in select sectors and to continue its policy of cautious expansion of its activity.

Looking ahead, during 2014, the UAE government is expected to increase spending on infra-structure projects especially with the improvement to the investors' sentiment on the back of Dubai winning its bid to host the 2020. The bank is confident of building on its strong balance sheet with a balanced growth of its assets and liabilities on the back of targeted increase to government budget spending. The strategic development plans launched under the initiatives of His Highness Sh.Khalifa Bin Zayed Al Nahyan, President of the UAE, in all the emirates, based on the needs and aspirations of the UAE nationals, is certain to improve the quality of life of all the communities in the UAE.

On behalf of the Board of Directors, I would like to express my gratitude to His Highness Sheikh Saud Bin Rashid Al Mualla – Ruler of Umm Al-Qaiwain and Member of the Supreme Council of the United Arab Emirates – for his continued support for the development of NBQ.

I would also like to state my appreciation for the ongoing initiatives and support of the UAE Central Bank to regulate the country's financial sector and for their helpful guidance to NBQ during this year. Equally important has been the steadfast confidence of our shareholders, the loyalty of our customers and business partners and the dedicated efforts of our management and staff. Together they have contributed to the success of NBQ and continue to provide us with the strength and determination to face all future challenges.

RASHID BIN SAUD AL MUALLA
Chairman

Management Review

FINANCIAL OVERVIEW

Following consistent decline to the global economy for the past four years from 2008, 2013 witnessed a recovery, albeit a small one, largely due to a nominal growth registered in US. While the European economy is still crawling out of recession, the GCC economies and in particular the UAE registered a 4% growth in 2013. NBQ continued to focus on closely monitoring its asset quality, maintain a strong liquidity and improve its infrastructure and delivery channels and at the same time maintain acceptable profitability levels.

In spite of the challenging environment, I am pleased to report NBQ recorded a net profit of AED 368 million for 2013, registering a 12% growth over the 2012 net profit of AED 328.5 million.

Total assets as at end 2013 stood at AED 12.538 billion, Loans portfolio AED 7.077 billion, and Customer deposits portfolio AED 7.441 billion. The Shareholders' equity of AED 3.702 billion as at 31.12.2013 increased 8% from AED 3.419 billion as at 31.12.2012 and the earnings per share as at 31st December 2013 is 23 fils (2012 – 21 fils).

The Bank continued to maintain strong liquidity levels during the year. Our strong liquidity and Capital Adequacy ratios are the result of our improved funding profile due to continued focus on optimization of balance sheet. Our Capital Adequacy ratio at 33.8%, of which the Tier 1 ratio is 32.2%, continues to be one of the highest in the region, evidencing the strength of the Bank.

OUTLOOK FOR 2014

With the expected higher growth to the UAE economy during 2014, as predicted by most economists including the IMF, the outlook for growth remains positive. With Dubai winning its bid to host the Expo 2020 and with the highest returns recorded by the UAE bourses during 2013 over the past few years, the increase to the investors' confidence is clearly evidenced. The bank, with its strong liquidity and funding profile, is well positioned to take advantage of the growth opportunities especially in the retail, hospitality and tourism sectors.

TREASURY AND INVESTMENTS

The telltale signs of recovery of the US economy and tapering of the Federal Reserve's Quantitative Easing dominated the investing decisions during the year. The European Debt crisis continued but was pushed to backstage by US rate expectations. The domestic and GCC bond market was active with banks and corporates issuing bonds taking advantage of lower interest rates. The UAE stock markets staged a good rally during 2013.

The Bank continued its policy of quality investment focusing on decent return without compromising on the risk profile. Primary and secondary market participations in syndicated loans ensured profitable deployment of surplus funds. The strategic initiatives and decisions taken during the year resulted in significant contribution to the bank's bottom-line. The Bank's Dealing Room continued its focus on profitability and quality of service to customers.

WHOLESALE BANKING

The bank stood in good stead with its cautious approach adopted in 2012 where the lending was selective. With the same approach coupled with increased aggression the bank was able to grow its book in an economy with a stable growth, combined with increasing confidence and the on-going real estate market recovery. There has also been a strong recovery in the UAE non-oil economy based on trade, logistics and tourism. With Dubai winning Expo 2020, the economy will experience positive boost and the Bank is now well positioned to take advantage of the growth potential. The bank strategy in 2014 is to consolidate core business segments through effective cross sell and focus on new business development to capture significant growth in market share.

RETAIL BANKING

The Bank's Retail Banking network of 17 branches and 12 Electronic Banking Units (EBUs) is spread across all 7 emirates in UAE to offer banking services to customers.. The Bank offers its range of lending and deposit products to serve individuals as well as small business clients. The branches are being renovated one at a time to create better ambience and provide better environment for customer service. During 2014 plans are underway to further expand our branches and EBU networks in order to strengthen our distribution channels as part of our continued commitment to reach out to most of our customers and improve services to fulfill their expectations.
The Bank was prudent in its lending activities during 2013 and focused more on sustaining growth and maintaining healthy retail assets portfolio.

The Bank also revised its Islamic Finance product to make it more attractive and facilitate customers in meeting their short term financial requirements with competitive rates.

Management Review (continued)

The focus area for increasing market share under Islamic products was the Housing Finance Scheme offered as Bayt Al Tayseer Scheme to UAE Nationals which continues to be popular and widely accepted by them. The Retail Advances net portfolio grew marginally over the previous year as focus continued to exercise caution and care on the lending business.

There were continuous efforts towards enhancing products and services through alternate delivery channels by providing E-Banking facility to WPS customers and offering priority banking services to customers of selected branches.

The Bank further streamlined the services offered at Electronic Banking Units (EBU) by setting up Cash Deposit Machines at various locations to facilitate speedier customer service. EBUs are now kept open from 8.00 am to 8.00 pm in order to enhance customer convenience.

As per the directions of H.H. The President of UAE, and to reduce the burden on UAE nationals who were affected by the economic and social issues, the Bank voluntarily participated in the National Defaulters' Debt Settlement Fund program.

RISK MANAGEMENT

Credit Risk

The Bank follows a well-defined three-layered organizational structure with Relationship Business Units as the front office, Credit Risk and Centralized Approval Units as the Mid-office and Credit Administration & Operations unit as the back-office. The segregated functions and clear reporting lines provide maximum level of risk assurance and management oversight to Bank's credit functions. The Bank has well laid out Credit Risk Policies which are adhered to at all levels. Credit risk policy manual is updated on an ongoing basis as per regulatory and emerging business requirements. Credit Processing, Assessment and Risk Rating system for wholesale banking is in place to ensure standardization and proper risk assessment in the credit appraisal process.

As part of pro-active credit monitoring, tracking of Early Warning Signals, independent physical inspection of projects and covenant monitoring are undertaken through Risk Containment Unit. Management of stressed accounts and non-performing loans is centralized at Remedial Unit in Credit risk. Exposure monitoring including concentration levels at single obligor and sectorial levels are monitored by Portfolio Management Unit. The Bank is working on implementation of Foundation IRB approach of Basel II as per CBUAE guidelines in this regard.

Basel II implementation

The Bank has been in compliance with the Central Bank of UAE norms for standardized approach for computation of Capital Adequacy Ratios.

Further, Bank adheres to the guidelines required for compliance under Pillar 2 and Pillar 3 including submission of report annually to Central Bank of UAE.

Stress tests are carried out to assess liquidity risk, interest rate risk in the banking book and equity price risk. The results show that the Bank is comfortably placed in line with the risk profile of the Bank and there is substantial buffer between available capital and regulatory capital to cover any unexpected losses from other risks.

Market Risk

The Bank adopts a comprehensive approach towards market risk management for its trading, investments and asset/ liability portfolio. The Bank has Board defined policies, setting the risk appetite, well-defined organization structure for market risk management functions and processes whereby the market risks carried by the Bank are identified, measured, monitored and controlled within the policy framework consistent with the Bank's risk tolerance. The policies deal with the management practices, procedures, prudential risk limits, review mechanisms and reporting framework.

Liquidity stress tests are conducted under different scenarios at periodical intervals to assess the impact on liquidity to withstand stressed conditions. Stress tests are also carried out to assess interest rate risk in the banking book and price risk in the entire equity portfolio. The results are reviewed by the Bank's ALCO and show that the Bank is comfortably placed and are in line with the risk profile of the Bank.

Bank has a Contingency Funding Plan (CFP), which provides detailed description of the availability, size and timing of all sources of contingent liquidity available to the Bank in stress events. The CFP includes documented processes for actions that may be required to meet the outflows and roles and responsibilities for its effective implementation.

Management Review (continued)

Operational Risk

The Bank uses a comprehensive, all-encompassing framework for Operational Risk in order to monitor, assess, evaluate, control and mitigate risks arising out of regular operations.

Operational Risks are monitored and evaluated on an on-going basis through risk assessments and incident reporting. Risks are identified & controlled and mitigates are placed in accordance with the overall framework adopted. In cases where risks emanate out of existing processes, process improvements are done to mitigate them. Normal operational events are studied to evaluate any possibility of underlying systemic issues and improvements made if necessary.

Bank is preparing towards migration to more advanced approaches like TSA or AMA in due course whenever mandated by Central Bank of UAE from the presently used Basic Indicator Approach.

BUSINESS CONTINGENCY AND CONTINUITY PLAN

To ensure that the Bank's regular functioning is not disrupted by unforeseen events/disasters/system related failure; Bank is in the final phase of commissioning dedicated Disaster Recovery (DR) site and is currently finalizing its Business Continuity Plan (BCP).

INFORMATION TECHNOLOGY AND OPERATIONS

The bank's IT infrastructure is constantly evolving with the strategic investments by the management to ensure the availability and performance of critical systems and applications. During the year, the bank's production storage system was replaced with high performing enterprise class storage. With this infrastructure enhancement, the critical production data is now provided with enterprise class redundancy, availability and performance to match with the challenging business requirements and future growth plans. Apart from this, critical applications like DDS, as mandated by central bank were efficiently implemented. IT also completed the implementation of online replication with DR site for all critical applications to ensure data availability in case of a production site failure. Currently the DR automation software implementation is in the final stage. The AML software has been successfully implemented.

HUMAN RESOURCES

Human resource planning at NBQ is the systematic and continuing process of analyzing the organization's human resource needs under changing conditions and integrating this analysis with the development of personnel policies appropriate to meet these needs.

NBQ further strengthened the UAE National workforce throughout the year by employing graduates to reinforce our commitment to strengthening the country's work force. NBQ's efforts in The Talent Management program for aspiring UAE National graduates have helped to develop competency to suit organizational needs along with global needs.

Our aim is to further cement our commitment to building strong and robust careers for our UAE National Graduates and enabling them to become tomorrow's leaders. Our in-house training program as well as that of EIBFS, has enabled our resources to be the best fit in transition and for customer management roles.

However, NBQ, like most other banks in the UAE, has been affected by the migration of trained UAE nationals to Government sector.

COMMUNITY RELATIONS

As part of our Customer Social Responsibility initiatives, NBQ, over the years, has continually contributed to the social well-being of the Emirates in which it does business. Several charitable, educational, medical and sporting organizations have benefitted from the active support rendered by the bank to their events.

COONCLUSION

I would like to extend my appreciation and thanks to our shareholders for their continuous support, to our customers who have stayed loyal over all these years and to the Management team and all the staff for their continued dedication and commitment.

Nasser Bin Rashid Al-Moalla

Managing Director & Chief Executive Officer

Independent Auditor's Report

The Shareholders
National Bank of Umm Al-Qaiwain (PSC)
Umm Al-Qaiwain
United Arab Emirates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Bank of Umm Al-Qaiwain (PSC) (the "Bank") and Subsidiary (together the "Group"), Umm Al-Qaiwain, United Arab Emirates which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of **National Bank of Umm Al-Qaiwain (PSC) and Subsidiary, Umm Al-Qaiwain, United Arab Emirates** as at 31 December 2013, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Bank has maintained proper books of account. The information contained in the directors' report relating to the consolidated financial statements is in agreement with the books. We obtained all the information which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984 (as amended) or the Articles of Association of the Bank which might have materially affected the consolidated financial position of the Bank or their consolidated financial performance.

Deloitte & Touche (M.E.)
Samir Madbak
Registration No. 386
27 January 2014

Consolidated statement of financial position
At 31 December 2013

	Notes	2013 AED '000	2012 AED '000
Assets			
Cash and balances with the U.A.E. Central Bank	5	1,684,298	1,337,058
Due from other banks	6	994,343	1,570,473
Loans and advances	7	7,076,985	6,803,467
Investment securities	8	1,357,053	1,007,715
Customers' acceptances		141,557	296,790
Property and equipment	9	78,875	85,747
Other assets	10	1,205,521	1,138,037
Total assets		**12,538,632**	**12,239,287**
Liabilities			
Due to other banks	11	590	678
Customers' deposits	12	7,441,671	7,279,296
Customers' acceptances		141,557	296,790
Other liabilities	13	1,252,364	1,242,802
Total liabilities		**8,836,182**	**8,819,566**
Shareholders' equity			
Share capital	14	1,600,000	1,600,000
Statutory reserve	15	1,019,266	1,019,266
General reserve	16	6,440	6,440
Cumulative change in fair values		177,013	6,363
Retained earnings		899,731	787,652
Total shareholders' equity		**3,702,450**	**3,419,721**
Total liabilities and shareholders' equity		**12,538,632**	**12,239,287**
Commitments and contingent liabilities	**17**	**6,394,532**	**7,059,220**

The accompanying notes form an integral part of these consolidated financial statements.

Rashid Bin Saud Al-Mualla
Chairman

Nasser Bin Rashid Al-Moalla
Managing Director and Chief Executive Officer

Consolidated statement of income for the year ended 31 December 2013

	Notes	2013 AED '000	2012 AED '000
Interest income	18	474,444	529,548
Interest expense	18	(51,827)	(62,316)
Net interest income		**422,617**	467,232
Fee and commission income		48,657	56,579
Other operating income	19	19,477	18,802
Gross income		**490,751**	542,613
Operating expenses	20	(166,772)	(191,054)
Operating income		**323,979**	351,559
Investment gains	21	117,350	18,265
Impairment losses on held-to-maturity investments	8	(6,927)	(2,750)
Provision for impairment of loans and advances - net	7	(66,323)	(38,549)
Profit for the year		**368,079**	328,525
Basic earnings per share (in AED)	**23**	**0.23**	0.21

The accompanying notes form an integral part of these consolidated financial statements.

بنك أم القيوين
NBQ

Consolidated statement of comprehensive income for the year ended 31 December 2013

	2013 AED '000	2012 AED '000
Profit for the year	368,079	328,525
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Net gain on available-for-sale investments recognised directly in equity	221,519	14,642
Items that will not be reclassified subsequently to profit or loss:		
Transfer from equity on sale of available-for-sale investments	(50,869)	(1,523)
Other comprehensive income for the year	170,650	13,119
Total comprehensive income for the year	**538,729**	**341,644**

Consolidated statement of changes in equity for the year ended 31 December 2013

	Share capital AED '000	Statutory reserve AED '000	General reserve AED '000	Cumulative change in fair values AED '000	Retained earnings AED '000	Total AED '000
Balance at 31 December 2011	1,600,000	1,019,266	6,440	(6,756)	699,127	3,318,077
Profit for the year	-	-	-	-	328,525	328,525
Other comprehensive income for the year	-	-	-	13,119	-	13,119
Total comprehensive income for the year	-	-	-	13,119	328,525	341,644
Dividend paid	-	-	-	-	(240,000)	(240,000)
Balance at 31 December 2012	1,600,000	1,019,266	6,440	6,363	787,652	3,419,721
Profit for the year	-	-	-	-	368,079	368,079
Other comprehensive income for the year	-	-	-	170,650	-	170,650
Total comprehensive income for the year	-	-	-	170,650	368,079	538,729
Dividend paid (Note 24)	-	-	-	-	(256,000)	(256,000)
Balance at 31 December 2013	**1,600,000**	**1,019,266**	**6,440**	**177,013**	**899,731**	**3,702,450**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2013

	2013 AED '000	2012 AED '000
Cash flows from operating activities		
Profit for the year	**368,079**	328,525
Adjustments:		
Provision for asset impairment	**73,250**	41,299
Depreciation of property and equipment	**14,521**	15,212
Increase in fair value of investment securities at fair value through profit and loss - net	**(10,183)**	(4,496)
(Discount)/premium amortised	**(23)**	2,795
Gain on disposal of investment in securities	**(72,781)**	(2,103)
Dividend income	**(34,226)**	(14,143)
Gain on disposal of property and equipment	**(37)**	(16)
Operating cash flows before changes in operating assets and liabilities	**338,600**	**367,073**
Increase in statutory deposit with the U.A.E. Central Bank	**(1,945)**	(16,939)
Increase in loans and advances net of provision and amounts written off	**(339,841)**	(16,607)
(Decrease)/increase in other assets	**(67,484)**	22,085
(Decrease)/increase in due to other banks	**(88)**	88
Increase in customers' deposits	**162,375**	189,733
Increase in other liabilities	**9,431**	59,520
Net cash generated from operating activities	**101,048**	**604,953**
Cash flows from investing activities		
Purchase of property and equipment	**(7,663)**	(6,320)
Proceeds from disposal of property and equipment	**51**	19
Purchase of investment in securities	**(465,312)**	(162,437)
Proceeds from disposal of investment in securities	**362,684**	220,831
Dividend received	**34,226**	14,143
Net cash (used in)/generated from investing activities	**(76,014)**	**66,236**
Cash flows from financing activities		
Dividend paid	**(255,869)**	(236,645)
Cash used in financing activities	**(255,869)**	**(236,645)**
Net (decrease)/increase in cash and cash equivalents	**(230,835)**	434,544
Cash and cash equivalents, at the beginning of the year	**2,615,524**	2,180,980
Cash and cash equivalents, at the end of the year(Note 26)	**2,384,689**	**2,615,524**

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2013

1. General information

National Bank of Umm Al-Qaiwain (psc) (the "Bank") is a Public Shareholding Company incorporated in the Emirate of Umm Al-Qaiwain ("UAQ") in the United Arab Emirates ("U.A.E.") by Amiri Decree Number (1) on January 5, 1982, issued by His Highness, the Ruler of Umm Al-Qaiwain, and commenced its operations with effect from August 1, 1982. The "Group" comprises National Bank of Umm Al-Qaiwain (psc), Umm Al-Qaiwain, and Twin Towns Marketing Management (L.L.C.), Dubai (see Note 3.3). The address of the Bank's registered Head Office is P.O. Box 800, Umm Al-Qaiwain, United Arab Emirates.

The Bank is engaged in providing retail and corporate banking services through a network of 17 branches and 12 electronic banking service units in U.A.E.

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

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

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

• Amendments to IFRS 1 *Government Loans* provide relief to first-time adopters of IFRSs by amending IFRS 1 to allow prospective application of IAS 39 or IFRS 9 and paragraph 10A of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance to government loans outstanding at the date of transition to IFRSs.

• Amendments to IFRS 7 *Financial Instruments:* Disclosures enhancing disclosures about offsetting of financial assets and liabilities.

• IFRS 10 *Consolidated Financial Statements* uses control as the single basis for consolidation, irrespective of the nature of the investee. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. Accordingly, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* have been amended for the issuance of IFRS 10.

In light of the new definitions and guidance of IFRS 10 and IAS 27 (as revised in 2011), the management has reassessed the control conclusion for its investees. As a consequence, the management has not changed its control conclusion in respect of its investment as disclosed in Note 3.3 to the annual audited consolidated financial statements for the year ended 31 December 2013.

• IFRS 11 *Joint Arrangements* establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. Accordingly IAS 28 Investments in Associates and Joint Ventures has been amended for the issuance of IFRS 11.

• IFRS 12 *Disclosure of Interests in Other Entities* combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure standard.

• IFRS 13 *Fair Value Measurement* issued in May 2011 establishes a single framework for measuring fair value and is applicable for both financial and non-financial items.

• The amendments to IAS 1 *Presentation of Financial Statements* require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

• Amendments to IAS 19 *Employee Benefits* eliminate the "corridor approach" and therefore require an entity to recognise changes in defined benefit plan obligations and plan assets when they occur.

• IFRIC 20 Stripping Costs in the *Production Phase of a Surface Mine.*

2. Application of new and revised International Financial Reporting Standards (“IFRSs”) (continued)

2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements (continued)

• Annual Improvements to *IFRSs 2009 - 2011 Cycle*

The annual improvements include the amendments to IFRSs which have been summarized below:

- IFRS 1 *First Time Adoption of International Financial Reporting Standards* -Repeated application of IFRS 1.
- IFRS 1 *First Time Adoption of International Financial Reporting Standards* -Borrowing costs.
- IAS 1 *Presentation of Financial Statements* - Clarification of the requirements for comparative information.
- IAS 16 *Property, Plant and Equipment* - Classification of serving equipment.
- IAS 32 *Financial Instruments: Presentation* - Tax effect of the distribution to the holders of equity instruments.
- IAS 34 *Interim Financial Reporting* - Interim financial reporting and segment information for total assets and liabilities.

2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted

The Bank has not early applied the following new standards, amendments and interpretations that have been issued but not yet effective:

New and revised IFRSs	**Effective for annual periods beginning on or after**
• Amendments to IFRS 7 *Financial Instruments*: Disclosures relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
• IFRS 7 *Financial Instruments:* Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied
• IFRS 9 *Financial Instruments* issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition. IFRS 9 Reissued to incorporate a hedge accounting chapter and permit the early application of the requirements for presenting in other comprehensive income the ‘own credit’ gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of IFRS 9. Key requirements of IFRS 9 are described as follows: • IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement to be subsequently measured* at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.	No earlier than annual periods beginning on or after 1 January 2017 but allows each version of the standard to be available for application

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

2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
• The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.	
• Amendments to IAS 19 *Employee Benefits* - to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.	1 July 2014
• Amendments to IAS 32 *Financial Instruments*: Presentation relating to application guidance on the offsetting of financial assets and financial liabilities.	1 January 2014
• Amendments to IAS 36 – *recoverable amount disclosures* The amendments restrict the requirements to disclose the recoverable amount of an asset or CGU to period in which an impairment loss has been recognized or reversed. They also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal.	1 January 2014
• Amendments to IAS 39 *Financial Instruments: Recognition and Measurement.* The amendments restrict the requirements to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.	1 January 2014
Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception.	When IFRS 9 is applied
• IFRIC 21 – Levies Interpretation was developed to address the concerns about how to account for levies that are based on financial data of a period that is different from that in which the activity that give rise to the payment of the levy occurs.	1 January 2014
• Amendments to IFRS 10, IFRS 12 and IAS 27 – Guidance on Investment Entities	
On 31 October 2012, the IASB published a standard on investment entities, which amends IFRS 10, IFRS 12, and IAS 27 and introduces the concept of an investment entity in IFRSs. The amendments establish an exception to IFRS 10's general consolidation principle for investment entities, requiring them to "measure particular subsidiaries at fair value through profit or loss, rather than consolidate them." In addition, the amendments outline required disclosures for reporting entities that meet the definition of an investment entity.	1 January 2014

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

2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted (continued)

- Annual Improvements to *IFRSs 2010 - 2012 Cycle*
  - *IFRS 2 Share Based Payments* - definition of 'vesting condition'.
  - *IFRS 3 Business Combinations* - accounting for contingent consideration.
  - *IFRS 8 Operating Segments* - aggregation of segments, reconciliation of segment assets.
  - *IAS 16 Property. Plant and Equipment* - proportionate restatement of accumulated depreciation on revaluation.
  - *IAS 24 Related Party Disclosures* - management entities.
  - *IAS 38 Intangible Assets* - proportionate restatement of accumulated depreciation on revaluation.

- Annual Improvements to *IFRSs 2011 - 2013 Cycle*
  - *IFRS 1 First Time Adoption of International Financial Reporting Standards* - meaning of effective IFRSs.
  - *IFRS 3 Business Combinations* - scope exception for joint ventures.
  - *IFRS 13 Fair Value Measurement* - scope of the portfolio exception.
  - *IAS 40 Investment Property* - interrelationship between IFRS 3 and IAS 40.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Bank's consolidated financial statements for the period beginning 1 January 2014 or as and when they are applicable and except for IFRS 9, adoption of these new standards, interpretations and amendments may have no material impact on the consolidated financial statements of the Bank in the period of initial application.

Management anticipates that IFRS 9 will be adopted in the Bank's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

3. Significant accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. For the purpose of the consolidated financial statements, the results and financial position of the Bank are expressed in Arab Emirates Dirhams (in thousands), which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements. The principal accounting policies adopted are set out below.

3.3 Basis of consolidation

The consolidated financial statements of National Bank of Umm Al-Qaiwain (psc) and Subsidiary (the "Group") incorporate the financial statements of the Bank and entity controlled by the Bank (its Subsidiary).

Control is achieved when the Bank:
• has power over the investee;
• is exposed, or has rights, to variable returns from its involvement with the investee; and
• has the ability to use its power to affect its returns.

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

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

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

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

3. Significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Subsidiary:

Details of the Bank's subsidiary as at 31 December 2013 is as follows:

Name of subsidiary	Proportion of ownership interest	Country of Incorporation	Principal activity
Twin Towns Marketing Management (L.L.C.)	99.33%	U.A.E.	Marketing management

The remaining equity in the above subsidiary is held by the Bank beneficially through nominee arrangements.

3.4 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

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

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

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

3.5 Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. It consists of cash and balances with the U.A.E. Central Bank, due from other banks, loans and advances and customers' acceptances.

Loans and advances

Loans and advances are recognised when cash is advanced to the borrowers and are carried at amortised cost using effective interest rate method.

Impairment of loans and advances

Individually assessed loans

Individually assessed loans represent mainly, corporate and commercial loans which are assessed individually in order to determine whether there exists any objective evidence that a loan is impaired. Loans are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Bank in accordance with the original contractual terms.

Impaired loans are measured on the basis of the present value of expected future cash flows including collateral if any and the impairment loss is calculated based on the shortfall in the loans carrying value compared to the net present value of future cash flows.

3. Significant accounting policies (continued)

3.5 Financial assets (continued)

Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances calculated on:

a) Performing loans
b) Small value loans with common features, which are not individually significant.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that the assets are not impaired on the basis of the level of security/collateral available and/ or the stage of collection of amounts owed to the Bank.

Performing loans

The estimated impairment is calculated by the Bank's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Small value loans with common features, which are not individually significant

Small value loans represent mainly credit card dues and other loans which are not individually significant in value. Impairment of such loans is assessed based on ageing analysis of each bucket and impairment losses provided accordingly.

Re-ageing policy

The Bank has set out its re-ageing policy as part of the Credit Risk Policy. The Bank identifies forward shifting of past due date as re-ageing and complies with the Basel II guidelines on the re-ageing policy. This includes re-ageing criteria separately for normal and delinquent accounts, approval authorities, minimum age of the facility before it is eligible for re-ageing, maximum number of re-ageing per facility etc. Re-ageing is always considered based on reassessment of borrower's repayment capacity due to revised economic conditions.

Investment securities

The Bank classifies its investment securities in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets. Management determines the classification of the investments at initial recognition.

i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Financial assets are designated at fair value through profit or loss when certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

3. Significant accounting policies (continued)

3.5 Financial assets (continued)

Investment securities (continued)

ii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Where the Bank decides to sell other than an insignificant amount of held-to-maturity assets, the entire category is considered to be tainted and reclassified as available-for-sale.

iii) Available-for-sale

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Initial recognition

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available-for-sale are recognised on trade date which is the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated statement of income.

Subsequent measurement

Available-for-sale investments and financial assets at fair value through profit or loss are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the consolidated statement of income in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. Once the available-for-sale financial asset is derecognised or impaired, the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Foreign currency gains and losses arising on available-for-sale monetary financial assets are directly recognised in the consolidated statement of income.

3. Significant accounting policies (continued)

3.5 Financial assets (continued)

Investment securities (continued)

Subsequent measurement (continued)

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques.

Interest earned whilst holding investment securities is reported as interest income. Dividends on equity instruments are recognised in the consolidated statement of income when the Bank's right to receive payment is established.

The Bank assesses at each reporting date whether there is objective evidence that a financial asset is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on available-for-sale equity instruments are not reversed through the consolidated statement of income.

Amortised cost of a financial asset/liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Derecognition of financial assets

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

3.6 Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

Financial liabilities, including customers' deposits, customers' acceptances and due to other banks, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

3. Significant accounting policies (continued)

3.7 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight line method to write off the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	20
Computers and equipment	1 - 5
Furniture and fixtures	5
Leasehold improvements	3 - 5
Motor vehicles	5

Land is not depreciated, as it is deemed to have an infinite life.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the consolidated statement of income when the expenditure is incurred. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount, being the higher of the net selling price and value in use.

3.8 Inventory

Inventory represents property acquired in settlement of debt, stated at lower of cost or net realisable value. Directly attributable cost incurred in the acquisition of inventory is included as part of the cost of the asset. Net realisable value is the estimated selling price in the ordinary course of business, based on market prices at the reporting date.

3.9 Employees' end of service benefits

Pension contributions are made in respect of U.A.E. nationals to the U.A.E. General Pension and Social Security Authority in accordance with the U.A.E. Federal Law No (7), 1999 for Pension and Social Security. A provision is made for the full amount of end of service benefits due to the non-U.A.E. nationals in accordance with the U.A.E. Labour Law, for their periods of service up to the reporting date. This provision is included in other liabilities.

Management measures the employees' end of service benefits payable under the U.A.E. Labour law. Under this method an assessment is made of employee's expected service life with the Bank and the expected basic salary at the date of leaving the service. The expected liability at the date of leaving the service is discounted to its net present value.

3. Significant accounting policies (continued)

3.10 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

3.11 Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred, and are subsequently stated at amortised cost using effective interest rate method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

3.12 Foreign currencies

Items included in the consolidated financial statements of the Bank are measured in UAE Dirhams which is the functional currency of the primary economic environment in which the Bank operates. Foreign currency transactions are translated into U.A.E. Dirhams at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into U.A.E. Dirhams at the rates ruling at the reporting date. Any resultant gains or losses are accounted for in the consolidated statement of income.

3.13 Derivative instruments

Derivative instruments, comprising forward foreign exchange contracts, are initially recognised at fair value on the date on which a derivative contract is entered. All forward foreign exchange contracts are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of the forward foreign exchange contracts are included in foreign exchange trading income in the consolidated statement of income.

3.14 Interest income and expense

Interest income and expense are recognised in the consolidated statement of income for all financial instruments measured at amortised cost using the effective interest method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.15 Fees and commission income

Commission income earned from the issue of documentary credits and letters of guarantee is recognised on a straight line basis over the period for which the documentary credits and guarantees are issued. Fee income on issue of letters of credit and guarantees is recognised when the underlying transaction is effected.

Other fees and commission income, including account servicing fees, placement fees and syndication fees, are recognised as the related services are performed.

3.16 Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight line basis over the shorter of the lease term or the estimated useful life of the asset.

3.17 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of less than three months, excluding the minimum reserve deposits required to be maintained with the U.A.E. Central Bank.

4. Critical accounting estimates and judgements

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

In determining whether an impairment loss should be recorded in the consolidated statement of income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The management believes that based on the review of loans and advances adequate impairment losses were provided in the consolidated financial statements against specific loans and advances and against risks inherent in the portfolio. Management's impairment review was performed taking into consideration international and national economic conditions prevailing in U.A.E. during the year.

Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Held- to-maturity investments

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire category as available-for-sale. The investments would therefore be measured at fair value and not at amortised cost.

5. Cash and balances with the U.A.E. Central Bank

	2013 AED'000	2012 AED'000
Balances with the U.A.E. Central Bank:		
Current account	**372,475**	200,010
Certificates of deposit	**900,000**	700,000
Statutory deposit	**293,952**	292,007
	1,566,427	1,192,017
Cash in hand	**117,871**	145,041
	1,684,298	1,337,058

The statutory deposit with the U.A.E. Central Bank is not available to finance the day to day operations of the Bank.

6. Due from other banks

	2013 AED'000	2012 AED'000
Term deposits	**805,000**	1,350,000
Demand deposits	**262,803**	293,933
	1,067,803	1,643,933
Provision for impairment	**(73,460)**	(73,460)
	994,343	1,570,473

Movement in provision for impairment:

	2013 AED'000	2012 AED'000
At 1 January	**73,460**	80,806
Written off	**-**	(7,346)
At 31 December	**73,460**	73,460

7. Loans and advances

	2013 AED'000	2012 AED'000
Loans	**5,668,100**	5,397,981
Overdraft	**1,533,888**	1,506,394
Loans against trust receipts	**137,348**	128,480
Others	**100,228**	75,739
Total loans and advances	**7,439,564**	7,108,594
Provision for impairment	**(362,579)**	(305,127)
Net loans and advances	**7,076,985**	6,803,467
By economic sector		
Wholesale and retail trade	**1,628,367**	2,028,120
Real estate and construction	**2,085,330**	1,764,815
Personal loans and other	**1,222,171**	1,183,419
Manufacturing	**249,887**	243,388
Agriculture and allied activities	**17**	2,218
Transport and communication	**95,259**	99,241
Financial institutions	**681,628**	509,544
Services and other	**1,476,905**	1,277,849
	7,439,564	7,108,594

7. Loans and advances (continued)

Movement in provision for impairment:

	2013			2012
	Against specific loans and advances	**Against risks inherent in the portfolio**	**Total**	Total
	AED'000	**AED'000**	**AED'000**	AED'000
At 1 January	**214,609**	**90,518**	**305,127**	284,975
Provision made during the year	**84,957**	**5,807**	**90,764**	88,245
Provision released during the year	**(24,441)**	**-**	**(24,441)**	(49,696)
Written off/utilised during the year	**(11,718)**	**(840)**	**(12,558)**	(18,429)
Provision transferred during the year	**6,708**	**(3,021)**	**3,687**	32
At 31 December	**270,115**	**92,464**	**362,579**	305,127

Net charge for provision for impairment

	2013	2012
	AED'000	AED'000
Provision made during the year	**90,764**	88,245
Provision released during the year	**(24,441)**	(49,696)
	66,323	38,549

The non-performing loans as at 31 December 2013 amounted to AED 688.14 million (2012: AED 621.08 million). Provisions for impairment in relation to such loans amounted to AED 270.12 million as at 31 December 2013 (2012: AED 214.61 million) (see Note 30).

8. Investment securities

	2013	2012
	AED '000	AED '000
Securities at fair value through profit or loss held for trading		
Quoted equity securities	**20,326**	17,910
Funds placed under management	**26,700**	25,084
	47,026	42,994
Securities available-for-sale		
Quoted equity securities	**602,050**	300,569
Unquoted equity securities	**6,871**	6,898
Quoted debt instruments	**46,955**	48,476
	655,876	355,943
Securities held-to-maturity		
Quoted debt instruments	**640,700**	569,069
Unquoted debt instruments	**33,378**	52,709
	674,078	621,778
Provision for impairment	**(19,927)**	(13,000)
	654,151	608,778
	1,357,053	1,007,715

8. Investment securities (continued)

	2013 AED'000	2012 AED'000
Movement in investment securities:		
At 1 January	**1,007,715**	1,051,936
Purchase of investment securities	**465,312**	162,437
Sale of investment securities	**(340,772)**	(220,251)
Provision for impairment	**(6,927)**	(2,750)
Fair value gain on investment securities at fair value through profit and loss - held for trading	**10,288**	4,814
Net discount/(premium) amortised on debt securities	**23**	(2,795)
Foreign exchange revaluation	**(105)**	(318)
Net fair value gain on investment securities available-for-sale directly recognised in equity	**221,519**	14,642
At 31 December	**1,357,053**	1,007,715

	2013 AED'000	2012 AED'000
Movement in provision for impairment:		
At 1 January	**13,000**	44,435
Provision made during the year	**6,927**	2,750
Written off	**-**	(34,185)
At 31 December	**19,927**	13,000

9. Property and equipment

	Land and buildings	Computers and equipment	Furniture and fixtures	Leasehold improvements	Motor vehicles	Capital work in progress	Total
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cost							
At 31 December 2011	106,185	77,629	4,834	7,310	1,736	862	198,556
Additions	4	2,749	2	85	-	3,480	6,320
Disposals	-	(683)	(39)	(256)	-	-	(978)
Transfer	-	2,294	-	5	-	(2,299)	-
At 31 December 2012	**106,189**	**81,989**	**4,797**	**7,144**	**1,736**	**2,043**	**203,898**
Additions	330	3,625	110	521	-	3,077	7,663
Disposals	-	(210)	(7)	(86)	(60)	-	(363)
Transfer	368	1,127	-	446	-	(1,941)	-
At 31 December 2013	**106,887**	**86,531**	**4,900**	**8,025**	**1,676**	**3,179**	**211,198**
Accumulated depreciation							
At 31 December 2011	44,581	47,896	4,120	6,019	1,298	-	103,914
Charge for the year	4,160	9,862	358	586	246	-	15,212
Eliminated on disposals	-	(680)	(39)	(256)	-	-	(975)
At 31 December 2012	**48,741**	**57,078**	**4,439**	**6,349**	**1,544**	**-**	**118,151**
Charge for the year	4,242	9,379	268	498	134	-	14,521
Eliminated on disposals	-	(197)	(7)	(86)	(59)	-	(349)
At 31 December 2013	**52,983**	**66,260**	**4,700**	**6,761**	**1,619**	**-**	**132,323**
Carrying amount							
At 31 December 2013	**53,904**	**20,271**	**200**	**1,264**	**57**	**3,179**	**78,875**
At 31 December 2012	**57,448**	**24,911**	**358**	**795**	**192**	**2,043**	**85,747**

Land and buildings include land costing AED 22.9 million (2012: AED 22.9 million) which is not depreciated.
Capital work in progress includes expenditure incurred on equipments and other leasehold improvements.

10. Other assets

	2013	2012
	AED'000	AED'000
Inventory	**43,891**	-
Interest receivable	**28,474**	22,017
Prepayments and deposits	**26,375**	23,125
Others	**1,106,781**	1,092,895
	1,205,521	1,138,037

Inventory represents properties acquired in settlement of debt.

Other assets include AED 1,061 million (2012: AED 1,061 million) deposited in First Instance Court of Dubai on account of the legal case involving Global Investment House as disclosed in Note 13 to these consolidated financial statements.

11. Due to other banks

	2013	2012
	AED'000	AED'000
Demand deposits	**590**	678
	590	678

By geographical area

Within U.A.E.	**590**	589
Outside the U.A.E.	**-**	89
	590	678

12. Customers' deposits

	2013	2012
	AED'000	AED'000
Time deposits	**5,847,239**	5,631,089
Savings deposits	**153,644**	138,972
Current accounts	**1,387,142**	1,435,887
Margin deposits	**53,646**	73,348
	7,441,671	7,279,296

All customers' deposits are from customers within U.A.E.

13. Other liabilities

	2013	2012
	AED'000	AED'000
Accounts payable	**71,476**	73,323
Interest payable	**16,655**	26,877
Provision for employees' end of service benefits	**24,628**	23,069
Other staff benefits	**1,450**	1,382
Others	**1,138,155**	1,118,151
	1,252,364	1,242,802

Other liabilities include AED 918.25 million (equivalent of USD 250 million) received from Global Investment House - Kuwait ("GIH") as advance payment on the proposed issue of a bond to be converted into 330 million shares of AED 1 each at a premium of AED 6.15 per share totalling AED 2.359 billion, entered through a Memorandum of Understanding (MOU) dated 16 July 2008.

During December 2008, GIH sent a letter to the Bank cancelling the above transaction and asking for the refund of the advance amount paid. Following legal advice Bank did not repay the advance amount and proceeded for completion of the transaction by seeking the balance amount from GIH.

13. Other liabilities (continued)

In July 2010, the Court of First Instance asked the Bank to refund USD 250 million together with applicable interest from 28 February 2009 till effective date of payment to GIH.

On 25 April 2011, the Court of Appeal confirmed the judgment of the First Instance Tribunal and amended it in relation to the payment date of the interest. The Bank through its lawyers, appealed the said judgment to the Supreme Court which decided on 29 June 2011 to stay the Court of Appeal judgment until it hears the merits of the appeal.

On 20 September 2011, the Supreme Court considered on its chambers that the appeal was worth considering and decided to schedule a hearing on 18 October 2011 to hear the pleadings of both parties. In the meanwhile, as per provisional attachment order dated 23 August 2010, the Bank has deposited the funds in the Court's account, pending final decision on the case (see Note 10).

On 18 October 2011 the Supreme Court decided to adjourn the case for judgment.

On 15 November 2011, the Supreme Court issued a judgment by which it overturned the Court of Appeal's judgment dated 25 April 2011 and decided to send back the case to the Court of Appeal to hear the case again.

On 21 May 2012, the Court of Appeal confirmed the decision of the Court of Appeal dated 25 April 2011, which prompted the Bank to appeal once again to the Supreme Court in Dubai and such appeal was dated 27 May 2012.

On 19 June 2012, the Supreme Court decided to stay the enforcement of the Court of Appeal judgment and adjourned the case.

On 18 September 2012, the Supreme Court overturned the Court of Appeal's judgement for the second time and referred it back to the Court of Appeal to be heard by a panel of judges other than the panel who had heard the case twice earlier.

During a hearing on 16 December 2012, parties exchanged submission and the Court adjourned the hearing for 2 January 2013.

On 2 January 2013, the Court, following repeated requests from the Bank, decided to appoint an expert to assess the relationship between the parties, the MOU and the reasons why the subscription agreement was not signed and which party is liable for the failure of the signature of the same and the case was adjourned for 24 February 2013 for the expert to submit his report.

On 23 February 2013, the Court decided that the expert should be an expert from the Dubai Financial Market (DFM) and adjourned the case to 10 March 2013 for the submittal of the expert report.

On 10 March 2013, the Court decided that the expert should be an expert from the Emirates Securities and Commodities Authority and adjourned the case to 17 April 2013 for the submittal of the report, which is adjourned to 29 May 2013.

On 29 May 2013, the court adjourned the hearing till 14 August 2013 for the expert to submit his report.

On 14 August 2013, the court adjourned the hearing to 6 October 2013, and the same was further adjourned to 20 November 2013, awaiting the expert's report.

On 20 November 2013, the court adjourned the hearing till 5 January 2014, and the same was further adjourned to 5 February 2014, waiting for the expert to submit his report.

Movement in provision for employees' end of service benefits:	**2013**	2012
	AED'000	AED'000
At 1 January	**23,069**	21,600
Provision made during the year (Note 22)	**2,349**	2,097
Payments made during the year	**(790)**	(628)
At 31 December	**24,628**	23,069

14. Share capital

At 31 December 2013, the issued and fully paid share capital comprised 1,600,000,000 shares of AED 1 each (2012: 1,600,000,000 shares of AED 1 each).

15. Statutory reserve

In accordance with the UAE Federal Law No (8) of 1984, as amended, and the U.A.E. Union Law No. 10 of 1980, as amended, 10% of the profit for the year is transferred to a statutory reserve until such time as the balance in the reserve equals 50% of the paid up share capital. No profit was transferred in the current year to the statutory reserve, as it exceeds 50% of the issued share capital of the Bank. This reserve is not available for distribution.

16. General reserve

The Bank maintains a general reserve and the contributions to this reserve are made at the discretion of the Directors. This reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the Bank at an Ordinary General Meeting.

17. Commitments and contingent liabilities

a) The contractual amounts of the Bank's commitments and contingent liabilities are as follows:

	2013	2012
	AED'000	AED'000
Guarantees	**5,026,381**	5,197,326
Letters of credit	**261,213**	155,215
Commitments to extend credit	**1,049,095**	1,120,979
Others	**57,843**	585,700
	6,394,532	7,059,220

By geographical area

Within the U.A.E.	**6,128,055**	6,877,801
Outside the U.A.E.	**266,477**	181,419
	6,394,532	7,059,220

Guarantees, which represent irrevocable assurances that the Bank will make payment in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Letters of credit are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank, up to a stipulated amount, under specific terms and conditions. These letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not quantifiable, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

While there is some risk associated with the remainder of commitments, the risk is viewed as modest, since it results firstly from the possibility of the unused portion of loan authorisations being drawn by the customer, and second, from these drawings subsequently not being repaid as due. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments.

17. Commitments and contingent liabilities (continued)

b) Capital commitments

At 31 December 2013, the Bank has capital commitments of AED 2.21 million (2012: AED 2.84 million).

18. Interest income and expense

	2013 AED'000	2012 AED'000
Interest income		
Loans and receivables		
Loans and advances	**443,669**	490,873
Deposits with the U.A.E. Central Bank	**650**	224
Other banks	**2,763**	4,723
Investment in debt securities	**27,362**	33,728
	474,444	529,548
Interest expense		
Financial liabilities at amortised cost		
Customers' deposits	**51,813**	62,285
Borrowings from other banks	**14**	31
	51,827	62,316

19. Other operating income

	2013 AED'000	2012 AED'000
Rental income	**5,368**	5,737
Foreign exchange income – net	**9,177**	8,443
Others	**4,932**	4,622
	19,477	18,802

20. Operating expenses

	2013 AED'000	2012 AED'000
Staff costs (Note 22)	**92,138**	87,844
Occupancy costs	**22,142**	19,787
Depreciation (Note 9)	**14,521**	15,212
Staff benefits (Note 22)	**8,956**	6,873
Fees and commission expenses	**1,145**	1,056
Others	**27,870**	60,282
	166,772	191,054

21. Investment gains/ (losses)

	2013 AED'000	2012 AED'000
Dividend income		
a) Investment securities available-for-sale	**32,676**	13,025
b) Investment securities at fair value through profit and loss	**1,550**	1,118
Fair value gain on investment securities at fair value through profit and loss	**10,288**	4,814
Net discount/(premium) amortised on debt securities	**23**	(2,795)
Profit/(loss) on sale of investments		
a) Investment securities available-for-sale	**71,816**	2,144
b) Investment securities at fair value through profit and loss	**965**	(41)
Other income	**32**	-
	117,350	18,265

22. Staff costs

	2013 AED'000	2012 AED'000
Staff costs		
Salaries and allowances	**89,392**	85,934
Staff training	**1,613**	1,082
Housing and medical	**1,133**	828
	92,138	87,844
Staff benefits		
Pension	**4,234**	4,085
End of service benefits (Note 13)	**2,349**	2,097
Others	**2,373**	691
	8,956	6,873

23. Basic earnings per share

The basic earnings per share is calculated by dividing the profit attributable to shareholders by the average number of ordinary shares in issue during the year.

	2013	2012
Profit for the year in AED	**368,079,000**	328,525,000
Average number of shares in issue	**1,600,000,000**	1,600,000,000
Basic earnings per share in AED	**0.23**	0.21

There were no potentially dilutive shares as at 31 December 2013 and 2012.

24. Dividend per share

At the Board meeting held on 27 January 2014 the Board of Directors proposed a cash dividend of 16% amounting to AED 256 million and share dividend of 5% amounting to AED 80 million in respect of the year ended 31 December 2013 (2012: cash dividend amounting to AED 256 million).

25. Related party transactions

The Bank carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in the Bank, and all Directors of the Bank and companies in which such shareholders and Directors have a significant interest and key management personnel of the Bank. During the year, the Bank entered into the following significant transactions with related parties in the ordinary course of business.

	2013	2012
	AED'000	AED'000
Interest income	**34,309**	39,884
Interest expense	**16,443**	16,013
Remuneration of key management personnel	**3,916**	3,542
Other income	**188**	270
Directors' fees	**1,900**	1,100

Outstanding balances at the end of reporting date from transactions with related parties are as follows:

	2013	2012
	AED'000	AED'000
Loans and advances	**759,010**	753,959
Customer deposits	**890,538**	805,504
Irrevocable commitments and contingent liabilities	**106,137**	264,584

26. Cash and cash equivalents

	2013	**2012**
	AED'000	**AED'000**
Cash in hand and balances with U.A.E. Central bank (Note 5)	**1,684,298**	1,337,058
Term and demand deposits with other banks (Note 6)	**994,343**	1,570,473
Statutory deposits (Note 5)	**(293,952)**	(292,007)
	2,384,689	2,615,524

27. Business segments

The Bank is organised into two main business segments:

Retail and corporate banking - wherein retail banking comprises private customer current accounts, savings accounts, deposits, credit and debit cards, customer loans and mortgages and corporate banking involves transactions with corporate bodies including government and public bodies and comprises loans, advances, deposits and trade finance transactions.

Treasury and investments - incorporating the activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the U.A.E. Central Bank and operations by the Bank's Head Office as a whole, none of which mutually constitute a separately reportable segment.

Transactions between the business segments are on normal commercial terms and conditions. There are no material items of income and expense arising between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position items.

27. Business segments (continued)

Primary segment information

	Retail and corporate banking	Treasury and investments	Unallocated	Total
	AED'000	AED'000	AED '000	AED'000
31 December 2013				
Gross income	455,866	29,517	5,368	**490,751**
Segment result	326,540	137,931	(96,392)	**368,079**
Segment assets	7,066,508	4,318,746	1,153,378	**12,538,632**
Segment liabilities	7,173,557	741,560	921,065	**8,836,182**
31 December 2012				
Gross income	500,069	36,807	5,737	**542,613**
Segment result	406,132	50,574	(128,181)	**328,525**
Segment assets	7,061,795	4,028,876	1,148,616	**12,239,287**
Segment liabilities	7,256,412	642,219	920,935	**8,819,566**

28. Classification and fair value of financial instruments

Assets	Loans and receivables AED'000	Held-to-maturity AED'000	Held for trading AED'000	Available-for-sale AED'000	Non-financial instrument AED'000	Total AED'000
31 December 2013						
Cash and balances with the U.A.E. Central Bank	1,684,298	-	-	-	-	1,684,298
Due from other banks	994,343	-	-	-	-	994,343
Loans and advances	7,076,985	-	-	-	-	7,076,985
Investment securities	-	654,151	47,026	655,876	-	1,357,053
Customers' acceptances	141,557	-	-	-	-	141,557
Property and equipment	-	-	-	-	78,875	78,875
Other assets	-	-	-	-	1,205,521	1,205,521
Total assets	**9,897,183**	**654,151**	**47,026**	**655,876**	**1,284,396**	**12,538,632**
31 December 2012						
Cash and balances with the U.A.E. Central Bank	1,337,058	-	-	-	-	1,337,058
Due from other banks	1,570,473	-	-	-	-	1,570,473
Loans and advances	6,803,467	-	-	-	-	6,803,467
Investment securities	-	608,778	42,994	355,943	-	1,007,715
Customers' acceptances	296,790	-	-	-	-	296,790
Property and equipment	-	-	-	-	85,747	85,747
Other assets	-	-	-	-	1,138,037	1,138,037
Total assets	**10,007,788**	**608,778**	**42,994**	**355,943**	**1,223,784**	**12,239,287**


28. Classification and fair value of financial instruments (continued)

Liabilities	At amortised cost	Non-financial Instruments	Total
	AED'000	AED'000	AED'000
31 December 2013			
Due to other banks	590	-	590
Customers' deposits	7,441,671	-	7,441,671
Customers' acceptances	141,557	-	141,557
Other liabilities	-	1,252,364	1,252,364
Total liabilities	**7,583,818**	**1,252,364**	**8,836,182**
31 December 2012			
Due to other banks	678	-	678
Customers' deposits	7,279,296	-	7,279,296
Customers' acceptances	296,790	-	296,790
Other liabilities	-	1,242,802	1,242,802
Total liabilities	**7,576,764**	**1,242,802**	**8,819,566**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

Fair value of financial instruments carried at amortised cost

Management considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2012.

Fair value measurements recognised in the consolidated statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

28. Classification and fair value of financial instruments (continued)

• Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

• Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
	AED '000	**AED '000**	**AED '000**	**AED '000**
Financial assets at FVTPL				
Held for trading	47,026	-	-	47,026
Available-for-sale financial assets				
Quoted equities	602,050	-	-	602,050
Unquoted equities	-	6,871	-	6,871
Quoted debt instruments	46,955	-	-	46,955
	696,031	**6,871**	**-**	**702,902**

31 December 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
	AED '000	**AED '000**	**AED '000**	**AED '000**
Financial assets at FVTPL				
Held for trading	42,994	-	-	42,994
Available-for-sale financial assets				
Quoted equities	300,569	-	-	300,569
Unquoted equities	-	6,898	-	6,898
Quoted debt instruments	48,476	-	-	48,476
	392,039	**6,898**	**-**	**398,937**

There were no transfers between each of level during the year. There are no financial liabilities which should be categorised under any of the level in above table.

29. Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

Credit risk

The Bank assumes credit risk as part of its lending operations, which is identified as the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk exposures arise principally in loans and advances, due from banks and investment securities. There is also credit risk in off-balance sheet financial arrangements such as letters of credit, guarantees and undrawn loan commitments. The credit risk management and control are centralised in the Credit Risk Department with the following objectives:

29. Financial risk management (continued)

- To measure, monitor and mitigate risks both at micro as well as macro level.
- To facilitate building and sustaining a high quality credit portfolio and minimise losses.
- Contain non-performing assets through preventive and curative management.
- To identify early warning signals and initiate timely corrective action.

Credit Risk Department has various units viz., Portfolio & Rating unit, Remedial Unit and Risk Containment Unit. Internal risk rating systems are implemented to comply with IRB Foundation norms of Basel II. Remedial Unit and Risk containment units are functioning to prevent accretion of non-performing assets through timely action and maximize recoveries through vigorous follow-up, classification of delinquent exposures and negotiate compromise proposals, wherever required. Note 30 summarize the Bank's exposure to credit risk.

Credit Risk Mitigation

Collateral - It is a common practice to obtain collateral securities to safeguard the interest of the Bank in case of default. Such mitigant are backed by proper documentation and legally binding agreements. The most common forms of tangible securities accepted by the Bank are land and building, listed equity shares, fixed deposits under lien, vehicles etc.

Other comforts - personal guarantees and corporate guarantees are also taken as comfort, wherever deemed essential.

Market risk

Market risk for the Bank refers to the risk because of which the value of its on or off-balance sheet positions are adversely affected due to movements primarily in interest rates, currency exchange rates and investment prices. Thus the volatility in market level of interest rates, foreign exchange rates and investment prices expose the Bank's earnings and capital to risk.

The market risk department of the Bank addresses these risks to the Assets and Liability Committee (ALCO) on a regular basis based on stipulated norms for Asset Liability Management and Investments. The ALCO takes corrective measures as per the Bank's internal market risk policies and strategic business directions.

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management endeavors to diversify funding sources on a continuous basis and manage assets with liquidity in mind. The day-to-day funds management is done at Treasury so as to maintain satisfactory liquid assets. The liquidity position is monitored and reported to top management on a daily basis. The Bank's ALCO has put in place the policies to manage the liquidity risk and monitor the position regularly. Note 31 summarises the Bank's exposure to liquidity risk.

Interest rate risk

Interest rate risk is the potential that changes in interest rates may adversely affect the value of a financial instrument or portfolio, or the condition of the Bank as a whole. Although interest-rate risk arises in all types of financial instruments, it is most pronounced in debt instruments, derivatives that have debt instruments as their underlying reference asset, and other derivatives whose values are linked to market interest rates. In general, the values of longer-term instruments are often more sensitive to interest-rate changes than the values of shorter-term instruments. A part of interest rate risk can be labelled as yield curve risk, which refers to the imperfect correlation of interest rates of different maturities.

The Bank manages its interest rate sensitivity position based on anticipated and actual interest rate movements, in order to maximise net interest income ("NII"). The Bank analyses its interest rate sensitivity position based on the contractual repricing or maturity dates, whichever is earlier, regularly. The impact on the sensitivity position is calculated by way of 200 basis points ("bps") change in interest rates and resultant effect in the net interest income of the Bank. It is controlled through the limit prescribed for the same. Note 32 summarises the Bank's exposure to interest rate risk.

Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored by the Treasury Department. Note 33 summarises the Bank's exposure to foreign currency exchange risk.

29. Financial risk management (continued)

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk is inherent in all business activities and management of this risk is vital to the strategic objective of the Bank. While operational risk cannot be fully eliminated, management endeavour to minimise the losses by ensuring effective infrastructure, controls, systems and individuals are in place throughout the organisation.

To accomplish the above objective, the Bank has dedicated operational risk management function, which is proactive in developing and implementing new methodologies for the identification, assessment, monitoring, and control of operational risk. Systems and procedures are in place with clear segregation of duties and reporting line to reduce operational risk. Compliance with the guidelines is monitored through robust internal control and comprehensive audit system.

The Bank has implemented under noted processes aimed at monitoring, and mitigating operational risks.

- Bottom up approach (Risk and Control Assessment) for identification and assessment of operational risks at all business units.
- Establishing a centralised database for capturing operational risk losses.

A comprehensive Business Contingency and Continuity Plan to anticipate stress situations and mitigate the risk associated with them is under implementation.

30. Credit risk

Asset quality and ageing as on 31 December 2013

	Due from other banks	Loans and advances	Investment in securities
	AED'000	AED'000	AED'000
Impaired			
Substandard	-	83,800	-
Doubtful	73,460	522,419	19,927
Loss	-	81,923	-
	73,460	688,142	19,927
Specific allowance for impairment	(73,460)	(270,115)	(19,927)
	-	**418,027**	**-**


30. Credit risk (continued)

Asset quality and ageing as on 31 December 2013 (continued)

	Due from other banks	Loans and advances	Investment in securities
	AED'000	AED'000	AED'000
Amount past due but not impaired			
Past due above 60 days	-	28,200	-
Past due less than 60 days	-	101,031	-
	-	129,231	-
Neither past due nor impaired	994,343	6,622,191	1,357,053
Collective allowances for impairment	-	(92,464)	-
	994,343	6,529,727	1,357,053
Carrying amount	994,343	7,076,985	1,357,053

Total collateral value is AED 10,881 million (2012: AED 8,162 million) against secured loans and advances of AED 5,907 million (2012: AED 4,393 million). The fair value of collateral on impaired loans is estimated to be AED 594 million (2012: AED 511 million).

Asset quality and ageing as on 31 December 2012

	Due from other banks	Loans and advances	Investment in Securities
	AED'000	AED'000	AED'000
Impaired			
Substandard	-	338,181	-
Doubtful	73,460	229,825	13,000
Loss	-	53,076	-
	73,460	621,082	13,000
Specific allowance for impairment	(73,460)	(214,609)	(13,000)
	-	406,473	-

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30. Credit risk (continued)

Asset quality and ageing as on 31 December 2012 (continued)

	Due from other banks	Loans and advances	Investment in securities
	AED'000	AED'000	AED'000
Amount past due but not impaired			
Past due above 60 days	-	205,936	-
Past due less than 60 days	-	133,216	-
	-	339,152	-
Neither past due nor impaired	1,570,473	6,148,360	1,007,715
Collective allowances for impairment	-	(90,518)	-
	1,570,473	6,057,842	1,007,715
Carrying amount	1,570,473	6,803,467	1,007,715

Geographical concentration of assets
31 December 2013

	Due from other banks	Loans and advances	Investment in Securities
	AED'000	AED'000	AED'000
Within U.A.E.	778,130	7,040,255	1,263,041
Within GCC countries	32,958	36,730	93,973
Other countries	183,255	-	39
	994,343	7,076,985	1,357,053

31 December 2012

	Due from other banks	Loans and advances	Investment in securities
	AED'000	AED'000	AED'000
Within U.A.E.	1,353,130	6,803,467	904,361
Within GCC countries	2,930	-	103,315
Other countries	214,413	-	39
	1,570,473	6,803,467	1,007,715

30. Credit risk (continued)

Rated and unrated exposure 31 December 2013	On Balance Sheet	Off Balance Sheet	Credit Risk Mitigation (CRM)			
	Gross Outstanding	**Exposure after CCF**	**Exposure before CRM**	**CRM**	**Exposure after CRM**	**Risk Weighted Assets**
Asset Classes	**AED ’000**	**AED ’000**	**AED ’000**	**AED ’000**	**AED ’000**	**AED ’000**
Claims on sovereigns	1,612,776	-	1,612,776	-	1,612,776	-
Claims on non-central Government public sector entities (PSEs)	141,117	225	141,342	-	141,342	57,766
Claims on banks	1,740,076	1,138	1,667,753	593	1,667,161	533,521
Claims on corporates	4,044,473	1,095,521	5,108,482	386,949	4,721,534	4,869,410
Claims included in the regulatory retail portfolio	1,137,401	1,818,217	2,955,194	1,756,145	1,199,049	981,208
Claims secured by residential property	10,499	-	10,499	-	10,499	9,823
Claims secured by commercial real estate	1,440,115	-	1,440,115	117,741	1,322,374	1,322,374
Past due loans	975,981	3,872	439,701	38,995	400,707	505,338
Other assets	2,034,653	-	2,034,653	-	2,034,653	1,869,755
Credit derivatives	-	18,365	18,365	-	18,365	9,183
Total claims	**13,137,091**	**2,937,338**	**15,428,880**	**2,300,423**	**13,128,460**	**10,158,378**
Total credit risk weighted assets						**10,158,378**

Rated and unrated exposure 31 December 2012	On Balance Sheet	Off Balance Sheet	Credit Risk Mitigation (CRM)			
	Gross Outstanding	**Exposure after CCF**	**Exposure before CRM**	**CRM**	**Exposure after CRM**	**Risk Weighted Assets**
Asset Classes	**AED ’000**	**AED ’000**	**AED ’000**	**AED ’000**	**AED ’000**	**AED ’000**
Claims on sovereigns	1,239,838	-	1,239,838	-	1,239,838	-
Claims on non-central Government public sector entities (PSEs)	104,773	225	104,998	-	104,998	21,180
Claims on banks	2,129,539	2,447	2,058,526	432	2,058,094	583,633
Claims on corporates	5,023,731	1,344,473	6,353,064	567,566	5,785,499	6,173,603
Claims included in the regulatory retail portfolio	1,167,969	1,723,517	2,891,501	1,678,713	1,212,787	984,127
Claims secured by residential property	13,854	-	13,854	-	13,854	12,511
Claims secured by commercial real estate	323,499	-	323,499	-	323,499	323,499
Past due loans	827,340	25,449	456,512	4,366	452,146	574,795
Other assets	1,700,297	-	1,700,297	-	1,700,297	1,512,261
Credit derivatives	-	73,460	73,460	-	73,460	36,730
Total claims	**12,530,840**	**3,169,571**	**15,215,549**	**2,251,077**	**12,964,472**	**10,222,339**
Total credit risk weighted assets						**10,222,339**

31. Liquidity risk

Maturity profile Assets 31 December 2013	Upto 1 month	1 month - 3 months	3 months - 1 year	1 year - 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with the U.A.E. Central Bank	1,290,346	100,000	-	293,952	-	1,684,298
Due from other banks	794,343	-	200,000	-	-	994,343
Loans and advances	490,813	273,304	797,500	4,206,989	1,308,379	7,076,985
Investment securities	196,785	-	554,022	423,127	183,119	1,357,053
Customers' acceptances	24,737	40,379	76,441	-	-	141,557
Property and equipment	-	-	-	39,438	39,437	78,875
Other assets	28,474	-	1,177,047	-	-	1,205,521
Total	**2,825,498**	**413,683**	**2,805,010**	**4,963,506**	**1,530,935**	**12,538,632**

31 December 2012						
Cash and balances with the U.A.E. Central Bank	1,045,051	-	-	292,007	-	1,337,058
Due from other banks	1,570,473	-	-	-	-	1,570,473
Loans and advances	673,283	194,746	810,776	4,061,037	1,063,625	6,803,467
Investment securities	105,151	-	264,526	526,566	111,472	1,007,715
Customers' acceptances	26,437	167,625	102,728	-	-	296,790
Property and equipment	-	-	-	42,874	42,873	85,747
Other assets	22,017	-	1,116,020	-	-	1,138,037
Total	3,442,412	362,371	2,294,050	4,922,484	1,217,970	12,239,287

Liabilities, equity and off balance sheet items 31 December 2013						
Due to other banks	590	-	-	-	-	590
Customers' deposits	1,143,408	972,843	2,276,200	3,049,148	72	7,441,671
Customers' acceptances	24,737	40,379	76,441	-	-	141,557
Other liabilities	127,253	144,235	980,876	-	-	1,252,364
Shareholders' equity	-	545,093	-	531,651	2,625,706	3,702,450
A Total on-balance sheet items	**1,295,988**	**1,702,550**	**3,333,517**	**3,580,799**	**2,625,778**	**12,538,632**
Forward sale	22,640	-	-	-	-	22,640
Guarantees	5,167	-	15,501	-	-	20,668
Unavailed limits	537,362	24,065	374,284	-	-	935,711
B Total off-balance sheet items	**565,169**	**24,065**	**389,785**	**-**	**-**	**979,019**
Grand total [A+B]	**1,861,157**	**1,726,615**	**3,723,302**	**3,580,799**	**2,625,778**	**13,517,651**

31. Liquidity risk (continued)

Liabilities, equity and off balance sheet items (continued) **31 December 2012**	**Upto 1 month**	**1 month - 3 months**	**3 months - 1 year**	**1 year - 5 years**	**Over 5 years**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Due to other banks	678	-	-	-	-	678
Customers' deposits	975,279	518,003	3,128,010	2,654,237	3,767	7,279,296
Customers' acceptances	26,438	167,625	102,727	-	-	296,790
Other liabilities	121,831	137,345	983,626	-	-	1,242,802
Shareholders' equity	-	334,888	-	459,127	2,625,706	3,419,721
A Total on-balance sheet items	**1,124,226**	**1,157,861**	**4,214,363**	**3,113,364**	**2,629,473**	**12,239,287**
Forward sale	5,720	197,865	140,209	-	-	343,794
Guarantees	8,221	-	24,662	-	-	32,883
Unavailed limits	626,159	51,436	440,990	-	-	1,118,585
B Total off-balance sheet items	**640,100**	**249,301**	**605,861**	**-**	**-**	**1,495,262**
Grand total [A+B]	**1,764,326**	**1,407,162**	**4,820,224**	**3,113,364**	**2,629,473**	**13,734,549**

32. Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below sets out the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2013	**Less than 3 months**	**From 3 months to 1 year**	**Over 1 year**	**Non-interest bearing**	**Total**
Financial assets	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with the U.A.E. Central bank	900,000	-	-	784,298	1,684,298
Due from other banks	605,000	200,000	-	189,343	994,343
Loans and advances	2,135,746	178,909	4,738,102	24,228	7,076,985
Investment securities	25,000	94,858	567,795	669,400	1,357,053
Customers' acceptances	-	-	-	141,557	141,557
Total	**3,665,746**	**473,767**	**5,305,897**	**1,808,826**	**11,254,236**
Financial liabilities					
Due to other banks	-	-	-	590	590
Customers' deposits	1,398,759	1,099,782	14,502	4,928,628	7,441,671
Customers' acceptances	-	-	-	141,557	141,557
Total	**1,398,759**	**1,099,782**	**14,502**	**5,070,775**	**7,583,818**
On balance sheet interest rate sensitivity gap	**2,266,987**	**(626,015)**	**5,291,395**	**(3,261,949)**	**3,670,418**
At 31 December 2012					
Total financial assets	3,229,301	412,714	5,816,766	1,556,722	11,015,503
Total financial liabilities	704,388	1,737,427	27,163	5,107,786	7,576,764
On balance sheet interest rate sensitivity gap	2,524,913	(1,324,713)	5,789,603	(3,551,064)	3,438,739

32. Interest rate risk (continued)

Rate sensitivity analysis

At the reporting date if interest rates had been 200 bps higher and all the other variables were held constant, the Bank's:

- Net interest income would have increased by AED 36.73 million (2012: AED 38.32 million).
- Other equity reserves would have decreased by AED 394.58 million based on EVE analysis (2012: AED 361.27 million).

Method and assumptions for sensitivity analysis

- Interest rate may fluctuate by a reasonable +/- 200 bps.
- A 200 bps change is used to give a realistic assessment vis-à-vis prevailing interest rates on the end of the reporting date.
- Interest rate change takes place uniformly across all time buckets upto 1 year for net interest income impact.
- Interest rate change takes place at the mid point of each time bucket.
- Other parameters remain unchanged.
- Impact on net interest income upto next 1 year is worked out.
- For impact on equity, (EVE analysis), weighted modified duration of Rate Sensitive Assets ("RSA") and Rate Sensitive Liabilities ("RSL") for all buckets has been worked out and its net impact calculated.
- RSA and RSL have been captured based on earlier of the re-pricing or maturity date.

33. Currency risk

Concentration of assets and liabilities by currency:

At 31 December 2013	AED	USD	Other	Total
Financial assets	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and balances with the U.A.E. Central Bank	1,676,754	7,544	-	1,684,298
Due from other banks	808,130	160,333	25,880	994,343
Loans and advances	6,880,268	193,643	3,074	7,076,985
Investment securities	593,818	687,695	75,540	1,357,053
Customers' acceptances	141,557	-	-	141,557
Total financial assets	**10,100,527**	**1,049,215**	**104,494**	**11,254,236**
Financial liabilities				
Due to other banks	590	-	-	590
Customers' deposits	7,389,136	38,065	14,470	7,441,671
Customers' acceptances	141,557	-	-	141,557
Total financial liabilities	**7,531,283**	**38,065**	**14,470**	**7,583,818**
Net balance sheet position	**2,569,244**	**1,011,150**	**90,024**	**3,670,418**
Off balance sheet position	**6,252,748**	**112,962**	**28,822**	**6,394,532**
At 31 December 2012				
Total financial assets	10,118,680	745,904	150,919	11,015,503
Total financial liabilities	7,474,688	21,865	80,211	7,576,764
Net balance sheet position	2,643,992	724,039	70,708	3,438,739
Off balance sheet position	6,390,744	308,737	359,739	7,059,220

33. Currency risk (continued)

Rate sensitivity analysis

Year 2013	Foreign currency assets	Foreign currency liabilities	Net forward purchase/ (sale)	Net long/ (short) position	Impact on statement of income and equity
	AED'000	AED'000	AED'000	AED'000	AED'000
Pegged Currencies					
US Dollar	1,129,181	112,155	2,648	1,019,674	(20,393)
Saudi Riyal	42,451	-	-	42,451	(849)
Bahrain Dinar	696	-	-	696	(14)
Omani Riyal	2,073	-	-	2,073	(41)
Qatar Riyal	1,181	8	(505)	668	(13)
Other Currencies					
Kuwait Dinar	34,212	-	-	34,212	(3,421)
Great British Pound	7,763	1,785	(6,052)	(74)	7
Euro	10,727	11,546	1,393	574	(57)
Swiss Franc	111	4	-	107	(11)
Japanese Yen	3,230	70	(2,941)	219	(22)
Indian Rupee	21	-	-	21	(2)
Lankan Rupee	6	-	-	6	(1)
Jordanian Dinar	373	-	-	373	(37)
Canadian Dollar	1,650	1,083	(345)	222	(22)
	1,233,675	**126,651**	**(5,802)**	**1,101,222**	
Total impact if foreign currency fluctuates against AED					**+/-24,876**

Year 2012	Foreign currency assets	Foreign currency liabilities	Net forward purchase/ (sale)	Net long/ (short) position	Impact on statement of income and equity
Pegged Currencies					
US Dollar	827,381	98,407	(175,503)	553,471	(11,069)
Saudi Riyal	34,117	1	-	34,116	(682)
Bahrain Dinar	350	-	-	350	(7)
Omani Riyal	524	-	-	524	(10)
Qatar Riyal	617	3	-	614	(12)
Other Currencies					
Kuwait Dinar	32,752	-	-	32,752	(3,275)
Great British Pound	8,886	9,005	-	(119)	12
Euro	71,139	70,930	388	597	(60)
Swiss Franc	161	4	-	157	(16)
Japanese Yen	1,137	93	(825)	219	(22)
Indian Rupee	-	88	102	14	(1)
Lankan Rupee	-	2	9	7	(1)
Jordanian Dinar	477	-	-	477	(48)
Canadian Dollar	117	119	480	478	(48)
	977,658	178,652	(175,349)	623,657	
Total impact if foreign currency fluctuates against AED					**+/-15,239**

- Currencies are divided into two categories i) those pegged with USD and ii) all other currencies as on the reporting date.
- Exchange rate fluctuation of 2% in AED against the respective pegged foreign currencies and exchange rate fluctuation of 10% in AED against the respective other foreign currencies have been used to give a realistic assessment as a plausible event.
- Based on these changes the impact on profit or loss and equity has been worked out.

34. Equity price risk

Sensitivity analysis

At the reporting date if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant, the Bank's:

- Statement of income/equity would have increased/decreased by AED 65.60 million (2012: AED 35.05 million).

Method and assumptions for sensitivity analysis

- The sensitivity analysis has been done based on the exposure to equity price risk as at the reporting date.
- As at the reporting date if equity prices are 10% higher/lower on the market value uniformly for all equities while all other variables are held constant, the impact on profit or loss and equity has been shown above.
- A 10% change in equity prices has been used to give a realistic assessment as a plausible event.

35. Capital management

Bank's capital management policy is to maintain a strong capital base to support the development and growth of business. Current and future capital requirements are determined on the basis of loan growth expectations for each business unit, expected growth in off-balance sheet facilities, future sources and uses of funds and Bank's future dividend policy. The Bank also ensures compliance with externally imposed capital requirement norms, strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. During the year the Bank had complied in full with all external imposed capital requirements. The U.A.E. Central Bank requires the banks in U.A.E. to maintain a ratio of total regulatory capital to the risk weighted assets at or above the agreed minimum of 12%.

Capital structure

The table below details the regulatory capital resources of the Bank:

	2013	2012
	AED'000	AED'000
Tier 1 Capital		
Share capital	**1,600,000**	1,600,000
Statutory reserve	**1,019,266**	1,019,266
General reserve	**6,440**	6,440
Retained earnings	**899,731**	787,652
Total Tier 1	**3,525,437**	**3,413,358**
Tier 2 Capital		
Fair value reserve on investment securities available-for-sale	**79,656**	2,863
General reserves on unclassified loans and advances to customers	**92,464**	90,518
Total Tier 2	**172,120**	**93,381**
Total Regulatory Capital	**3,697,557**	**3,506,739**

35. Capital management (continued)

Capital adequacy ratios	2013	2012
	AED’000	AED’000
Risk weighted assets :		
Credit risk-weighted assets	10,158,378	10,222,339
Market risk-weighted assets	98,514	80,910
Operations risk-weighted assets	675,996	730,411
Total risk-weighted assets	**10,932,888**	**11,033,660**

Capital adequacy ratio (percent)	2013	2012
	%	%
Tier 1 ratio (Tier 1 capital/total risk weighted assets)	**32.2**	30.9
Tier 2 ratio (Tier 2 capital/Tier 1 capital)	**4.9**	2.7
Total capital adequacy ratio (total regulatory capital/total risk weighted assets)	**33.8**	31.8
Minimum capital adequacy ratio required by UAE Central Bank	**12%**	12%

36. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 27 January 2014.

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