Annual Report

2014

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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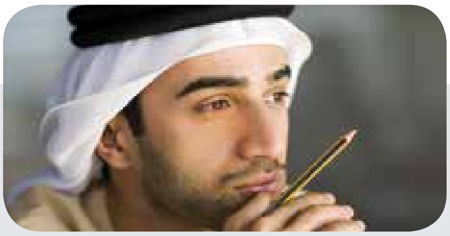


Umm Al Qaiwain Branches

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 9175 Dubai

Al Awir Branch
Ras Al Khor
P.O. Box 9175 Dubai

Al Ghusais Branch
Junction of Halab St. and Damascus St.,
Near Spinneys
P.O. Box 9175 Dubai

Sheikh Zayed Road Branch
Al Shafar Building, Sheikh Zayed Road
Al Qouz Industrial No.1
P.O. Box 9175 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

Al Taawun Branch
Al Taawun Street, Al Khan Area,
Al Johar Towers
P.O. Box 82822 Sharjah

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

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 32nd 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 December 2014.

It is my pleasure to inform that NBQ has achieved total revenue of AED 664.46 million for the year ending 31st December 2014 (2013: AED 659.93 million), net operating profit of AED 406.32 million an increase of 25% over the previous year (2013: AED 323.98 million) and Net profit of AED 312.82 million after reduction of AED 75.77 million being provision made against risks inherent in the portfolio of 1.50% on the Total Credit Weighted Assets as per UAE Central Bank requirements for all banks operating in UAE and to fall in line with International Prudential Standards.

Total Assets and Liabilities amounted to AED 13.23 billion registering a 6 % growth compared to 2013 figure of AED 12.50 Billion. Loans & Advances portfolio increased by 13.47% (2013: 4.02%) to AED 7.98 billion from AED 7.011 billion while Customer deposits increased to AED 8.04 billion from AED 7.44 billion, registering an 8% growth.

Shareholders' funds amounted to AED 3.80 billion as at 31/12/2014 (2013: AED 3.70 billion).

NBQ maintained the strategy of keeping high level of liquidity as in the past and liquidity ratio as at 31/12/2014 is recorded at 23.71%. We continue to maintain one of the highest capital adequacy ratios in the banking industry and is recorded at 30.90% as against the minimum prescribed level of 12% stipulated by UAE Central Bank. This depicts the financial strength of the bank and its capacity to increase scope of lending portfolio, when needed. Tier 1 ratio is recorded at 29%, which is also substantially higher than the prescribed 8 % stipulated by the regulatory authorities. Cost to income ratio is 29.69% (2013: 33.98%) reflecting the controls maintained by us in managing the costs while maintaining the income growth during the year.

Board is recommending the payment of cash dividend of 11% for the year 2014 and a bonus of 10%.

The growth momentum in US picked up in 2014 as evidenced by encouraging financial, economic and employment data from there. There are indications that we may see interest rate hikes in US in 2015. China continued to be a fast growing economy, but the rate of growth slowed a bit. Other major economies did not see much of upside during 2014. UAE economy was cruising at a growth rate of around 4.4% for most part of the year before the steep fall in crude oil prices in the last quarter. Still the final growth rate is likely to be above 4% considering the strong growth in non-oil economy. The growth rate for 2015 may to be around 4.5% as the activity for the Dubai Expo 2020 is likely to pick up soon. UAE's ADX and DFM bourses saw their respective indices at record highs before falling at year end due to the oil price shock. The UAE banking sector too witnessed a good growth in 2014, which is likely to continue in 2015 considering the pick-up in US economy, growth prospects of UAE economy and likelihood of stabilisation of oil prices.

We continued to maintain cautionary credit expansion policy with profitability focus. Credit monitoring is also given its due focus. Considering the growth opportunities and avenues of growth, bank has adopted clear strategy to expand the scope of our asset building exercise to increase our earnings and to further enhance the shareholder's returns and net worth without diluting the cautionary policy followed hitherto. We consider that 2015 as a year of calculated growth due to instability in oil prices; bank is planning to spend on infrastructural projects to expand its serviceability with a wider scope of clientele.

On behalf of the Board of Directors, I express my sincere 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 the continued support for the development of Bank.

I would also like to appreciate the on-going initiatives, support and guidance of UAE Central Bank in regulating and automating the country's Financial Sector in general and NBQ in particular. Last but not the least, I also sincerely appreciate the confidence of our beloved shareholders, the continuing loyalty demonstrated by our customers and business partners and the dedicated efforts of our Management and staff, who have all contributed to the success of NBQ for 2014 as well. We expect this unstinted support in the future as well which will provide NBQ the strength and determination to meet all future challenges in the years to come.

Rashid Bin Saud Al Mualla
Chairman

Management Review

FINANCIAL OVERVIEW

It gives me great pleasure to present the Bank's Management report for the year ending 2014. After witnessing a sustained decline in the global economy from 2008 to 2013, the economic recovery was evidenced during 2014 largely due to the positive developments in the US. This growth cascaded to the emerging and GCC markets and to the UAE in particular. The banking industry benefitted largely due to this recovery which resulted in increased lending opportunities.

I am pleased to report that NBQ recorded a total revenue of AED 664.46 million for the year ending 31st December 2014 (2013- AED 659.93 million), net Operating profit of AED 406.32 million which increased by 25% compared to the 2013 net Operating profit figure of AED 323.98 million and a Net Profit of AED 312.82 million for 2014, after reduction of AED 75.77 million being general provision against risk inherent in the portfolio of 1.50% on the Total Credit Risk Weighted Assets as per UAE Central Bank requirements for all banks operating in the UAE and to fall in line with International Prudential Standards.

Total assets and liabilities as at end of 2014 increased to AED 13.23 billion, which includes Loan and advances amounting to AED 7.98 billion recording a 13.47% growth over the 2013 figures of AED.7.04 billion, while Customer Deposits amounting to AED. 8.04 billion as at end of 2014 registered a growth of 8% over the 2013 figure of AED.7.44 billion. Shareholder's equity increased to AED.3.8 billion from AED. 3.7 billion, an increase of 2.5% and Earnings per share worked out to 0.19 fils.

Central Bank Instructions and Guidelines require a provision of 1.5% of Total Credit Risk Weighted Assets to be maintained by all Banks against risks inherent in the portfolio as at 31.12.2014. Accordingly full provision of AED 168.23million is now maintained by addition of AED 70.93 million.

Bank is continuing to be highly liquid recording a liquidity ratio of 23.71% as a result of a prudent funding pattern followed in acquiring funds and positioning them. Net Advances to deposit ratio is 99.28% which is in line with the normal industry practice and the advances to stables resources ratio of 76.15% as per prescribed regulatory norms and having a lendable surplus of AED2.7 billion. (23.85% of the stable resources)

Our capital adequacy ratio stands at 30.90% for 2014 as against regulatory ratio of 12% and tier 1 ratio of 29.00% consistently at high levels in the industry, which evidences the strength of the bank from net worth perspective.

OUTLOOK FOR 2015

The growth in UAE may be a bit slower initially in 2015 due to the oil price shock. The impact may not be too high as UAE has diversified its economy in recent years. With market estimates indicating crude oil prices have hit the bottom, there could be a rebound in prices which will favour UAE economy. The bank, with its prudent policies and a strong liquidity profile, is well poised to withstand the vagaries of the economy and to utilise the opportunities that may arise.

TREASURY AND INVESTMENTS

Sharp fall in crude oil prices in the last quarter of the year had an impact on Middle Eastern markets. Clear signals of US economic recovery and view of possible hike in US interest rate next year were top market movers during the year. Faltering economies of European Union and Japan also made news. The domestic bond market was active with more corporates tapping the market at lower interest rates. Equities rallied for most part of year before witnessing some fall towards the end due to oil price shock.

The Bank continued its focus on quality investment with good returns within the usual lower risk profile. The participation in quality syndicated loans continued. Overall, the investments contributed decently to the Bank's profits.

WHOLESALE BANKING

In the backdrop of enhanced business confidence in the corporate sector, recovery in the real estate sector and increased government spending, the bank is on track to close the year by recording enhanced asset growth. The Bank has experienced lower net interest margins, but improving asset quality and falling credit losses have offset this. The bank has focused its lending to high growth service sectors including healthcare, logistics, education and hospitality. An increased focus on new businesses, effective cross selling are key initiatives that are expected to drive growth business volumes and profits over the coming years.

RETAIL BANKING

The Bank's Retail Banking network of 18 branches and 10 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. A new Branch in Sharjah was inaugurated in 2014 to expand NBQ foot print and renovation of other locations were completed to create better ambience and provide better environment for customer service.

Management Review (continued)

The Bank continues to focus on increasing market share under Islamic products to its customers which continues to be popular and widely accepted. During the year, the Bank continued to be prudent in its retail lending activities and focused more on maintaining healthy retail assets portfolio.

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's efforts were recognized for its voluntary participation by the National Defaulters' Debt Settlement Fund program. A total of AED2.167 million was contributed by the Bank in these efforts.

RISK MANAGEMENT

Credit Risk

In line with the best practices, the Bank follows a well-defined organizational structure with Relationship Business Units as the front office, Centralized Approval and Credit Risk 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 scrupulously followed at all levels. Credit risk policy 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 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.

During the reporting period, the Bank made a comprehensive review of the Wholesale banking portfolio on various parameters based on past experience and laid the platform for future growth in this segment.

During the year, the Bank completed first phase of operational roll-out of reporting for Al Etihad Credit Bureau, the Company mandated to implement and operate a credit reporting system across the UAE. The Bank commenced using of these Credit reports for credit review.

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 ICAAP 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. The risk limits are closely monitored by the Mid Office and exceptions are reported to Senior Management. The Position is discussed monthly by the Bank's Senior Management to achieve optimum returns while maintaining market risk exposures within prudential limits.

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 Senior Management and the Board 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.

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.

Management Review (continued)

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 in due course whenever mandated by Central Bank of UAE from the presently used Basic Indicator Approach.

BUSINESS CONTINGENCY AND CONTINUITY PLAN

Bank has taken adequate steps to ensure that its regular functioning is not disrupted by unforeseen events/disasters/system related failure. NBQ has already developed Business Continuity and Contingency Plan to fall back upon in the event of disaster or disruptions.

INFORMATION TECHNOLOGY AND OPERATIONS

Bank's IT infrastructure and security practices continued to evolve in the year 2014 to ensure maximum availability, performance and better security. During the year, bank implemented critical security and auditing applications to ensure better access control and auditable evidences for super user accounts of the critical operating systems. Apart from this, bank enhanced the security of the ATM network, upgraded the ATM operating systems and implemented better CCTV infrastructure. We also completed the central bank mandated FTS application phase II implementation and addressed Al Etihad Credit Bureau related requirements.

HUMAN RESOURCES

NBQ has robust planning strategies to assess the human resource needs to cater to the changed requirements consequent to business development, regulatory and socio-cultural requirements.

Human resources policies are maintained and revised periodically to meet the strategic and operational requirements.

NBQ emphasizes the continuous need to maintain and improve the strength of UAE national work force through proper recruitment policies and stress on the need to identify and upgrade qualified and performing UAE National staff members to render them with leadership and managerial roles. Training needs are assessed and implemented independently by Learning and Development Department through internal and external sources including Emirates Institute for Banking and Financial Studies to improve the competency and knowledge of UAE nationals in handling the operations and managerial duties.

Despite the high staff turnover of UAE Nationals in the banking sector, NBQ was able to maintain the level of Emiratization and retain its key staff members through its well-defined policies and long term strategies.

COMMUNITY RELATIONS

In the course of doing banking business, NBQ has been socially active in the Customer Social Responsibility initiatives as well and have been contributing to the social welfare of the Emirates where we had the business presence. As in the past, NBQ provided unstinted support to the charitable, educational, medical and other recreational initiatives undertaken in the emirates by socio-cultural organizations from time to time.

ECONOMIC PERFORMANCE

Global economy presented a mixed bag during 2014 with clear growth prospects appearing in US but Europe and Japan staring at recession. With China too coming out with slower growth rate, US appear to be the only bright spot among major economies. UAE's growth rate was satisfactory for major part of the year with a growth of above 4% before the fall in oil prices dented the growth a bit towards the end of the year. Still, the final growth rate is estimated to be around 4%.

CONCLUSION

I would like to extend my sincere appreciation and thanks to our shareholders for their continuous support, to our customers for the continued business relationship and loyalty demonstrated over all these years and to the Management team and all the staff members for their continued dedication and commitment.

Nasser Bin Rashid Al-Moalla
Managing Directors & 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 2014, 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 2014, 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 2015

Consolidated statement of financial position
At 31 December 2014

	Notes	2014 AED'000	2013 AED'000
Assets			
Cash and balances with the U.A.E. Central Bank	5	1,152,844	1,684,298
Due from other banks	6	1,145,994	994,343
Loans and advances	7	7,984,384	7,036,747
Investment securities	8	1,474,857	1,357,053
Customers' acceptances		197,926	141,557
Investment in an associate	9	1,500	-
Property and equipment	10	74,515	78,875
Other assets	11	1,194,746	1,205,521
Total assets		**13,226,766**	12,498,394
Liabilities			
Due to other banks	12	-	590
Customers' deposits	13	8,042,375	7,441,671
Customers' acceptances		197,926	141,557
Other liabilities	14	1,191,371	1,212,126
Total liabilities		**9,431,672**	8,795,944
Shareholders' equity			
Share capital	15	1,680,000	1,600,000
Statutory reserve	16	1,019,266	1,019,266
General reserve	17	6,440	6,440
Cumulative change in fair values		212,838	177,013
Retained earnings		876,550	899,731
Total shareholders' equity		**3,795,094**	3,702,450
Total liabilities and shareholders' equity		**13,226,766**	12,498,394
Commitments and contingent liabilities	18	**7,401,681**	6,394,532

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 2014

	Notes	2014 AED'000	2013 AED'000
Interest income	**19**	**539,920**	474,444
Interest expense	**19**	**(39,275)**	(51,827)
Net interest income		**500,645**	422,617
Fee and commission income		**55,601**	48,657
Other operating income	**20**	**21,870**	19,477
Gross income		**578,116**	490,751
Operating expenses	**21**	**(171,797)**	(166,772)
Operating income		**406,319**	323,979
Investment gains	**22**	**47,067**	117,350
Impairment written back/(losses) on investments securities - net	**8**	**14,871**	(6,927)
Provision for impairment of loans and advances - net	**7**	**(155,884)**	(66,323)
Share of profits from an associate	**9**	**446**	-
Profit for the year		**312,819**	368,079
Basic earnings per share (in AED)	**24**	**0.19**	0.22

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

Consolidated statement of comprehensive income for the year ended 31 December 2014

	2014 AED'000	2013 AED'000
Profit for the year	**312,819**	368,079
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Net gain on available-for-sale investments recognised directly in equity	**41,125**	221,519
Items that will not be reclassified subsequently to profit or loss:		
Transfer from equity on sale of available-for-sale investments	**(5,300)**	(50,869)
Other comprehensive income for the year	**35,825**	170,650
Total comprehensive income for the year	**348,644**	538,729

Consolidated statement of changes in equity for the year ended 31 December 2014

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	change in fair values AED'000	Retained earnings AED'000	Total AED'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	-	-	-	-	(256,000)	(256,000)
Balance at 31 December 2013	1,600,000	1,019,266	6,440	177,013	899,731	3,702,450
Profit for the year	-	-	-	-	312,819	312,819
Other comprehensive income for the year	-	-	-	35,825	-	35,825
Total comprehensive income for the year	-	-	-	35,825	312,819	348,644
Dividend paid (Note 25)	-	-	-	-	(256,000)	(256,000)
Bonus shares issued during the year (Note 25)	80,000	-	-	-	(80,000)	-
Balance at 31 December 2014	1,680,000	1,019,266	6,440	212,838	876,550	3,795,094

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

Consolidated statement of cash flows for the year ended 31 December 2014

	2014	2013
	AED'000	AED'000
Cash flows from operating activities		
Profit for the year	**312,819**	368,079
Adjustments:		
Provision for asset impairment - net	**141,013**	73,250
Depreciation of property and equipment	**15,615**	14,521
Decrease/(increase) in fair value of investment securities at fair value through profit and loss - net	**225**	(10,183)
Discount amortised	**(12)**	(23)
Gain on disposal of investment in securities	**(14,572)**	(72,781)
Dividend income	**(31,457)**	(34,226)
Share of profits from an associate	**(446)**	-
Gain on disposal of property and equipment	**(66)**	(37)
Operating cash flows before changes in operating assets and liabilities	**423,119**	338,600
Increase in term deposits with original maturity greater than 3 months	**(200,000)**	-
Increase in statutory deposit with the U.A.E. Central Bank	**(51,833)**	(1,945)
Increase in loans and advances net of provision and amounts written off	**(1,103,521)**	(299,603)
Decrease/(increase) in other assets	**9,275**	(67,484)
Decrease in due to other banks	**(590)**	(88)
Increase in customers' deposits	**600,704**	162,375
Decrease in other liabilities	**(26,140)**	(30,807)
Net cash (used in)/generated from operating activities	**(348,986)**	101,048
Cash flows from investing activities		
Purchase of property and equipment	**(11,509)**	(7,663)
Proceeds from disposal of property and equipment	**320**	51
Purchase of investment in securities	**(286,544)**	(465,312)
Proceeds from disposal of investment in securities	**233,795**	362,684
Dividend received from investment in securities	**31,457**	34,226
Dividend received from investment in an associate	**446**	-
Net cash used in investing activities	**(32,035)**	(76,014)
Cash flows from financing activities		
Dividend paid	**(250,615)**	(255,869)
Cash used in financing activities	**(250,615)**	(255,869)
Net decrease in cash and cash equivalents	**(631,636)**	(230,835)
Cash and cash equivalents, at the beginning of the year	**2,384,689**	2,615,524
Cash and cash equivalents, at the end of the year (Note 27)	**1,753,053**	2,384,689

Non cash transactions:

Transfer of investment in an associate of AED 1,500 thousand from other assets.

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

Notes to the consolidated financial statements for the year ended 31 December 2014

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 18 branches and 10 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 new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2014, have been adopted in these consolidated financial statements. The application of these revised and new 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 IAS 32 Financial Instruments: Presentation relating to application guidance on the offsetting of financial assets and financial liabilities.

- Amendments to IAS 36 recoverable amount disclosures:
  The amendments restrict the requirements to disclose the recoverable amount of an asset or CGU to the period in which an impairment loss has been recognised 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.

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement, Novation of Derivatives and Continuation of Hedge Accounting.

- The amendment allows the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met.

- 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.

2.2 New and revised 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 are 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 (2009) issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 Financial Instruments (2010) revised in October 2010 includes the requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement.	1 January 2018
• IFRS 9 Financial Instruments (2013) was revised in November 2013 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.	
• Finalised version of IFRS 9 (IFRS 9 Financial Instruments (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition.	
• IFRS 9 (2009) and IFRS 9 (2010) were superseded by IFRS 9 (2013) and IFRS 9 (2010) also superseded IFRS 9 (2009). IFRS 9 (2014) supersedes all previous versions of the standard. The various standards also permit various transitional options. Accordingly, entities can effectively choose which parts of IFRS 9 they apply, meaning they can choose to apply: (1) the classification and measurement requirements for financial assets: (2) the classification and measurement requirements for both financial assets and financial liabilities: (3) the classification and measurement requirements and the hedge accounting requirements provided that the relevant date of the initial application is before 1 February 2015.	
• IFRS 15 Revenue from Contracts with Customers: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.	1 January 2017

• Annual Improvements to IFRSs 2012 - 2014 Cycle that include amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.	1 July 2016
• Amendments to IAS 16 and IAS 38 to clarify the acceptable methods of depreciation and amortization.	1 January 2016
• Amendments to IFRS 11 to clarify accounting for acquisitions of Interests in Joint Operations.	1 January 2016
• Amendments to IAS 16 and IAS 41 require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16.	1 January 2016
• Amendments to IFRS 10 and IAS 28 clarify that the recognition of the gain or loss on the sale or contribution of assets between an investor and its associate or joint venture depends on whether the assets sold or contributed constitute a business.	1 January 2016
• Amendments to IAS 27 allow an entity to account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IAS 39/IFRS 9 or using the equity method in an entity's separate financial statements.	1 January 2016
• Amendments to IFRS 10, IFRS 12 and IAS 28 clarifying certain aspects of applying the consolidation exception for investment entities.	1 January 2016
• Amendments to IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports.	1 January 2016
• Annual Improvements to IFRSs 2010 - 2012 Cycle that includes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24.	1 July 2014
• Annual Improvements to IFRSs 2011 - 2013 Cycle that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40	1 July 2014
• Amendments to IAS 19 Employee Benefits 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

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 2015 or as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, 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 2018. The application of IFRS 9 may have significant impact on amounts reported and disclosures made in the Bank's consolidated financial statements in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application of this standard until the Bank performs a detailed review.

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.

The Bank presents its consolidated statement of financial position broadly in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) presented in the notes.

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.

Subsidiary:

Details of the Bank's subsidiary as at 31 December 2014 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 Investment in an associate

An associate is an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate is incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Bank's share of the profit or loss and other comprehensive income of the associate. When the Bank's share of losses of an associate exceeds the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate), the Bank discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated income statement in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Bank's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3.5 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.

3.6 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 observable market price or fair value of the 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.

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 advances 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.

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.

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.

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.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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.

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.

3.7 Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

Financial liabilities
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.

3.8 Property and equipment

Capital work in progress is stated at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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.

3.9 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.

3.10 Impairment of tangible assets

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.11 Employees' end of service benefits

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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.

3.12 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.

3.13 Borrowings

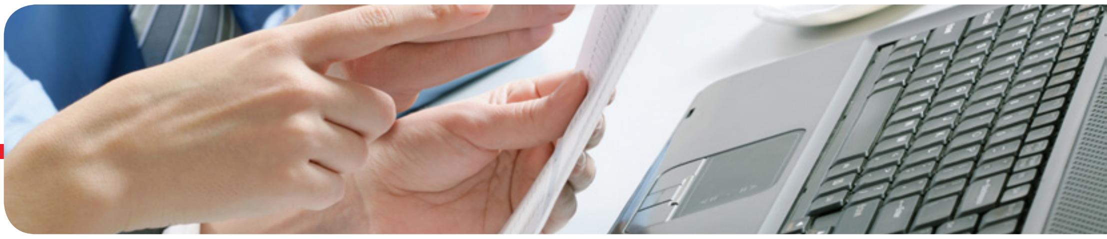
Borrowings are recognised initially at fair value net of transaction costs incurred, and are subsequently stated at amortised cost using effective interest rate method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of income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

3.14 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.

3.15 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.



3.16 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.

3.17 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.

3.18 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.

3.19 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.

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.

Classification of investments

Management decides on acquisition of investment securities whether it should be classified as FVTPL - held for trading or available-for-sale securities. In judging the classification of the investments in securities, management has considered the detailed criteria for determination of such classification as set out in IFRS 39 - Financial Instruments: Recognition and Measurement. Management is satisfied that its investments in securities are appropriately classified.

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

	2014 AED'000	2013 AED'000
Balances with the U.A.E. Central Bank:		
Current account	**481,909**	372,475
Certificates of deposit	**150,000**	900,000
Statutory deposit	**345,785**	293,952
	977,694	1,566,427
Cash in hand	**175,150**	117,871
	1,152,844	1,684,298

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

	2014 AED'000	2013 AED'000
Term deposits	**1,085,095**	805,000
Demand deposits	**60,899**	262,803
	1,145,994	1,067,803
Provision for impairment	**-**	(73,460)
	1,145,994	994,343

Movement in provision for impairment:

	2014 AED'000	2013 AED'000
At 1 January	**73,460**	73,460
Written off	**(73,460)**	-
At 31 December	**-**	73,460

7. Loans and advances

	2014 AED'000	2013 AED'000
Loans	**6,557,121**	5,627,862
Overdraft	**1,668,141**	1,533,888
Loans against trust receipts	**191,776**	137,348
Other	**80,458**	100,228
Total loans and advances	**8,497,496**	7,399,326
Provision for impairment	**(513,112)**	(362,579)
Net loans and advances	**7,984,384**	7,036,747
By economic sector		
Wholesale and retail trade	**1,293,237**	1,628,367
Real estate and construction	**2,599,785**	2,085,330
Personal loans and other	**1,067,559**	1,222,171
Manufacturing	**250,139**	249,887
Agriculture and allied activities	**-**	17
Transport and communication	**162,760**	95,259
Financial institutions	**1,028,063**	681,628
Services and other	**2,095,953**	1,436,667
	8,497,496	7,399,326

Movement in provision for impairment:

	2014			2013
	Against specific loans and advances AED'000	**Against risks inherent in the portfolio AED'000**	**Total AED'000**	Total AED'000
At 1 January	**270,115**	**92,464**	**362,579**	305,127
Provision made during the year	**167,270**	**77,068**	**244,338**	90,764
Provision released during the year	**(87,717)**	**(737)**	**(88,454)**	(24,441)
Written off/utilised during the year	**(4,686)**	**(665)**	**(5,351)**	(12,558)
Provision transferred during the year	**(103)**	**103**	**-**	3,687
At 31 December	**344,879**	**168,233**	**513,112**	362,579

Central Bank Instructions and Guidelines require a provision of 1.5% of Total Credit Risk Weighted Assets to be maintained by all Banks against risks inherent in the portfolio as at 31.12.2014. Accordingly full provision of AED 168.23million is now maintained by addition of AED 75.77 million (net).

Net charge for provision for impairment

	2014 AED'000	2013 AED'000
Provision made during the year	**244,338**	90,764
Provision released during the year	**(88,454)**	(24,441)
	155,884	66,323

The non-performing loans as at 31 December 2014 amounted to AED 755.62 million (2013: AED 688.14 million). Provisions for impairment in relation to such loans amounted to AED 344.88 million as at 31 December 2014 (2013: AED 270.12 million) (see Note 31).

8. Investment securities

	2014 AED'000	2013 AED'000
Securities at fair value through profit or loss		
- held for trading		
Quoted equity securities	**22,699**	20,326
Funds placed under management	**24,350**	26,700
	47,049	47,026
Securities available-for-sale		
Quoted equity securities	**783,693**	602,050
Unquoted equity securities	**6,623**	6,871
Quoted debt instruments	**-**	46,955
	790,316	655,876
Securities held-to-maturity		
Quoted debt instruments	**637,492**	640,700
Unquoted debt instruments	**-**	33,378
	637,492	674,078
Provision for impairment	**-**	(19,927)
	637,492	654,151
	1,474,857	1,357,053

Movement in investment securities:

	2014 AED'000	2013 AED'000
At 1 January	**1,357,053**	1,007,715
Purchase of investment securities	**286,544**	465,312
Disposal of investment securities	**(224,523)**	(340,772)
Provision for impairment on investment securities held to maturity	**-**	(6,927)
Provision for impairment on investment securities available-for-sale	**(5,056)**	-
Provision for impairment written back	**19,927**	-
Net fair value gain on investment securities at fair value through profit and loss - held for trading	**1,026**	10,288
Net discount amortised on debt securities	**12**	23
Foreign exchange revaluation	**(1,251)**	(105)
Net fair value gain on investment securities available-for-sale directly recognised in equity	**41,125**	221,519
At 31 December	**1,474,857**	1,357,053

Movement in provision for impairment (securities held-to-maturity):

	2014 AED'000	2013 AED'000
At 1 January	**19,927**	13,000
Provision made during the year	**-**	6,927
Provision written back during the year	**(19,927)**	-
At 31 December	**-**	19,927

Impairment written back/losses on investment securities - net

	2014 AED'000	2013 AED'000
Impairment losses	**5,056**	6,927
Provision written back during the year	**(19,927)**	-
	(14,871)	6,927

9. Investment in an associate

The detail of associate is as follows:

Name of the associate	Principal activity	Place of incorporation	Ownership (%)	2014 Total AED'000	2013 Total AED'000
Tasareeh Business Men Center LLC	Providing visa application and renewal services, other business men services.	Dubai, UAE	30%	1,500	-

Movement in the investment in an associate for the year:

	2014 AED'000	2013 AED'000
Investment in an associate acquired	**1,500**	-
Share of profits from an associate	**446**	-
Dividend received from an associate	**(446)**	-
At 31 December	**1,500**	-

Summarised financial information in respect of the Bank's associate which is accounted by equity method is set out below:

	2014 AED'000	2013 AED'000
Total assets	**5,405**	
Total liabilities	**(405)**	
Net assets	**5,000**	
Bank's share of associate's net assets	**1,500**	
Total revenue	**8,652**	
Net profit for the year	**1,488**	
Share of associate's net profit for the year	**446**	

10. Property and equipment

	Land and buildings AED'000	Computers and equipment AED'000	Furniture and fixtures AED'000	Leasehold improvements AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost							
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
Additions	124	5,716	102	223	405	4,939	11,509
Disposals	-	(89)	-	-	(359)	(247)	(695)
Transfer	257	2,693	-	1,471	-	(4,421)	-
At 31 December 2014	**107,268**	**94,851**	**5,002**	**9,719**	**1,722**	**3,450**	**222,012**
Accumulated depreciation							
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**
Charge for the year	4,252	10,559	115	626	63	-	15,615
Eliminated on disposals	-	(82)	-	-	(359)	-	(441)
At 31 December 2014	**57,235**	**76,737**	**4,815**	**7,387**	**1,323**	**-**	**147,497**
Carrying amount							
At 31 December 2014	**50,033**	**18,114**	**187**	**2,332**	**399**	**3,450**	**74,515**
At 31 December 2013	53,904	20,271	200	1,264	57	3,179	78,875

Land and buildings include land costing AED 22.9 million (2013: AED 22.9 million) which is not depreciated. Capital work in progress includes expenditure incurred on equipments and other leasehold improvements.

11. Other assets

	2014 AED'000	2013 AED'000
Inventory	**72,469**	43,891
Interest receivable	**27,482**	28,474
Prepayments and deposits	**31,964**	26,375
Other	**1,062,831**	1,106,781
	1,194,746	1,205,521

Inventory represents properties acquired in settlement of debt.

Other assets include AED 1,061 million (2013: 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 14 to these consolidated financial statements.

12. Due to other banks

	2014 AED'000	2013 AED'000
Demand deposits	**-**	590
By geographical area		
Within U.A.E.	**-**	590

13. Customers' deposits

	2014 AED'000	2013 AED'000
Time deposits	**6,207,048**	5,847,239
Savings deposits	**165,341**	153,644
Current accounts	**1,603,414**	1,387,142
Margin deposits	**66,572**	53,646
	8,042,375	7,441,671

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

14. Other liabilities

	2014 AED'000	2013 AED'000
Accounts payable	**31,695**	31,238
Interest payable	**10,043**	16,655
Provision for employees' end of service benefits	**25,063**	24,628
Other staff benefits	**1,521**	1,450
Other	**1,123,049**	1,138,155
	1,191,371	1,212,126

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 the Bank did not repay the advance amount and proceeded for completion of the transaction by seeking the balance amount from GIH.

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 11).

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.

On 2 January 2013, the Court, following the request 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 24 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 for the submittal of the report.

On 18 May 2014, the expert submitted the report and the court adjourned the case to 17 September 2014 for comments, reviews and final memos on the expert's report.

On 17 September 2014, the court adjourned the hearing till 12 October 2014 for both the parties to submit their final comments.

On 12 October 2014, the court adjourned the hearing till 16 November 2014 for review and final pleadings.

On 16 November 2014, the court adjourned the hearing till 4 February 2015 for the judgement.

Movement in provision for employees' end of service benefits:

	2014 AED'000	2013 AED'000
At 1 January	**24,628**	23,069
Provision made during the year (Note 23)	**2,051**	2,349
Payments made during the year	**(1,616)**	(790)
At 31 December	**25,063**	24,628

15. Share capital

	2014 AED'000	2013 AED'000
Issued and fully paid:	**1,680,000**	1,600,000
1,680 million ordinary shares of AED 1 each		
(31 December 2013: 1,600 million ordinary shares of AED 1 each)		

During the year, the share capital of the Bank was increased by AED 80 million by the issue of bonus shares of AED 1 each. These issues of bonus shares were approved by the Shareholders at the Annual General Meeting held on 9 March 2014.

16. 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.

17. 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.

18. Commitments and contingent liabilities

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

	2014 AED'000	2013 AED'000
Guarantees	**5,453,656**	5,026,381
Letters of credit	**147,201**	261,213
Commitments to extend credit	**1,523,951**	1,049,095
Other	**276,873**	57,843
	7,401,681	6,394,532
By geographical area		
Within U.A.E.	**7,225,895**	6,128,055
Outside the U.A.E.	**175,786**	266,477
	7,401,681	6,394,532

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.

b) Capital commitments

At 31 December 2014, the Bank has capital commitments of AED 2.54 million (2013: AED 2.21 million).

19. Interest income and expense

	2014 AED'000	2013 AED'000
Interest income		
Loans and receivables		
Loans and advances	**504,396**	443,669
Deposits with the U.A.E. Central Bank	**220**	650
Other banks	**6,585**	2,763
Investment in debt securities	**28,719**	27,362
	539,920	474,444
Interest expense		
Financial liabilities at amortised cost		
Customers' deposits	**39,250**	51,813
Borrowings from other banks	**25**	14
	39,275	51,827

20. Other operating income

	2014 AED'000	2013 AED'000
Rental income	**7,824**	5,368
Foreign exchange income – net	**6,954**	9,177
Other	**7,092**	4,932
	21,870	19,477

21. Operating expenses

	2014 AED'000	2013 AED'000
Staff costs (Note 23)	**93,142**	92,138
Occupancy costs	**22,626**	22,142
Depreciation (Note 10)	**15,615**	14,521
Staff benefits (Note 23)	**8,899**	8,956
Fees and commission expenses	**1,413**	1,145
Other	**30,102**	27,870
	171,797	166,772


22. Investment gains

	2014 AED'000	2013 AED'000
Dividend income		
a) Investment securities available-for-sale	**30,671**	32,676
b) Investment securities at fair value through profit and loss	**786**	1,550
Fair value gain on investment securities at fair value through profit and loss	**1,026**	10,288
Net discount amortised on debt securities	**12**	23
Profit on disposal of investments		
a) Investment securities available-for-sale	**14,217**	71,816
b) Investment securities at fair value through profit and loss	**355**	965
Other income	**-**	32
	47,067	117,350

23. Staff costs

	2014 AED'000	2013 AED'000
Staff costs		
Salaries and allowances	**90,755**	89,392
Staff training	**1,177**	1,613
Housing and medical	**1,210**	1,133
	93,142	92,138
Staff benefits		
Pension	**4,262**	4,234
End of service benefits (Note 14)	**2,051**	2,349
Other	**2,586**	2,373
	8,899	8,956

24. 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.

	2014 AED'000	2013 AED'000
Profit for the year in AED	**312,819,000**	368,079,000
Average number of shares in issue	**1,680,000,000**	1,680,000,000
Basic earnings per share in AED	**0.19**	0.22

The denominator for the purpose of calculating basic earnings per share of 2013 has been adjusted to reflect the issue of 80 million bonus shares (See Note 15, 25).

There were no potentially dilutive shares as at 31 December 2014 and 2013.

25. Dividend per share

At the Board meeting held on 27 January 2015 the Board of Directors proposed a cash dividend of 11% amounting to AED 184.8 million and share dividend of 10% amounting to AED 168 million in respect of the year ended 31 December 2014 (2013: cash dividend amounting to AED 256 million and share dividend amounting to AED 80 million).

26. 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.

	2014 AED'000	2013 AED'000
Interest income	**22,884**	34,309
Interest expense	**19,083**	16,443
Remuneration of key management personnel	**3,711**	3,916
Other income	**185**	188
Directors' fees	**1,900**	1,900

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

	2014 AED'000	2013 AED'000
Loans and advances	**690,874**	759,010
Customer deposits	**1,201,061**	890,538
Irrevocable commitments and contingent liabilities	**191,701**	106,137

27. Cash and cash equivalents

	2014 AED'000	2013 AED'000
Cash in hand and balances with U.A.E. Central bank (Note 5)	**1,152,844**	1,684,298
Term and demand deposits with other banks (Note 6)	**1,145,994**	994,343
Statutory deposits (Note 5)	**(345,785)**	(293,952)
Term deposits with original maturity over 3 months	**(200,000)**	-
	1,753,053	2,384,689

28. 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.

Primary segment information

31 December 2014	**Retail and corporate banking AED'000**	**Treasury and investments AED'000**	**Unallocated AED'000**	**Total AED'000**
Gross income	523,416	46,876	7,824	**578,116**
Segment result	299,327	108,507	(95,015)	**312,819**
Segment assets	7,715,352	4,374,067	1,137,347	**13,226,766**
Segment liabilities	8,075,927	429,295	926,450	**9,431,672**

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	7,026,253	4,318,763	1,153,378	**12,498,394**
Segment liabilities	7,173,557	741,560	880,827	**8,795,944**

29. Classification and fair value of financial and non-financial instruments

Assets **31 December 2014**	**Loans and receivables AED'000**	**Held-to-maturity AED'000**	**Held for trading AED'000**	**Available-for-sale AED'000**	**Non-financial instruments AED'000**	**Total AED'000**
Cash and balances with the U.A.E. Central Bank	1,152,844	-	-	-	-	1,152,844
Due from other banks	1,145,994	-	-	-	-	1,145,994
Loans and advances	7,984,384	-	-	-	-	7,984,384
Investment securities	-	637,492	47,049	790,316	-	1,474,857
Investment in an associate	-	-	-	-	1,500	1,500
Customers' acceptances	197,926	-	-	-	-	197,926
Property and equipment	-	-	-	-	74,515	74,515
Other assets	-	-	-	-	1,194,746	1,194,746
Total assets	**10,481,148**	**637,492**	**47,049**	**790,316**	**1,270,761**	**13,226,766**
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	7,036,747	-	-	-	-	7,036,747
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	**9,856,945**	**654,151**	**47,026**	**655,876**	**1,284,396**	**12,498,394**

Liabilities **31 December 2014**	**At amortised cost AED'000**	**Non-financial Instruments AED'000**	**Total AED'000**
Customers' deposits	8,042,375	-	8,042,375
Customers' acceptances	197,926	-	197,926
Other liabilities	-	1,191,371	1,191,371
Total liabilities	**8,240,301**	**1,191,371**	**9,431,672**
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	-	1,212,126	1,212,126
Total liabilities	7,583,818	1,212,126	8,795,944

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Bank 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 2013.

Fair value of the Bank's financial assets that are measured at fair value on recurring basis

Some of the Bank's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined;

	Fair value as at					
Financial assets	**31 December 2014 AED'000**	31 December 2013 AED'000	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
Available-for-sale financial assets						
Quoted equity securities	**783,693**	602,050	Level 1	Quoted prices in an active market.	None	N/A
Unquoted equity securities - net	**6,623**	6,871	Level 2	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets were determined based on the latest available audited/historical financial information.	Net asset value	Higher the net assets, value of the investees, higher the fair value.
Quoted debt instruments	**-**	46,955	Level 1	Quoted prices in an active market	None	N/A
Financial assets at FVTPL						
Quoted equity securities	**47,049**	47,026	Level 1	Quoted prices in an active market.	None	N/A

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.

- 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).

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2014				
Financial assets at FVTPL				
Held for trading	47,049	-	-	47,049
Available-for-sale financial assets				
Quoted equities	783,693	-	-	783,693
Unquoted equity securities – (net)	-	6,623	-	6,623
	830,742	**6,623**	**-**	**837,365**

31 December 2013	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total 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**

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.

30. 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:

- 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 31 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 32 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 33 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 34 summarises the Bank's exposure to foreign currency exchange risk.

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 internal 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.

31. Credit risk

Asset quality and ageing as on 31 December 2014

	Due from other banks AED'000	Loans and advances AED'000	Investment in securities AED'000
Impaired			
Substandard	-	85,574	-
Doubtful	-	587,533	5,056
Loss	-	82,515	-
	-	**755,622**	**5,056**
Impairment losses on investment securities available-for-sale	-	-	(5,056)
Specific allowance for impairment	-	(344,879)	-
	-	**410,743**	**-**
Amount past due but not impaired			
Past due above 60 days	-	27,240	-
Past due less than 60 days	-	96,193	-
	-	**123,433**	**-**
Neither past due nor impaired	1,145,994	7,618,441	1,474,857
Collective allowances for impairment	-	(168,233)	-
	1,145,994	**7,450,208**	**1,474,857**
Carrying amount	**1,145,994**	**7,984,384**	**1,474,857**

Total collateral value is AED 13,174 million (2013: AED 10,881 million) against secured loans and advances of AED 6,648 million (2013: AED 5,907 million). The fair value of collateral on impaired loans is estimated to be AED 654 million (2013: AED 594 million).

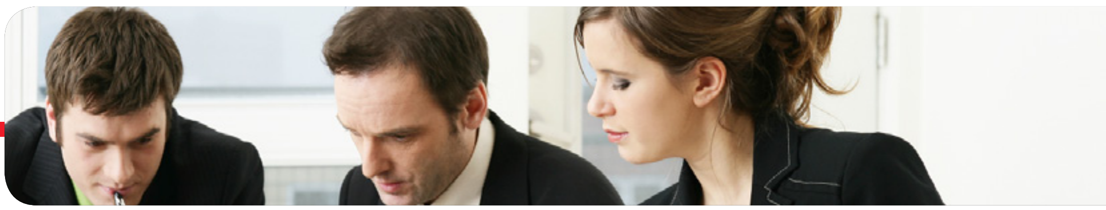
Asset quality and ageing as on 31 December 2013

Impaired	Due from other banks AED'000	Loans and advances AED'000	Investment in securities AED'000
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	-
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	6,581,953	1,357,053
Collective allowances for impairment	-	(92,464)	-
	994,343	**6,489,489**	**1,357,053**
Carrying amount	**994,343**	**7,036,747**	**1,357,053**

Geographical concentration of assets

31 December 2014	Due from other banks AED'000	Loans and advances AED'000	Investment in securities AED'000
Within U.A.E.	1,003,130	7,947,654	1,409,855
Within GCC countries	36,037	36,730	64,962
Other countries	106,827	-	40
	1,145,994	**7,984,384**	**1,474,857**

31 December 2013	Due from other banks AED'000	Loans and advances AED'000	Investment in securities AED'000
Within U.A.E.	778,130	7,000,017	1,263,041
Within GCC countries	32,958	36,730	93,973
Other countries	183,255	-	39
	994,343	**7,036,747**	**1,357,053**



Rated and unrated exposure

31 December 2014

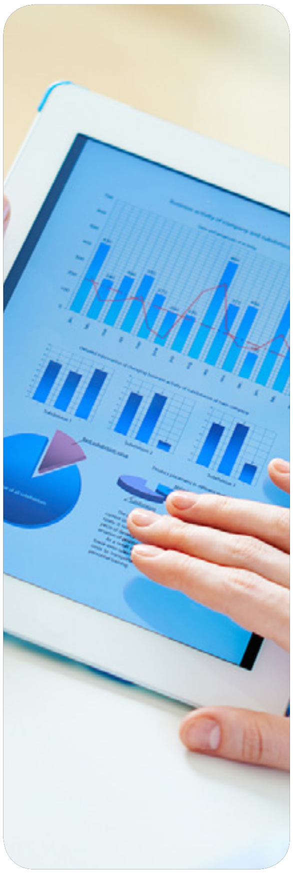
Asset classes	On Balance Sheet Gross Outstanding AED'000	Off Balance Sheet Exposure after CCF AED'000	Exposure before CRM AED'000	Credit Risk Mitigation (CRM) CRM AED'000	Exposure after CRM AED'000	Risk Weighted Assets AED'000
Claims on sovereigns	977,693	-	977,693	-	977,693	-
Claims on non-central Government public sector entities (PSEs)	171,683	225	171,908	30,602	141,306	57,771
Claims on banks	2,144,251	648	2,144,899	-	2,144,899	710,816
Claims on corporates	4,423,639	1,140,217	5,470,374	466,974	5,003,399	5,124,053
Claims included in the regulatory retail portfolio	1,075,314	2,063,374	3,138,380	1,987,145	1,151,236	946,818
Claims secured by residential property	8,862	-	8,862	-	8,862	8,449
Claims secured by commercial real estate	1,745,263	17,500	1,762,763	76,720	1,686,043	1,686,043
Past due loans	1,065,924	6,837	488,246	33,474	454,772	618,732
Other assets	2,271,712	-	2,266,656	-	2,266,656	2,044,456
Credit derivatives	-	36,730	36,730	-	36,730	18,365
Total claims	13,884,341	3,265,531	16,466,511	2,594,915	13,871,596	11,215,503

Total credit risk weighted assets	**11,215,503**

31 December 2013

Asset classes	On Balance Sheet Gross Outstanding AED'000	Off Balance Sheet Exposure after CCF AED'000	Exposure before CRM AED'000	Credit Risk Mitigation (CRM) CRM AED'000	Exposure after CRM AED'000	Risk Weighted Assets 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	1,776,983	1,138	1,684,733	593	1,684,141	550,501
Claims on corporates	4,006,063	1,095,522	5,051,932	386,949	4,664,983	4,793,448
Claims included in the regulatory retail portfolio	1,138,903	1,818,216	2,956,609	1,756,145	1,200,465	983,332
Claims secured by residential property	10,499	-	10,499	-	10,499	9,823
Claims secured by commercial real estate	1,440,115	-	1,438,456	117,741	1,320,715	1,320,715
Past due loans	975,982	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	15,389,066	2,300,423	13,088,646	10,099,861

Total credit risk weighted assets	**10,099,861**



32. Liquidity risk

Maturity profile

Assets

31 December 2014

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	Total AED'000
Cash and balances with the U.A.E. Central Bank	807,059	-	-	345,785	-	1,152,844
Due from other banks	945,994	-	200,000	-	-	1,145,994
Loans and advances	375,456	327,095	960,409	4,680,935	1,640,489	7,984,384
Investment securities	251,211	280,444	641,216	191,988	109,998	1,474,857
Investment in an associate	-	-	-	1,500	-	1,500
Customers' acceptances	47,835	46,411	103,680	-	-	197,926
Property and equipment	-	-	-	37,279	37,236	74,515
Other assets	27,482	-	1,167,264	-	-	1,194,746
Total	**2,455,037**	**653,950**	**3,072,569**	**5,257,487**	**1,787,723**	**13,226,766**

31 December 2013

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	Total 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	1,268,141	7,036,747
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**	**1,490,697**	**12,498,394**

32. Liquidity risk

Maturity profile

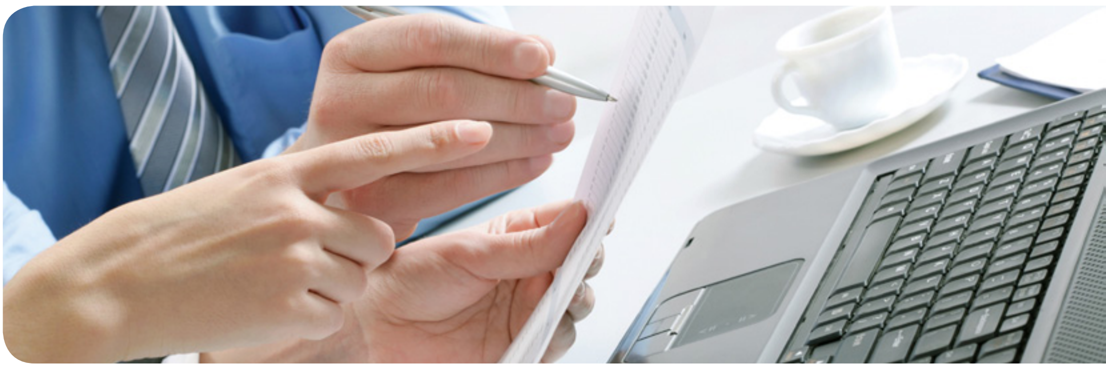
Liabilities, equity and off balance sheet items

31 December 2014

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	Total AED'000
Customers' deposits	1,029,034	809,780	1,470,282	4,733,178	101	8,042,375
Customers' acceptances	47,835	46,411	103,680	-	-	197,926
Other liabilities	112,758	122,896	955,717	-	-	1,191,371
Shareholders' equity	-	596,583	-	492,805	2,705,706	3,795,094
A Total on-balance sheet items	**1,189,627**	**1,575,670**	**2,529,679**	**5,225,983**	**2,705,807**	**13,226,766**
Forward sale	164,796	12,490	15,622	-	-	192,908
Guarantees	5,167	-	15,501	-	-	20,668
Unavailed limits	685,961	112,295	532,171	-	-	1,330,427
B Total off-balance sheet items	**855,924**	**124,785**	**563,294**	**-**	**-**	**1,544,003**
Grand total [A+B]	**2,045,551**	**1,700,455**	**3,092,973**	**5,225,983**	**2,705,807**	**14,770,769**

31 December 2013

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	Total AED'000
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	940,638	-	-	1,212,126
Shareholders' equity	-	545,093	-	531,651	2,625,706	3,702,450
A Total on-balance sheet items	**1,295,988**	**1,702,550**	**3,293,279**	**3,580,799**	**2,625,778**	**12,498,394**
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**	**3,683,064**	**3,580,799**	**2,625,778**	**13,477,413**



33. 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 2014

Financial assets	Less than 3 months AED'000	From 3 months - 1 year AED'000	Over 1 year AED'000	Non-interest bearing AED'000	Total AED'000
Cash and balances with the U.A.E. Central bank	150,000	-	-	1,002,844	1,152,844
Due from other banks	885,095	200,000	-	60,899	1,145,994
Loans and advances	3,400,862	193,813	4,368,000	21,709	7,984,384
Investment securities	305,676	55,060	276,754	837,367	1,474,857
Customers' acceptances	-	-	-	197,926	197,926
Total	**4,741,633**	**448,873**	**4,644,754**	**2,120,745**	**11,956,005**
Financial liabilities					
Customers' deposits	977,756	1,084,979	424,541	5,555,099	8,042,375
Customers' acceptances	-	-	-	197,926	197,926
Total	**977,756**	**1,084,979**	**424,541**	**5,753,025**	**8,240,301**
On balance sheet interest rate sensitivity gap	**3,763,877**	**(636,106)**	**4,220,213**	**(3,632,280)**	**3,715,704**
At 31 December 2013					
Total financial assets	3,665,746	473,767	5,265,659	1,808,826	11,213,998
Total financial liabilities	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)	5,251,157	(3,261,949)	3,630,180

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 65.24 million (2013: AED 36.73 million).
- Other equity reserves would have decreased by AED 437.58 million based on EVE analysis (2013: AED 394.58 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.

34. Currency risk

Concentration of assets and liabilities by currency:

At 31 December 2014	AED AED'000	USD AED'000	Other AED'000	Total AED'000
Financial assets				
Cash and balances with the U.A.E. Central Bank	1,148,962	3,882	-	1,152,844
Due from other banks	1,033,130	88,602	24,262	1,145,994
Loans and advances	7,427,680	555,412	1,292	7,984,384
Investment securities	772,364	637,531	64,962	1,474,857
Customers' acceptances	197,926	-	-	197,926
Total financial assets	10,580,062	1,285,427	90,516	11,956,005
Financial liabilities				
Customers' deposits	8,016,466	13,851	12,058	8,042,375
Customers' acceptances	197,926	-	-	197,926
Total financial liabilities	8,214,392	13,851	12,058	8,240,301
Net balance sheet position	2,365,670	1,271,576	78,458	3,715,704
Off balance sheet position	7,037,870	246,017	117,794	7,401,681

At 31 December 2013	AED AED'000	USD AED'000	Other AED'000	Total AED'000
Total financial assets	10,060,289	1,049,215	104,494	11,213,998
Total financial liabilities	7,531,283	38,065	14,470	7,583,818
Net balance sheet position	2,529,006	1,011,150	90,024	3,630,180
Off balance sheet position	6,252,748	112,962	28,822	6,394,532

Rate sensitivity analysis

Year 2014	**Foreign currency assets AED'000**	**Foreign currency liabilities AED'000**	**Net forward purchase/ (sale) AED'000**	**Net long/ (short) position AED'000**	**Impact on statement of income and equity AED'000**
Pegged Currencies					
US Dollar	1,292,064	17,144	84,438	1,359,358	(27,187)
Saudi Riyal	36,657	-	(1,959)	34,698	(694)
Bahrain Dinar	546	-	-	546	(11)
Omani Riyal	1,565	-	-	1,565	(31)
Qatar Riyal	828	8	-	820	(16)
Other Currencies					
Kuwait Dinar	31,403	-	-	31,403	(3,140)
Great British Pound	7,646	1,921	(5,717)	8	(1)
Euro	9,390	9,627	309	72	(7)
Swiss Frank	386	16	(372)	(2)	-
Japanese Yen	1,300	62	(1,200)	38	(4)
Indian Rupee	2	-	-	2	-
Lankan Rupee	6	-	-	6	(1)
Jordanian Dinar	124	-	-	124	(12)
Canadian Dollar	663	-	(792)	(129)	13
	1,382,580	**28,778**	**74,707**	**1,428,509**	
Total impact if foreign currency fluctuates against AED					**+/-31,091**

Year 2013	**Foreign currency assets AED'000**	**Foreign currency liabilities AED'000**	**Net forward purchase/ (sale) AED'000**	**Net long/ (short) position AED'000**	**Impact on statement of income and equity 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 Frank	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**

Rate sensitivity analysis (continued)

- 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.

35. 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 83.74 million (2013: AED 65.60 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.

36. 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:

	2014 AED'000	2013 AED'000
Tier 1 Capital		
Share capital	**1,680,000**	1,600,000
Statutory reserve	**1,019,266**	1,019,266
General reserve	**6,440**	6,440
Retained earnings	**876,550**	899,731
Total Tier 1	**3,582,256**	3,525,437
Tier 2 Capital		
Fair value reserve on investment securities available-for-sale	**95,777**	79,656
General reserves on unclassified loans and advances to customers	**140,194**	92,464
Total Tier 2	**235,971**	172,120
Total Regulatory Capital	**3,818,227**	3,697,557
Capital adequacy ratios		
Risk weighted assets :		
Credit risk-weighted assets	**11,215,503**	10,099,861
Market risk-weighted assets	**126,972**	98,514
Operations risk-weighted assets	**1,007,175**	675,996
Total risk-weighted assets	**12,349,650**	10,874,371

Capital adequacy ratio (percent)	2014 %	2013 %
Tier 1 ratio (Tier 1 capital/total risk weighted assets)	**29.0**	32.4
Tier 2 ratio (Tier 2 capital/Tier 1 capital)	**6.6**	4.9
Total capital adequacy ratio (total regulatory capital/total risk weighted assets)	**30.9**	34.0
Minimum capital adequacy ratio required by UAE Central Bank	**12%**	12%

37. Comparative information

The following balance in the consolidated statement of financial position for the prior year has been reclassified to conform to the current year presentation.

	As previously reported at 31 December 2013 AED'000	Reclassifications AED'000	As restated at 31 December 2013 AED'000
Loans and advances	7,076,985	(40,238)	7,036,747
Other liabilities	1,252,364	(40,238)	1,212,126

Consolidated statement of cash flows and all comparative account balances presented in the notes to the consolidated financial statements have been adjusted to reflect the above changes. There was no impact on the reported consolidated profit of the prior year due to the above reclassifications.

The reclassification pertains to the interest suspense which was classified under Other liabilities in prior year, now reduced from loan and advance based on recommendations of UAE Central Bank to the Bank in 2014.

38. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 27 January 2015.