

United Arab Bank P.J.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014



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Independent Auditors' Report

The Shareholders
United Arab Bank P.J.S.C.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of United Arab Bank P.J.S.C. (the "Bank") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising 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.

Auditors' 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 our judgment, 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, we consider internal control relevant to the entity'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 entity'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 the Group as at 31 December 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.



Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the consolidated financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law (8) of 1984 (as amended), Union Law No.10 of 1980 and the Articles of Association of the Bank; that proper financial records have been kept by the Bank, and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Bank's financial records. We are not aware of any violation of the above mentioned Laws and the Articles of Association having occurred during the year ended 31 December 2014, which may have had a material adverse effect on the business of the Bank or its financial position.

KPMG

KPMG Lower Gulf Limited
Austin Alan Henry Rudman
Registration No: 844
Date: **21 JAN 2015**

United Arab Bank P.J.S.C.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2014

	<i>Notes</i>	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
Interest income	4	1,233,842	962,531
Interest expense	5	(224,453)	(171,972)
NET INTEREST INCOME		1,009,389	790,559
Net fees and commission income		121,074	110,272
Net exchange income arising from dealing in foreign currencies		87,207	57,627
Other operating income	6	155,510	81,037
TOTAL OPERATING INCOME		1,373,180	1,039,495
Provision for credit losses	7	(374,075)	(168,464)
NET OPERATING INCOME		999,105	871,031
Personnel expenses		(252,062)	(202,937)
Depreciation on property and equipment	8	(26,508)	(15,896)
Other operating expenses		(115,127)	(99,719)
TOTAL OPERATING EXPENSES		(393,697)	(318,552)
PROFIT FOR THE YEAR		605,408	552,479
EARNINGS PER SHARE	9	AED 0.52	AED 0.47

The attached notes 1 to 26 form part of these consolidated financial statements.
The Independent Auditors' report is set out on pages 1 and 2.

United Arab Bank P.J.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	<i>Notes</i>	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
Profit for the year		605,408	552,479
Other comprehensive income			
<i>Items that are or may be reclassified to profit or loss</i>			
Net unrealised loss on available for sale investments	19	(15,848)	(56,311)
Available for sale investments – reclassified to statement of income	19	3,602	(4,456)
Unrealised gain on cash flow hedges	19	-	2,772
Reversal of gain on settlement of cash flow hedges	19	(2,772)	-
Net loss on revaluation of property and equipment	8	-	(928)
		<u>(15,018)</u>	<u>(58,923)</u>
Total comprehensive income for the year		<u>590,390</u>	<u>493,556</u>

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United Arab Bank P.J.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

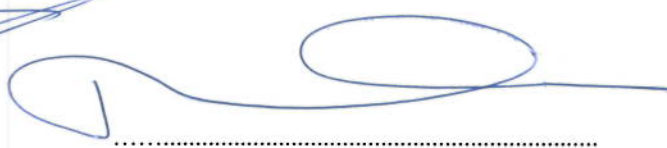
At 31 December 2014

	<i>Notes</i>	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
ASSETS			
Cash and balances with UAE Central Bank	10	1,810,558	1,301,775
Due from banks	11	1,933,231	1,848,253
Loans and advances	7	17,940,903	15,285,481
Investments	12	2,486,530	1,615,417
Investment properties	13	110,794	73,802
Property and equipment	8	409,115	212,292
Other assets	14	1,018,154	1,212,736
TOTAL ASSETS		<u>25,709,285</u>	<u>21,549,756</u>
LIABILITIES AND SHAREHOLDERS' FUNDS			
LIABILITIES			
Due to banks		846,914	1,097,174
Customers' deposits	15	18,718,297	15,034,837
Medium term borrowings	16	2,019,655	1,652,445
Other liabilities	17	1,212,758	1,283,769
TOTAL LIABILITIES		<u>22,797,624</u>	<u>19,068,225</u>
SHAREHOLDERS' FUNDS			
Share capital	18	1,145,861	996,401
Special reserve	18	412,659	352,118
Statutory reserve	18	495,214	434,673
General reserve	18	9,311	9,311
Revaluation reserve	18	750	3,409
Retained earnings		914,759	737,494
Cumulative changes in fair values	19	(66,893)	(51,875)
TOTAL SHAREHOLDERS' FUNDS		<u>2,911,661</u>	<u>2,481,531</u>
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		<u>25,709,285</u>	<u>21,549,756</u>

The financial statements were approved by the Board of Directors on 21 January 2015 and signed on its behalf by:



 Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
 Chairman



 Paul Trowbridge
 Chief Executive Officer

The attached notes 1 to 26 form part of these consolidated financial statements.
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United Arab Bank P.J.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	<i>Notes</i>	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
OPERATING ACTIVITIES			
Profit for the year		605,408	552,479
Items not involving cash flow:			
Depreciation	8	26,508	15,896
Provision for credit losses	7	374,075	168,464
Items considered separately:			
Net gain on sale of investments		(42,706)	(18,856)
Fair valuation gain on investment properties	13	(42,248)	-
Gain on sale of investment properties	13	(4,277)	(2,600)
Changes in operating assets and liabilities:			
Loans and advances		(3,029,497)	(4,572,452)
Due from UAE Central Bank		(385,690)	(286,135)
Cash margin held by counterparty banks against borrowings and derivative transactions	11	(35,881)	68
Other assets	14	194,582	(463,308)
Due to banks maturing after three months		(567,035)	(222,372)
Customers' deposits	15	3,683,460	4,940,554
Other liabilities	17	(101,988)	424,549
Net cash flows from operating activities		674,711	536,287
INVESTING ACTIVITIES			
Purchase of property and equipment	8	(223,331)	(76,019)
Purchase of investment properties	13	(2,544)	(73,802)
Purchase of investments		(6,400,811)	(1,767,957)
Proceeds from redemption / sale of investments		5,588,363	1,449,881
Proceeds from sale of investment properties		12,077	15,500
Proceeds from disposal of property and equipment		-	18,028
Net cash flows used in investing activities		(1,026,246)	(434,369)
FINANCING ACTIVITIES			
Medium term borrowings	16	367,210	1,009,828
Directors' remuneration		(10,800)	(10,800)
Cash dividends paid		(149,460)	(249,100)
Net cash flows from financing activities		206,950	749,928
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(144,585)	851,846
Cash and cash equivalents at 1 January		2,114,896	1,263,050
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		1,970,311	2,114,896

Cash and cash equivalents comprise the following statement of financial position amounts with original maturities of three months or less:

Cash and balances with UAE Central Bank	560,774	437,681
Due from banks maturing within three months	1,889,241	1,840,144
Due to banks maturing within three months	(479,704)	(162,929)
	1,970,311	2,114,896

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The Independent Auditors' report is set out on pages 1 and 2.

United Arab Bank P.J.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	<i>Share capital AED'000</i>	<i>Special reserve AED'000</i>	<i>Statutory reserve AED'000</i>	<i>General reserve AED'000</i>	<i>Revaluation reserve AED'000</i>	<i>Retained earnings AED'000</i>	<i>Cumulative changes in fair value AED'000</i>	<i>Total AED'000</i>
At 1 January 2014	996,401	352,118	434,673	9,311	3,409	737,494	(51,875)	2,481,531
Profit for the year	-	-	-	-	-	605,408	-	605,408
Other comprehensive income for the year	-	-	-	-	-	-	(15,018)	(15,018)
Total comprehensive income for the year	-	-	-	-	-	605,408	(15,018)	590,390
Depreciation transfer for land and buildings	-	-	-	-	(49)	49	-	-
Sale of investment properties	-	-	-	-	(2,610)	2,610	-	-
Scrip dividend (note 18)	149,460	-	-	-	-	(149,460)	-	-
Cash dividend (note 18)	-	-	-	-	-	(149,460)	-	(149,460)
Directors' remuneration	-	-	-	-	-	(10,800)	-	(10,800)
Transfer to special reserve	-	60,541	-	-	-	(60,541)	-	-
Transfer to statutory reserve	-	-	60,541	-	-	(60,541)	-	-
At 31 December 2014	1,145,861	412,659	495,214	9,311	750	914,759	(66,893)	2,911,661

The attached notes 1 to 26 form part of these consolidated financial statements.
The Independent Auditors' report is set out on pages 1 and 2.

United Arab Bank P.J.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	<i>Share capital AED'000</i>	<i>Special reserve AED'000</i>	<i>Statutory reserve AED'000</i>	<i>General reserve AED'000</i>	<i>Revaluation reserve AED'000</i>	<i>Retained earnings AED'000</i>	<i>Cumulative changes in fair value AED'000</i>	<i>Total AED'000</i>
At 1 January 2013	996,401	296,870	379,425	9,311	14,593	545,155	6,120	2,247,875
Profit for the year	-	-	-	-	-	552,479	-	552,479
Other comprehensive income for the year	-	-	-	-	(928)	-	(57,995)	(58,923)
Total comprehensive income for the year	-	-	-	-	(928)	552,479	(57,995)	493,556
Depreciation transfer for land and buildings	-	-	-	-	(58)	58	-	-
Revaluation transfer for land and buildings	-	-	-	-	(10,198)	10,198	-	-
Cash dividend	-	-	-	-	-	(249,100)	-	(249,100)
Directors' remuneration	-	-	-	-	-	(10,800)	-	(10,800)
Transfer to special reserve	-	55,248	-	-	-	(55,248)	-	-
Transfer to statutory reserve	-	-	55,248	-	-	(55,248)	-	-
At 31 December 2013	996,401	352,118	434,673	9,311	3,409	737,494	(51,875)	2,481,531

The attached notes 1 to 26 form part of these consolidated financial statements.
The Independent Auditors' report is set out on pages 1 and 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

1 INCORPORATION AND ACTIVITIES

United Arab Bank P.J.S.C. (the “Bank”) was incorporated as a public company with limited liability in the Emirate of Sharjah in 1975 by a decree of His Highness The Ruler of Sharjah and has been registered as a public joint stock company under the UAE Commercial Companies Law No. (8) of 1984 (as amended). The Bank’s registered office is located in the Emirate of Sharjah, United Arab Emirates. The address of the registered office is PO Box 25022, Sharjah, United Arab Emirates.

The Bank carries out the business of commercial banking through its offices and branches in the United Arab Emirates. The Bank also carries out Islamic banking operations through Islamic banking windows at selected branches.

Investment in subsidiary

On 28 November 2011, Al Sadarah Investment Company was formed as an investment company by the Bank. Al Sadarah Investment Company (“the subsidiary”) started its operations from 3 May 2012 when the share capital was introduced into the subsidiary. The company is incorporated as a fully owned subsidiary of the Bank and the financial results of the subsidiary are fully consolidated in the Bank’s consolidated financial statements for the year ended 31 December 2014. The Bank and its subsidiary are together referred to as the “Group”.

The issued and fully paid up capital of the Al Sadarah Investment Company is 100 shares of AED 3,000 each, totalling AED 300,000 (31 December 2013: AED 300,000). The principal activities of the subsidiary are to make financial investments on its own, invest in commercial projects and provide investment advisory services.

2 BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates laws.

Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivative financial instruments, investments, land and buildings and investment properties. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

Functional and presentation currency

The consolidated financial statements have been presented in UAE Dirhams which is the functional currency of the Group and all values are rounded to the nearest thousand (AED’000) except when otherwise indicated.

Significant management judgements and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation and uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described below:

2 BASIS OF PREPARATION (continued)

Significant management judgements and estimates (continued)

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading or available for sale.

For those investments deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular, that the Group has the intention and ability to hold these to maturity.

The Group classifies investments as held for trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

All other investments are classified as available for sale.

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more details in Note 25.

Impairment of investments

The Group treats held to maturity and available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that the loss event (or events) has an impact on the estimated future cash flows that can be reliably estimated. The determination of what is "significant" or "prolonged" requires considerable judgment. The Group evaluates a number of factors, including the amount of decline and the length of period of the decline, the normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities and debt securities. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Impairment losses on loans and advances

The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether a provision for impairment should be recorded in the statement of income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provisions should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratio etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in Note 7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by the Group.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December 2014 (collectively referred to as the "Group"). The following subsidiary has been consolidated within these consolidated financial statements:

<i>Name</i>	<i>Legal Status</i>	<i>Beneficial ownership</i>	<i>Country of incorporation</i>	<i>Principle activities</i>
Al Sadarah Investment Company	Limited Liability company	100%	Sharjah, UAE	Investments and investment advisory services

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee.

Subsidiaries are fully consolidated from the date of acquisition or establishment, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Where necessary, the accounting policies of subsidiaries are aligned to ensure consistency with the policies adopted by the Group. All intra-group balances, transactions, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity, if any;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Revenue recognition

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Fees earned for provision of services over a period of time are accrued over that period. These fees include commission income, custody and other management advisory fees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Other fee income and expense are recognised when earned or incurred. Dividend income is recognised when the right to receive payment is established.

When the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa) the amount of interest income or expense is adjusted by the net interest on the swap.

Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, non-restricted current accounts with the Central Bank and amounts due from (to) banks on demand or with an original maturity of three months or less.

Due from banks

After initial measurement, amounts due from banks are subsequently measured at amortised cost using the effective interest rate less allowance for impairment, if any.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument for another entity.

Classification

The Group classifies its financial assets at initial recognition in the following categories:

- Financial assets at fair value through profit or loss: This category has two sub-categories: financial assets held for trading and those designated to be fair valued through profit or loss ("FVPL") 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. Derivatives are also categorised as held for trading unless they are designated as hedges.
- Loans and advances: This category comprises of non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise when the Group provides money directly to the borrower with no intention of trading the receivable.
- Held-to-maturity: Investments classified as held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention of, and the ability to, hold to maturity.
- Available-for-sale: Investments classified as Available-for-sale are those non-derivative financial assets that are designated as available-for-sale or not classified as (a) loans and advances; (b) held-to-maturity investments; or (c) financial assets at fair value through profit or loss.

Recognition and initial measurement

The Group initially recognises loans and advances and deposits on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

De-recognition

Financial assets are derecognised when the contractual rights to receive cash flows from the asset expire or where the Group has transferred substantially all the risks and rewards of ownership. A financial liability is derecognised when its contractual obligations are discharged, cancelled or expire.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Subsequent measurement

Subsequent to initial recognition, all financial instruments to be fair valued through profit or loss and available-for-sale assets are measured at fair value, except any instrument that does not have a reliably measurable fair value, in which case financial instruments are measured as set out in the fair value measurement principles below.

All held-to-maturity financial instruments and loans and advances are measured at amortised cost using the effective interest method less impairment losses, if any.

Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the investments at fair value through profit or loss 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 investments are recognised directly in equity through other comprehensive income, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the consolidated statement of income. In cases where available-for-sale investments with a fixed maturity are reclassified to held-to-maturity investments, the fair value gains or losses up until the date of the reclassification are held in equity and amortised to the consolidated statement of income over the remaining life of the held-to-maturity investments using the effective interest rate method.

Amortised cost measurement principles

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal re-payments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts including initial transaction costs are included in the carrying amount of the related instrument.

Fair value measurement

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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability, nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Investment properties

Investment properties including investment properties under construction are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the period in which they arise. Fair values are evaluated, at least annually, by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of income in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Property and equipment

Property and equipment are stated at cost or valuation excluding the costs of day to day servicing, less accumulated depreciation and any impairment in value. Freehold land is not depreciated as it is deemed to have an indefinite life.

In case of valuation method being applied, revaluation of land and buildings is carried out on an open market basis for existing use. Net surpluses arising on revaluation are credited to a revaluation reserve, except that a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. A decrease as a result of a revaluation is recognised as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. On disposal the related revaluation surplus is credited to retained earnings. Fair value is determined from market based evidence by appraisal that is undertaken by professionally qualified valuers. Revaluations are made with regularity to ensure that their carrying value does not differ materially from their fair value at the statement of financial position date.

Depreciation is calculated on a straight line basis over the estimated useful lives of property and equipment as follows:

	<i>2014</i>	<i>2013</i>
Buildings	Over 25 years	Over 20 years
Motor Vehicles	Over 5 years	Over 3 years
Furniture, fixtures and equipment	Over 3 to 8 years	Over 3 to 8 years
Leasehold Improvements	Over 12 years	-

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the consolidated statement of income in the year the asset is derecognised.

Employees' end of service benefits

With respect to its national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

The Group provides end of service benefits to its other expatriate employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under UAE Labour Laws.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and the costs to settle the obligation are both probable and can be reliably measured. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income in 'Provision for credit losses'. The premium received is recognised in the consolidated statement of income in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

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 lease term.

Derivatives

The Group enters into derivative instruments including forwards, futures, forward rate agreements, swaps and options in foreign exchange, interest rate and capital markets. In the normal course of business, the fair value of a derivative on initial recognition is the transaction price. Subsequent to their initial recognition, derivative financial instruments are stated at fair values. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the statement of financial position.

Changes in the fair values of derivatives held for trading or to offset other trading positions are included in other operating income (expenses) in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives (continued)

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument(s) is / are expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (b) cash flow hedges which hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

Changes in the fair value of derivatives that are designated, and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk are included in other operating income (expenses) along with the corresponding changes in the fair value of the hedged assets or liabilities which are attributable to the risk being hedged.

Changes in the fair value of derivatives that are designated, and qualify, as cash flow hedges and that prove to be highly effective in relation to the hedged risk are recognised in other comprehensive income as "cumulative changes in fair values," and the ineffective portion is recognised in the consolidated statement of income. The gains or losses on cash flow hedges recognised initially in other comprehensive income are transferred to the consolidated statement of income in the period in which the hedged transaction impacts the income. Where the hedged transaction results in the recognition of an asset or a liability, the associated gain or loss that had been initially recognised in other comprehensive income is included in the initial measurement of the cost of the related asset or liability.

Changes in fair value of derivatives or non-derivatives that are designated and qualify, as net investment hedges and that prove to be highly effective in relation to the hedged risk are accounted for in a way similar to cash flow hedges.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Upon such discontinuance:

- in the case of fair value hedges of interest-bearing financial instruments any adjustment to the carrying amount relating to the hedged risk is amortised in the consolidated statement of income over the remaining term to maturity;
- in the case of cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is retained therein as "cumulative changes in fair value" until the forecasted transaction occurs. When such a transaction occurs, the gain or loss retained in cumulative changes in fair values is recognised in the consolidated statement of income or included in the initial measurement of the cost of the related asset or liability, as appropriate. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in cumulative changes in fair values is transferred to the consolidated statement of income.

Certain derivative transactions, while providing effective economic hedges under the Group's asset and liability management and risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore accounted for as derivatives held for trading and the related fair value gains and losses reported in other operating income (expenses).

Derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the consolidated statement of income. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower, or a group of borrowers, is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to 'Provision for credit losses'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate ("EIR"). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets (continued)

(i) Financial assets carried at amortised cost (continued)

See Note 7 for details of impairment losses on financial assets carried at amortised cost and an analysis of the impairment allowance on loans and advances.

(ii) Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income – is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, applying the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

(iii) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash-Generating Unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)**Trade and settlement date accounting**

All “regular way” purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the asset is delivered to the counter party. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these financial statements.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into United Arab Emirates Dirhams at mid-market rates of exchange ruling at the balance sheet date. Any resultant gains and losses are taken to the consolidated statement of income.

Segment reporting

The Group’s segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Others.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank’s shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank. Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

New standards and interpretations not yet adopted

A number of new standards and interpretations are not yet effective for the year ended 31 December 2014 and have not been early adopted in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below.

IFRS No.	Title	Effective for annual period beginning on or after
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2017

Management are currently assessing the impact of these standards and interpretations in the consolidated financial statements.

4 INTEREST INCOME

	<i>2014</i>	<i>2013</i>
	<i>AED’000</i>	<i>AED’000</i>
Interest on loans and advances to customers	1,129,472	877,260
Interest on money market and inter bank transactions	17,501	11,639
Interest on investments	86,869	73,632
	1,233,842	962,531

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

5 INTEREST EXPENSE

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
Interest on customer deposits	160,060	139,374
Interest on inter bank transactions	64,393	32,598
	<u>224,453</u>	<u>171,972</u>

6 OTHER OPERATING INCOME

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
Charges recovered from customers	29,903	27,492
Other banking income	18,129	16,865
Income from collections	5,868	5,267
Others	101,610	31,413
	<u>155,510</u>	<u>81,037</u>

7 LOANS AND ADVANCES

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
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The composition of the loans and advances portfolio is as follows:

(a) By type:

Overdrafts	1,710,574	1,553,771
Loans (medium and short term)*	12,281,060	11,144,822
Loans against trust receipts	3,021,368	1,820,145
Bills discounted	1,126,288	851,670
Other cash advances	103,507	75,821
Bills drawn under letters of credit	223,637	127,187
	<u>18,466,434</u>	<u>15,573,416</u>
Gross amount of loans and advances	18,466,434	15,573,416
Less: Provision for impairment on loans and advances	(500,843)	(263,802)
Interest in suspense	(24,688)	(24,133)
	<u>17,940,903</u>	<u>15,285,481</u>

* Includes retail loans of AED 5,031,448,000 (2013: AED 4,559,600,000)

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
(b) By economic sector:		
Government and public sector	501,730	1,472,428
Trade	3,924,878	2,251,930
Personal loans (retail and business)	7,745,709	6,728,166
Manufacturing	2,468,254	2,051,194
Construction	686,943	640,760
Services	1,386,856	1,139,027
Financial institutions	1,248,555	914,329
Transport and communication	485,460	323,191
Agriculture	9,019	9,804
Others	9,030	42,587
	<u>18,466,434</u>	<u>15,573,416</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

7 LOANS AND ADVANCES (continued)

Loans and advances are stated net of interest in suspense and provision for impairment of loans and advances. The movements for interest in suspense and provisions are as follows:

	2014		2013	
	<i>Interest in suspense AED'000</i>	<i>Impairment provisions AED'000</i>	<i>Interest in suspense AED'000</i>	<i>Impairment provisions AED'000</i>
Balance at 1 January	24,133	263,802	14,131	164,056
Suspended / provided during the year	20,123	388,009	11,098	174,757
Released during the year	(6,948)	(13,934)	(1,096)	(6,293)
	13,175	374,075	10,002	168,464
Amounts written off during the year	(12,620)	(137,034)	-	(68,718)
Balance at 31 December	24,688	500,843	24,133	263,802

At 31 December 2014, the gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance and on which interest is not being accrued or where interest is suspended amounted to AED 472,866,000 (2013: AED 246,016,000).

Sector wise analysis of impaired loans and advances and related provisions is as follows:

	2014		2013	
	<i>Gross exposure AED'000</i>	<i>Specific provision and interest in suspense AED'000</i>	<i>Gross exposure AED'000</i>	<i>Specific provision and interest in suspense AED'000</i>
By economic sector				
Trade	243,272	180,629	117,521	62,532
Personal loans (retail and business)	109,164	45,611	79,839	26,071
Manufacturing	2,236	2,236	3,189	1,767
Construction	79,349	12,418	31,898	10,097
Services	38,845	18,131	10,032	9,613
Transport and communication	-	-	3,526	3,389
Agriculture	-	-	11	11
Total	472,866	259,025	246,016	113,480

The fair value of collateral that the Group holds relating to loans to corporate and retail customers individually determined to be impaired at 31 December 2014 amounts to AED 72,809,000 (2013: AED 61,490,000). The collateral consists of cash, securities, letters of guarantee and properties.

Collateral repossessed

During the year, the Group did not repossess any material amounts of collateral.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

8 PROPERTY AND EQUIPMENT

	<i>Freehold land and buildings AED'000</i>	<i>Motor vehicles, leasehold improvements, furniture, fixtures and equipment AED'000</i>	<i>Capital work-in- progress AED'000</i>	<i>Total AED'000</i>
Cost or valuation:				
At 1 January 2014	96,342	188,572	5,249	290,163
Additions	190,989	15,262	17,080	223,331
Transfers	(5,505)	13,391	(7,886)	-
Disposals	-	(179)	-	(179)
At 31 December 2014	<u>281,826</u>	<u>217,046</u>	<u>14,443</u>	<u>513,315</u>
Depreciation:				
At 1 January 2014	1,576	76,295	-	77,871
Charge for the year	3,899	22,609	-	26,508
Transfer	(222)	222	-	-
Disposals	-	(179)	-	(179)
At 31 December 2014	<u>5,253</u>	<u>98,947</u>	<u>-</u>	<u>104,200</u>
Net Carrying Value: At 31 December 2014	<u><u>276,573</u></u>	<u><u>118,099</u></u>	<u><u>14,443</u></u>	<u><u>409,115</u></u>

	<i>Freehold land and buildings AED'000</i>	<i>Motor Vehicles, leasehold improvements, furniture, fixtures and equipment AED'000</i>	<i>Capital work-in- progress AED'000</i>	<i>Total AED'000</i>
Cost or valuation:				
At 1 January 2013	39,363	103,183	96,449	238,995
Additions	-	7,776	68,243	76,019
Transfers	81,830	77,613	(159,443)	-
Transfer to Investment Property	(7,332)	-	-	(7,332)
Loss on revaluation	(928)	-	-	(928)
Disposals	(16,591)	-	-	(16,591)
At 31 December 2013	<u>96,342</u>	<u>188,572</u>	<u>5,249</u>	<u>290,163</u>
Depreciation:				
At 1 January 2013	7,028	60,842	-	67,870
Charge for the year	443	15,453	-	15,896
Disposals	(5,895)	-	-	(5,895)
At 31 December 2013	<u>1,576</u>	<u>76,295</u>	<u>-</u>	<u>77,871</u>
Net Carrying Value: At 31 December 2013	<u><u>94,766</u></u>	<u><u>112,277</u></u>	<u><u>5,249</u></u>	<u><u>212,292</u></u>

The cost of freehold land included above is AED 189,403,000 (2013: AED Nil).

During 2014, additions to capital work in progress relate to expenditure incurred in connection with the purchase of leasehold improvements, furniture, fixtures and equipment amounting to AED 17,080,000 (2013: AED 68,243,000). Upon completion of associated projects, AED 7,886,000 (2013: AED 159,443,000) was transferred to 'motor vehicles, leasehold improvements, furniture, fixtures and equipment'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

9 EARNINGS PER SHARE

Basic earnings per share is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	<i>2014</i>	<i>2013</i>
Net Profit for the year net of directors' remuneration of AED 10,800,000 (2013: AED 10,800,000)	AED 594,608,000	AED 541,679,000
<i>Weighted average number of ordinary shares:</i>		
Ordinary shares of AED 1 each at the beginning of the year	996,401,280	996,401,280
Effect of scrip dividend of AED 0.15 per share of AED 1 each issued during the year	149,460,192	149,460,192
Weighted average number of shares of AED 1 each outstanding during the year	1,145,861,472	1,145,861,472
Basic earnings per share	AED 0.52	AED 0.47

Weighted average number of shares outstanding in 2013 has been adjusted to include the effect of a scrip dividend issued during 2014 (refer Note 18).

The figures for diluted earnings per share are the same as basic earnings per share as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

10 CASH AND BALANCES WITH UAE CENTRAL BANK

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
Cash on hand	124,190	84,367
Balances with UAE Central Bank:		
Clearing accounts	436,584	353,314
Reserve requirements	1,249,784	864,094
	1,810,558	1,301,775

The reserve requirements, kept with the UAE Central Bank in AED and USD, are not available for use in the Group's day to day operations and cannot be withdrawn without its approval. However, the Central Bank in its Circular 4310/2008 dated 24 September 2008, has temporarily permitted banks to overdraw their current accounts (a) up to the amount of reserves at interest of 3% above the prevailing Central Bank Repo rate; and (b) in excess of reserves at interest of 5% above the prevailing Central Bank Repo rate. The level of reserve required changes every month in accordance with the UAE Central Bank directives.

11 DUE FROM BANKS

Due from banks includes AED 1,374,681,000 (2013: AED 1,290,688,000) placed with foreign banks outside the UAE. AED 43,990,000 (2013: AED 8,109,000) is held as margin for derivative transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12 INVESTMENTS

	2014			2013		
	<i>Quoted AED'000</i>	<i>Unquoted AED'000</i>	<i>Total AED'000</i>	<i>Quoted AED'000</i>	<i>Unquoted AED'000</i>	<i>Total AED'000</i>
Debt:						
<i>Held for trading</i>						
Local	33,783	-	33,783	-	-	-
	<u>33,783</u>	<u>-</u>	<u>33,783</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Available for sale</i>						
Local	2,321,684	-	2,321,684	1,488,478	-	1,488,478
Overseas	118,654	-	118,654	115,384	-	115,384
	<u>2,440,338</u>	<u>-</u>	<u>2,440,338</u>	<u>1,603,862</u>	<u>-</u>	<u>1,603,862</u>
Total debt securities	<u>2,474,121</u>	<u>-</u>	<u>2,474,121</u>	<u>1,603,862</u>	<u>-</u>	<u>1,603,862</u>
Equity:						
<i>Available for sale</i>						
Overseas	12,333	76	12,409	11,479	76	11,555
	<u>12,333</u>	<u>76</u>	<u>12,409</u>	<u>11,479</u>	<u>76</u>	<u>11,555</u>
Total equities	<u>12,333</u>	<u>76</u>	<u>12,409</u>	<u>11,479</u>	<u>76</u>	<u>11,555</u>
Total investments	<u>2,486,454</u>	<u>76</u>	<u>2,486,530</u>	<u>1,615,341</u>	<u>76</u>	<u>1,615,417</u>

Included in the above are investment securities amounting to AED 445,000,000 (2013: AED Nil) held under repurchase agreement with the lenders.

13 INVESTMENT PROPERTIES

Investment properties include land and buildings in the UAE, which have been acquired or transferred from property and equipment either for development in the future or for undetermined future use. During 2014, the Group acquired new investment properties with a combined value of AED 2,544,000 (2013: AED 73,802,000). The Group has obtained fair values for these properties based on open market valuations carried out by independent valuers. Net gain in fair value for the year ended 31 December 2014 was AED 42,248,000 (2013: AED Nil). During 2014, the Group disposed of an investment property valued at AED 7,800,000 (2013: AED 12,900,000) resulting in a net gain on sale of AED 4,277,000 (2013: AED 2,600,000) which has been included in the consolidated statement of income.

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At 31 December 2014

14 OTHER ASSETS

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
Interest receivable	76,989	88,049
Positive fair value of derivatives (Note 21)	37,241	83,378
Acceptances	808,630	964,395
Prepayments and other assets	95,294	76,914
	1,018,154	1,212,736

15 CUSTOMERS' DEPOSITS

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
Term and call deposits	10,230,149	8,236,780
Current accounts	7,880,146	6,075,774
Saving accounts	608,002	722,283
	18,718,297	15,034,837

16 MEDIUM TERM BORROWINGS

On 14 December 2012, the Group arranged a US dollar term facility totalling USD 50,000,000 (equivalent to AED 183,605,000), carrying a floating rate being a margin over LIBOR and is repayable in full in 2015. On 27 December 2012, the Group arranged a US dollar term facility totalling USD 125,000,000 (equivalent to AED 459,013,000). The facility carries a floating interest rate being a margin over LIBOR and following utilization of a 12 month extension option the facility is repayable in full in 2016.

On 29 October 2013, the Group arranged a US dollar term facility of USD 25,000,000 (equivalent to AED 91,803,000), the facility carrying a floating rate being a margin over LIBOR and repayable in full in 2015. On 19 December 2013, the Group arranged a US dollar term facility of USD 250,000,000 (equivalent to AED 918,025,000). The facility carries a floating interest rate being a margin over LIBOR and is repayable in full in 2016.

On 9 June 2014, the Group arranged a US dollar Murabaha facility of USD 100,000,000 (equivalent to AED 367,210,000). The facility carries a floating profit rate being a margin over LIBOR and is repayable in full in 2017.

17 OTHER LIABILITIES

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
Interest payable	70,575	43,183
Staff related provisions	58,589	55,650
Negative fair value of derivatives (Note 21)	65,429	82,020
Acceptances	808,630	964,395
Others	209,535	138,521
	1,212,758	1,283,769
	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
Staff related provisions		
The aggregate employee entitlement liability comprises:		
Employees' end of service benefits	34,732	35,720
Other liabilities	23,857	19,930
	58,589	55,650

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

17 OTHER LIABILITIES (continued)

In accordance with UAE labour law, the Group provides for end of service benefit for its expatriate employees. Movements in the liability recognised in the statement of financial position in respect of end of service benefits are as follows:

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
Liability as at 1 January	35,720	34,036
Expense recognised in the consolidated statement of income	5,977	5,303
End of service benefits paid	(6,965)	(3,619)
Liability as at 31 December	34,732	35,720

18 SHARE CAPITAL AND RESERVES**a) Share capital**

The authorised, issued and fully paid up share capital of the Bank comprises 1,145,861,472 (2013: 996,401,280) shares of AED 1 each.

At the annual general meeting held on 3 March 2014, the shareholders approved an increase in the share capital of the Bank to AED 1,145,861,472 by means of a scrip dividend of 149,460,192 shares of AED 1 each.

b) Special reserve

Article 82 of Federal Law No. 10 of 1980 concerning the Central Bank, the Monetary System and Organisation of Banking requires that 10% of the net profit is transferred to a non-distributable special reserve until this reserve equals 50% of the paid up share capital.

c) Statutory reserve

Article 192 of the UAE Commercial Companies Law No.(8) of 1984 (as amended) and the Articles of Association of the Bank, require that 10% of the net profit is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital.

d) General reserve

The general reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the bank at an ordinary general meeting, on the recommendation of the Board of Directors.

e) Revaluation reserve

The revaluation reserve is used to record increases in the fair value of freehold land and buildings and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in other comprehensive income.

f) Dividends

The directors have proposed a cash dividend amounting to AED 114,586,147 at AED 0.10 per share of AED 1 each (2013: cash dividend of AED 149,460,192 at AED 0.15 per share of AED 1 each) and a scrip dividend amounting to AED 229,172,294 at AED 0.20 per share of AED 1 each (2013: AED 149,460,192 at AED 0.15 per share of AED 1 each). This is subject to the approval of the regulator and the shareholders at the Annual General Assembly to be held in March 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

19 CUMULATIVE CHANGES IN FAIR VALUES

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
At 1 January	(51,875)	6,120
Net unrealised loss on available for sale investments	(15,848)	(56,311)
Available for sale investments – reclassified to statement of income	3,602	(4,456)
Unrealised gain on cash flow hedges	-	2,772
Reversal of gain on settlement of cash flow hedges	(2,772)	-
	<u>(66,893)</u>	<u>(51,875)</u>

20 RELATED PARTY TRANSACTIONS

The Group carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in the Group, and all Directors of the Group and companies in which such shareholders and Directors have a significant interest and key management personnel. The significant balances outstanding at 31 December are as follows:

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
<i><u>Key management personnel of the Group:</u></i>		
Loans and advances	19,619	16,882
Customers' deposits	42,389	37,151
<i><u>Shareholders:</u></i>		
Due from banks	2,609	135,350
Due to banks	3,575	225,499
Medium term borrowings	141,695	91,803
<i><u>Directors:</u></i>		
Loans and advances	55,774	65,325
Customers' deposits	14,459	13,870
Commitments and contingencies	45	45
<i><u>Other related entities:</u></i>		
Loans and advances	350,670	213,727
Investments	12,024	11,132
Due from banks	66,492	73,442
Customers' deposits	224,843	243,291
Commitments and contingencies	342,519	269,553

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

20 RELATED PARTY TRANSACTIONS (continued)

	2014 AED'000	2013 AED'000
<i>Shareholders, directors, their related entities and key management personnel</i>		
Accrued interest income	1,350	95
Accrued interest expense	895	521

The income and expenses and purchase and sale of investments in respect of related parties during the year are as follows:

	2014 AED'000	2013 AED'000
<i>Shareholders, directors, their related entities and key management personnel</i>		
Interest income	21,203	14,921
Interest expense	4,735	7,438
Gain from sale of investments	-	1,789
Directors' remuneration	10,800	10,800
Purchase of investments	-	17,912
Sale of investments	-	61,803

Terms and conditions of transactions with related parties

The above mentioned outstanding balances arose from the ordinary course of business. The interest charged to, and by, related parties is at normal commercial rates. Outstanding balances at year end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2014, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2013: AED Nil).

Compensation of key management personnel is as follows:

	2014 AED'000	2013 AED'000
Short term benefits	26,117	23,153
Employees' end of service benefits	1,639	2,741
Total compensation as at 31 December	27,756	25,894

	2014	2013
Number of key management personnel	23	23

The Group has leased office space in various premises owned by a related party. The property rental and associated expenses for the year amounted to AED 2,281,000 (2013: AED 2,215,000). The property rentals are negotiated each year at market rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

21 DERIVATIVES

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments include forwards, futures, swaps and options.

The table below shows the fair values of derivative financial instruments, recorded as assets and liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor credit risk.

At 31 December 2014

Notional amounts by term to maturity

	<i>Positive fair value AED'000</i>	<i>Negative fair value AED'000</i>	<i>Notional amount AED'000</i>	<i>Within 3 months AED'000</i>	<i>3-12 months AED'000</i>	<i>1-5 years AED'000</i>	<i>Over 5 years AED' 000</i>
<i>Derivatives held for trading:</i>							
Forward contracts	365	(16)	1,485,914	1,447,442	38,472	-	-
Foreign currency options	36,876	(36,876)	4,906,098	1,252,130	1,156,940	2,497,028	-
	<u>37,241</u>	<u>(36,892)</u>	<u>6,392,012</u>	<u>2,699,572</u>	<u>1,195,412</u>	<u>2,497,028</u>	<u>-</u>
<i>Derivatives held for fair value hedge:</i>							
Interest rate swaps	-	(27,441)	752,625	-	-	-	752,625
<i>Derivatives held for cash flow hedge:</i>							
Interest rate swaps	-	(1,096)	183,605	-	-	183,605	-
Total	<u>37,241</u>	<u>(65,429)</u>	<u>7,328,242</u>	<u>2,699,572</u>	<u>1,195,412</u>	<u>2,680,633</u>	<u>752,625</u>

At 31 December 2013

Notional amounts by term to maturity

	<i>Positive fair value AED'000</i>	<i>Negative fair value AED'000</i>	<i>Notional amount AED'000</i>	<i>Within 3 months AED'000</i>	<i>3-12 months AED'000</i>	<i>1-5 years AED'000</i>	<i>Over 5 years AED' 000</i>
<i>Derivatives held for trading:</i>							
Forward contracts	32	(18)	1,574,510	1,390,905	183,605	-	-
Foreign currency options	79,419	(79,419)	7,795,903	157,210	6,682,478	956,215	-
Interest rate swaps	251	(1,680)	201,966	-	-	201,966	-
	<u>79,702</u>	<u>(81,117)</u>	<u>9,572,379</u>	<u>1,548,115</u>	<u>6,866,083</u>	<u>1,158,181</u>	<u>-</u>
<i>Derivatives held for cash flow hedge:</i>							
Interest rate swaps	3,676	(903)	238,687	-	-	238,687	-
Total	<u>83,378</u>	<u>(82,020)</u>	<u>9,811,066</u>	<u>1,548,115</u>	<u>6,866,083</u>	<u>1,396,868</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

21 DERIVATIVES (continued)

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

Over-the-counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position.

The derivatives are recorded at fair value by using the published price quotations in an active market or counterparty prices or valuation techniques using a valuation model that has been tested against the prices of actual market transactions and the Group's best estimate of the most appropriate model inputs (Note 25).

Derivative product types

Forward Contracts

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. The Group has credit exposure to the counterparties of forward contracts.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the Group either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. Approximately 71% (2013: 60%) of the Group's derivative contracts are entered into with other financial institutions.

Purpose of derivatives

In the normal course of meeting the needs of the Group's customers, the Group is party to forward foreign exchange and option contracts, interest rate swaps and forward rate agreements. In addition, as part of its asset and liability management, the Group uses these derivative instruments for hedging purposes in order to reduce its own exposure to current and expected risks. This is achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures.

The Group uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate loans and investments. In such cases, the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as cash flow hedges.

Since strategic hedging does not qualify for special hedge accounting, forward foreign exchange and option contracts and interest rate swaps, other than mentioned above, are accounted for as trading instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

22 CONTINGENT LIABILITIES AND COMMITMENTS

Credit related commitments

The Group's contractual amounts in respect of letters of credit and guarantees commit the Group to make payments on behalf of customers contingent upon the customer satisfying the terms of the contract. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced, guarantees are called for full amount following performance failure, and that any collateral or other security is of no value. However, the total contractual amount of commitments does not necessarily represent future cash requirements since many of such commitments will expire or terminate without being funded.

The loan commitments represent the contractual commitments to make the loan. These generally have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn down, and as conditions precedent to draw down have to be fulfilled, the total contract amounts do not necessarily represent future cash requirements.

The Group has the following credit related commitments:

	<i>2014</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>
<i>Contingent liabilities</i>		
Letters of credit	777,624	533,224
Guarantees	3,225,904	2,821,154
	<u> </u>	<u> </u>
Liability	4,003,528	3,354,378
	<u> </u>	<u> </u>
<i>Commitments</i>		
Undrawn loan commitments	2,667,483	2,586,948
	<u> </u>	<u> </u>

23 RISK MANAGEMENT

Introduction

Risk is inherent in all of the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to their responsibilities.

Risk Management covers all risks including credit, liquidity, market and operational risk, and processes from origination to approval and ongoing control, review, maintenance and reporting of exposures. It also covers the high level organisation, roles and responsibilities of Board and management level committees, and authorities and processes relating to risk management, internal controls, compliance and internal audit functions.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the Group's strategic planning process.

Risk Management Structure

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board Credit Committee

The Board Credit Committee (BCC) has the responsibility to establish credit risk strategy and monitor the overall credit process within the Group for maintaining a diversified portfolio, avoiding undesired risk concentrations, improving the overall asset quality of the portfolio, and complying with Credit Policy and regulatory guidelines.

Board Audit Committee

The Board Audit Committee (BAC) is responsible for monitoring, reviewing and reporting to the Board on the formal arrangements relating to the financial and narrative reporting of the Group, internal controls, compliance and internal / external audit processes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

23 RISK MANAGEMENT (continued)

Introduction (continued)

Board Risk Committee

The Board Risk Committee (BRC) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, and policies for enhancing the Group's risk management framework to best practices standards. This includes, but is not limited to, ensuring effective control structures and the monitoring of aggregate risk exposures (including but not limited to credit, market, liquidity, operational and legal).

Risk Management Group

The Risk Management Group is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It works closely with the commercial organisation to support their activities, while safeguarding the risk profile of the Group. It institutes prudent risk monitoring and control mechanisms (processes and systems) to ensure compliance of individual risk assets and portfolios to agreed terms and policy parameters. It reviews and presents all credit submissions, risk policy and portfolio management reports to the BCC and BRC.

Group Treasury

Group Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Group.

Internal Audit

Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of, and the Group's compliance with, its procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

Risk Measurement and Reporting Systems

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect both the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to identify, analyse and control at an early stage. This information is presented and explained to the Board of Directors, the Board Risk Committee, and the head of each business division. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board receives a comprehensive credit risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit related risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure all business divisions have access to extensive, necessary and up-to-date information.

Regular briefings are given to the Chief Executive Officer, General Management Risk Committee and all other relevant members of management of the Group on all aspects of risk taken by the Group including the utilisation of limits, proprietary investments and liquidity, plus any other risk developments.

Risk Mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

23 RISK MANAGEMENT (continued)

Introduction (continued)

Risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit Risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment / contractual obligation, resulting in financial loss to the Group. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Group. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including contingent liabilities and commitments. The maximum exposure is shown, before the effect of mitigation through the use of credit enhancements, master netting and collateral agreements.

	<i>Notes</i>	<i>Maximum exposure 2014 AED'000</i>	<i>Maximum exposure 2013 AED'000</i>
Cash and balances with UAE Central Bank (excluding cash on hand)	10	1,686,368	1,217,408
Due from banks	11	1,933,231	1,848,253
Loans and advances (net of provisions)	7	17,940,903	15,285,481
Investments in debt securities	12	2,474,121	1,603,862
Other assets (excluding prepayments)	14	944,903	1,149,900
Total		24,979,526	21,104,904
Letters of credit	22	777,624	533,224
Guarantees	22	3,225,904	2,821,154
Undrawn loan commitments	22	2,667,483	2,586,948
Total		6,671,011	5,941,326
Total credit risk exposure		31,650,537	27,046,230

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

23 RISK MANAGEMENT (continued)

Credit Risk (continued)

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes. The effect of collateral and other risk mitigation techniques is discussed below.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client / counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2014 was AED 465,395,000 (2013: AED 294,991,000) before taking account of collateral or other credit enhancements and AED 465,395,000 (2013: AED 294,991,000) net of such protection.

The Group's maximum exposure to credit risk, after provisions but before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2014		2013	
	<i>Assets</i> <i>AED'000</i>	<i>Contingent Liabilities and commitments</i> <i>AED'000</i>	<i>Assets</i> <i>AED'000</i>	<i>Contingent liabilities and commitments</i> <i>AED'000</i>
United Arab Emirates	22,910,721	6,107,964	19,006,705	5,330,055
Other Middle East countries	1,233,855	194,266	935,874	257,282
Europe	410,962	85,030	498,957	125,672
USA	51,070	38,148	160,663	21,098
Rest of World	372,918	245,603	502,705	207,219
Total	<u>24,979,526</u>	<u>6,671,011</u>	<u>21,104,904</u>	<u>5,941,326</u>

An industry sector analysis of the Group's on-balance sheet financial assets (excluding cash on hand), after provisions but before taking into account collateral held or other credit enhancements, is as follows:

	<i>Maximum exposure 2014 AED'000</i>	<i>Maximum exposure 2013 AED'000</i>
Financial Services	5,159,415	4,221,524
Trade	4,327,047	2,865,180
Manufacturing	2,761,946	2,302,514
Government and public sector	2,400,290	2,555,493
Construction	739,610	680,571
Other services	2,102,326	1,751,224
Other	8,014,423	7,016,333
	<u>25,505,057</u>	<u>21,392,839</u>
Less: impairment provision and interest in suspense on loans and advances	(525,531)	(287,935)
	<u>24,979,526</u>	<u>21,104,904</u>

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are cash, securities, charges over real estate properties, vehicles, plant and machinery, inventory and trade receivables.

The Group also obtains guarantees from parent companies for loans to their subsidiaries or other group companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

23 RISK MANAGEMENT (continued)
Credit Risk (continued)

Management monitor the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitor the market value of collateral obtained during its periodic review of credit facilities and of the adequacy of the allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of assets for certain key statement of financial position items, based on the Group's credit rating system.

	<u>Neither past due nor impaired</u>			<u>Past due</u>	<u>Total</u>
	<u>High</u>	<u>Standard</u>	<u>Sub - standard</u>	<u>or individually</u>	
	<u>grade</u>	<u>grade</u>	<u>grade</u>	<u>impaired</u>	
	<u>2014</u>	<u>2014</u>	<u>2014</u>	<u>2014</u>	<u>2014</u>
	<u>AED'000</u>	<u>AED'000</u>	<u>AED'000</u>	<u>AED'000</u>	<u>AED'000</u>
Balances with UAE					
Central Bank	1,686,368	-	-	-	1,686,368
Due from banks	908,971	1,024,260	-	-	1,933,231
Investments	1,989,846	484,275	-	-	2,474,121
Loans and advances (Gross)	4,923,911	11,960,467	489,662	1,092,394	18,466,434
Other Assets	152,679	777,474	14,750	-	944,903
	<u>9,661,775</u>	<u>14,246,476</u>	<u>504,412</u>	<u>1,092,394</u>	<u>25,505,057</u>

	<u>Neither past due nor impaired</u>			<u>Past due</u>	<u>Total</u>
	<u>High</u>	<u>Standard</u>	<u>Sub - standard</u>	<u>or individually</u>	
	<u>grade</u>	<u>grade</u>	<u>grade</u>	<u>impaired</u>	
	<u>2013</u>	<u>2013</u>	<u>2013</u>	<u>2013</u>	<u>2013</u>
	<u>AED'000</u>	<u>AED'000</u>	<u>AED'000</u>	<u>AED'000</u>	<u>AED'000</u>
Balances with UAE					
Central Bank	1,217,408	-	-	-	1,217,408
Due from banks	1,223,314	624,939	-	-	1,848,253
Investments	1,373,702	230,160	-	-	1,603,862
Loans and advances (Gross)	5,022,292	9,534,068	382,441	634,615	15,573,416
Other Assets	499,755	639,919	10,226	-	1,149,900
	<u>9,336,471</u>	<u>11,029,086</u>	<u>392,667</u>	<u>634,615</u>	<u>21,392,839</u>

Past due loans and advances include those that are only past due by a few days. The majority of the past due loans are not considered to be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

23 RISK MANAGEMENT (continued)

Credit Risk (continued)

Aging analysis of past due but not impaired loans per class of on-balance sheet financial assets

	<i>Less than 30 days 2014 AED'000</i>	<i>31 to 60 days 2014 AED'000</i>	<i>61 to 90 days 2014 AED'000</i>	<i>More than 91 days 2014 AED'000</i>	<i>Total 2014 AED'000</i>
Loans and advances	<u>414,038</u>	<u>91,829</u>	<u>45,288</u>	<u>68,373</u>	<u>619,528</u>
	<i>2013 AED'000</i>	<i>2013 AED'000</i>	<i>2013 AED'000</i>	<i>2013 AED'000</i>	<i>2013 AED'000</i>
Loans and advances	<u>195,141</u>	<u>96,205</u>	<u>63,362</u>	<u>33,891</u>	<u>388,599</u>

The fair value of the collateral that the Group held at 31 December 2014 for past due but not impaired loans and advances to customers covers approximately 47% (2013: 61%) of the outstanding balance.

Carrying amount per class of on-balance sheet financial assets whose terms have been renegotiated

	<i>2014 AED'000</i>	<i>2013 AED'000</i>
Loans and advances	<u>478,893</u>	<u>555,710</u>

Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stressed circumstances. To limit this risk, management have arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a statutory deposit with the Central Bank of UAE equal to 14% of current deposits and 1% of time deposits. In accordance with the Group's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consist of cash, short term bank deposits and liquid debt securities available for immediate sale, less deposits for banks and other issued securities and borrowings due to mature within the next month. The ratios as at the year end were as follows:

	<i>2014</i>	<i>2013</i>
Advances to Stables Resources Ratio	85.8%	85.6%
Net Liquid Assets to Customer Deposits Ratio	27.2%	30.6%

The Group stresses the importance of current accounts, time deposits and savings accounts as a source of funds to finance lending to customers. They are monitored using the advances to stable deposit ratio, which compares loans and advances to customers as a percentage of core customer current and savings accounts, together with term funding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Maturities of assets and liabilities based on the remaining period at the statement of financial position date to the contractual maturity date not taking account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds, as at 31 December 2014 is as follows:

	<i>Less than 3 months AED '000</i>	<i>From 3 months to 6 months AED '000</i>	<i>From 6 months to 12 months AED '000</i>	<i>Sub total less than 12 months AED '000</i>	<i>1-5 years AED '000</i>	<i>Over 5 years AED '000</i>	<i>Subtotal over 12 months AED '000</i>	<i>Undated AED '000</i>	<i>Total AED '000</i>
ASSETS									
Cash and balances with UAE									
Central Bank	1,810,558	-	-	1,810,558	-	-	-	-	1,810,558
Due from banks	1,933,231	-	-	1,933,231	-	-	-	-	1,933,231
Loans and advances (Gross)	5,321,629	1,304,329	463,690	7,089,648	8,042,243	3,334,543	11,376,786	-	18,466,434
Investments	-	74,540	38,355	112,895	1,022,501	1,266,201	2,288,702	84,933	2,486,530
Investment properties	-	-	-	-	-	-	-	110,794	110,794
Property and equipment	-	-	-	-	-	-	-	409,115	409,115
Other assets	750,886	212,294	26,281	989,461	28,693	-	28,693	-	1,018,154
Provision for impairment of loans and advances and interest in suspense	(525,531)	-	-	(525,531)	-	-	-	-	(525,531)
Sub-total	9,290,773	1,591,163	528,326	11,410,262	9,093,437	4,600,744	13,694,181	604,842	25,709,285
LIABILITIES AND SHAREHOLDERS' FUNDS									
Due to banks	479,704	-	367,210	846,914	-	-	-	-	846,914
Customers' deposits	12,588,730	3,189,942	1,497,239	17,275,911	1,442,386	-	1,442,386	-	18,718,297
Medium term borrowings	-	-	275,407	275,407	1,744,248	-	1,744,248	-	2,019,655
Other liabilities	882,376	212,194	26,227	1,120,797	31,451	25,778	57,229	34,732	1,212,758
Shareholders' funds	-	-	-	-	-	-	-	2,911,661	2,911,661
Sub-total	13,950,810	3,402,136	2,166,083	19,519,029	3,218,085	25,778	3,243,863	2,946,393	25,709,285
Net liquidity gap	(4,660,037)	(1,810,973)	(1,637,757)	(8,108,767)	5,875,352	4,574,966	10,450,318	(2,341,551)	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

The maturity profile of assets and liabilities at 31 December 2013 was as follows:

	<i>Less than 3 months AED'000</i>	<i>From 3 months to 6 months AED'000</i>	<i>From 6 months to 12 months AED'000</i>	<i>Sub total less than 12 months AED'000</i>	<i>1-5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Subtotal over 12 months AED'000</i>	<i>Undated AED'000</i>	<i>Total AED'000</i>
ASSETS									
Cash and balances with UAE									
Central Bank	1,301,775	-	-	1,301,775	-	-	-	-	1,301,775
Due from banks	1,848,253	-	-	1,848,253	-	-	-	-	1,848,253
Loans and advances (Gross)	3,980,037	1,104,477	1,057,569	6,142,083	5,485,085	3,946,248	9,431,333	-	15,573,416
Investments	-	37,127	140,787	177,914	839,637	553,071	1,392,708	44,795	1,615,417
Investment properties	-	-	-	-	-	-	-	73,802	73,802
Property and equipment	-	-	-	-	-	-	-	212,292	212,292
Other assets	767,475	419,688	13,957	1,201,120	7,689	3,927	11,616	-	1,212,736
Provision for impairment of loans and advances and interest in suspense	(287,935)	-	-	(287,935)	-	-	-	-	(287,935)
Sub-total	<u>7,609,605</u>	<u>1,561,292</u>	<u>1,212,313</u>	<u>10,383,210</u>	<u>6,332,411</u>	<u>4,503,246</u>	<u>10,835,657</u>	<u>330,889</u>	<u>21,549,756</u>
LIABILITIES AND SHAREHOLDERS' FUNDS									
Due to banks	162,929	-	897,745	1,060,674	36,500	-	36,500	-	1,097,174
Customers' deposits	11,198,469	1,710,040	1,633,556	14,542,065	492,772	-	492,772	-	15,034,837
Medium term borrowings	-	-	-	-	1,652,445	-	1,652,445	-	1,652,445
Other liabilities	804,142	419,679	13,957	1,237,778	9,803	468	10,271	35,720	1,283,769
Shareholders' funds	-	-	-	-	-	-	-	2,481,531	2,481,531
Sub-total	<u>12,165,540</u>	<u>2,129,719</u>	<u>2,545,258</u>	<u>16,840,517</u>	<u>2,191,520</u>	<u>468</u>	<u>2,191,988</u>	<u>2,517,251</u>	<u>21,549,756</u>
Net liquidity gap	<u>(4,555,935)</u>	<u>(568,427)</u>	<u>(1,332,945)</u>	<u>(6,457,307)</u>	<u>4,140,891</u>	<u>4,502,778</u>	<u>8,643,669</u>	<u>(2,186,362)</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

23 RISK MANAGEMENT (continued)
Liquidity risk (continued)
Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2014 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Financial Liabilities	<i>On demand</i> <i>AED '000</i>	<i>Less than 3</i> <i>months</i> <i>AED '000</i>	<i>3 to 12</i> <i>months</i> <i>AED '000</i>	<i>1 to 5 years</i> <i>AED '000</i>	<i>Over</i> <i>5 years</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
31 December 2014						
Due to banks	10,936	468,836	369,283	-	-	849,055
Customers' deposits	8,488,148	4,228,376	4,674,275	1,463,779	-	18,854,578
Medium term borrowings	-	-	281,677	1,790,018	-	2,071,695
Other liabilities	209,535	578,589	226,817	27,081	-	1,042,022
Financial derivatives	-	4,949	14,845	76,088	56,026	151,908
Total undiscounted financial liabilities	8,708,619	5,280,750	5,566,897	3,356,966	56,026	22,969,258
31 December 2013						
Due to banks	16,928	150,111	906,842	37,982	-	1,111,863
Customers' deposits	6,776,773	4,449,522	3,393,203	507,542	-	15,127,040
Medium term borrowings	-	-	-	1,707,160	-	1,707,160
Other liabilities	138,521	657,611	355,045	7,389	-	1,158,566
Financial derivatives	-	918	3,410	20,103	15,975	40,406
Total undiscounted financial liabilities	6,932,222	5,258,162	4,658,500	2,280,176	15,975	19,145,035

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, these amounts may be settled gross or net. The following table shows the corresponding reconciliation of those amounts to their carrying amounts.

	<i>On demand</i> <i>AED '000</i>	<i>Less than 3</i> <i>months</i> <i>AED '000</i>	<i>3 to 12</i> <i>months</i> <i>AED '000</i>	<i>1 to 5 years</i> <i>AED '000</i>	<i>Over</i> <i>5 years</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
31 December 2014						
Inflows	-	643	3,602	50,214	50,308	104,767
Outflows	-	(4,949)	(14,845)	(76,088)	(56,026)	(151,908)
Net	-	(4,306)	(11,243)	(25,874)	(5,718)	(47,141)
Discounted at applicable interbank rates	-	(4,295)	(11,189)	(25,497)	(5,596)	(46,577)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

23 RISK MANAGEMENT (continued)
Liquidity risk (continued)
Analysis of financial liabilities by remaining contractual maturities (continued)

	<i>On demand</i> <i>AED '000</i>	<i>Less than 3</i> <i>months</i> <i>AED '000</i>	<i>3 to 12</i> <i>months</i> <i>AED '000</i>	<i>1 to 5 years</i> <i>AED '000</i>	<i>Over</i> <i>5 years</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
31 December 2013						
Inflows	-	258	925	24,005	30,410	55,598
Outflows	-	(918)	(3,410)	(20,103)	(15,975)	(40,406)
Net	-	(660)	(2,485)	3,902	14,435	15,192
Discounted at applicable interbank rates	-	(660)	(2,479)	3,660	13,123	13,644

The table below shows the contractual maturity profile of the Group's contingent liabilities and commitments:

	<i>On demand</i> <i>AED '000</i>	<i>Less than 3</i> <i>months</i> <i>AED '000</i>	<i>3 to 12</i> <i>months</i> <i>AED '000</i>	<i>1 to 5 years</i> <i>AED '000</i>	<i>Over</i> <i>5 years</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
31 December 2014						
Contingent Liabilities	-	2,451,600	1,163,311	388,617	-	4,003,528
Commitments	2,667,483	-	-	-	-	2,667,483
Total	2,667,483	2,451,600	1,163,311	388,617	-	6,671,011
31 December 2013						
Contingent Liabilities	-	2,221,331	937,760	195,287	-	3,354,378
Commitments	2,586,948	-	-	-	-	2,586,948
Total	2,586,948	2,221,331	937,760	195,287	-	5,941,326

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Group's Asset and Liability Committee (ALCO).

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury in its day-to-day monitoring activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

23 RISK MANAGEMENT (continued)
Interest rate risk (continued)

The following table summarises interest rate sensitivity position at the year end. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

	<i>Less than 3 months AED '000</i>	<i>3 to 12 months AED '000</i>	<i>1 to 5 years AED '000</i>	<i>Over 5 years AED '000</i>	<i>Non Interest Sensitive AED '000</i>	<i>Carrying amount AED '000</i>
31 December 2014						
Assets						
Cash and balances with the UAE Central Bank	-	-	-	-	1,810,558	1,810,558
Due from banks	1,637,185	-	-	-	296,046	1,933,231
Loans and advances to customers	5,618,585	2,140,035	8,220,899	1,961,384	-	17,940,903
Investments	-	112,895	1,022,501	1,338,725	12,409	2,486,530
Investment properties	-	-	-	-	110,794	110,794
Property and equipment	-	-	-	-	409,115	409,115
Other assets	-	-	-	-	1,018,154	1,018,154
	<u>7,255,770</u>	<u>2,252,930</u>	<u>9,243,400</u>	<u>3,300,109</u>	<u>3,657,076</u>	<u>25,709,285</u>
Liabilities						
Due to banks	468,768	367,210	-	-	10,936	846,914
Customers' deposits	4,811,791	4,599,960	1,426,400	-	7,880,146	18,718,297
Medium term loans	2,019,655	-	-	-	-	2,019,655
Other liabilities	-	-	-	-	1,212,758	1,212,758
Shareholders' funds	-	-	-	-	2,911,661	2,911,661
	<u>7,300,214</u>	<u>4,967,170</u>	<u>1,426,400</u>	<u>-</u>	<u>12,015,501</u>	<u>25,709,285</u>
Interest rate sensitivity	<u>(44,444)</u>	<u>(2,714,240)</u>	<u>7,817,000</u>	<u>3,300,109</u>	<u>(8,358,425)</u>	<u>-</u>
Cumulative interest rate sensitivity gap	<u>(44,444)</u>	<u>(2,758,684)</u>	<u>5,058,316</u>	<u>8,358,425</u>	<u>-</u>	<u>-</u>
	<i>Less than 3 months AED '000</i>	<i>3 to 12 months AED '000</i>	<i>1 to 5 years AED '000</i>	<i>Over 5 years AED '000</i>	<i>Non Interest Sensitive AED '000</i>	<i>Carrying amount AED '000</i>
31 December 2013						
Assets						
Cash and balances with the UAE Central Bank	-	-	-	-	1,301,775	1,301,775
Due from banks	1,511,141	-	-	-	337,112	1,848,253
Loans and advances to customers	4,339,859	906,572	7,749,371	2,289,679	-	15,285,481
Investments	-	177,914	839,637	586,311	11,555	1,615,417
Investment properties	-	-	-	-	73,802	73,802
Property and equipment	-	-	-	-	212,292	212,292
Other assets	-	-	-	-	1,212,736	1,212,736
	<u>5,851,000</u>	<u>1,084,486</u>	<u>8,589,008</u>	<u>2,875,990</u>	<u>3,149,272</u>	<u>21,549,756</u>
Liabilities						
Due to banks	150,000	897,745	36,500	-	12,929	1,097,174
Customers' deposits	5,202,190	3,274,145	482,728	-	6,075,774	15,034,837
Medium term loans	1,652,445	-	-	-	-	1,652,445
Other liabilities	-	-	-	-	1,283,769	1,283,769
Shareholders' funds	-	-	-	-	2,481,531	2,481,531
	<u>7,004,635</u>	<u>4,171,890</u>	<u>519,228</u>	<u>-</u>	<u>9,854,003</u>	<u>21,549,756</u>
Interest rate sensitivity	<u>(1,153,635)</u>	<u>(3,087,404)</u>	<u>8,069,780</u>	<u>2,875,990</u>	<u>(6,704,731)</u>	<u>-</u>
Cumulative interest rate sensitivity gap	<u>(1,153,635)</u>	<u>(4,241,039)</u>	<u>3,828,741</u>	<u>6,704,731</u>	<u>-</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

23 RISK MANAGEMENT (continued)**Interest rate risk (continued)**

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income statement. There is no material impact on the Group's equity.

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2014, including the effect of hedging instruments.

Currency	2014		2013	
	<i>Change in basis points</i>	<i>Sensitivity of net interest income</i>	<i>Change in basis points</i>	<i>Sensitivity of net interest income</i>
All currencies	+25	3,122	+25	4,252
All currencies	-25	(3,122)	-25	(4,252)

The interest rate sensitivity set out above relates primarily to the US Dollar as the Group does not have any significant net exposure for non-trading floating rate financial assets and financial liabilities denominated in other currencies.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

As the UAE Dirham and other GCC currencies are currently pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

The tables below indicates the currencies to which the Group had significant exposure at 31 December 2014 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AED, with all other variables held constant on the consolidated statement of income (due to the fair value of currency sensitive non trading monetary assets and liabilities) and equity (due to change in the fair value of currency swaps used as cash flow hedges). A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

Currency	2014		2013	
	<i>Change in currency rate in %</i>	<i>Effect on profit AED'000</i>	<i>Change in currency rate in %</i>	<i>Effect on profit AED'000</i>
EUR	+10	(15)	+10	-
GBP	+10	30	+10	(6)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

24 SEGMENTAL ANALYSIS

Primary segment information

For the purposes of reporting to the chief operating decision makers, the Group is organised into three segments:

- Retail banking - principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and funds transfer facilities as well as Islamic banking services;
- Corporate banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;
- Others - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations, Al Sadarah Investment Company, the SME business and head office functions.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is debited / credited to business segments based on a pool rate which approximates the marginal cost of funds.

Segmental information for the year ended 31 December 2014 is as follows:

	<i>Retail banking AED'000</i>	<i>Corporate banking AED'000</i>	<i>Others AED'000</i>	<i>Total AED'000</i>
Interest and other income	440,873	778,075	378,685	1,597,633
Interest and other expense	(192,927)	(256,585)	(142,130)	(591,642)
Impairment losses on loans and advances	(137,480)	(210,062)	(26,533)	(374,075)
Depreciation	(8,242)	(14,011)	(4,255)	(26,508)
Profit for the year	<u>102,224</u>	<u>297,417</u>	<u>205,767</u>	<u>605,408</u>
Capital Expenditure - Property and equipment	<u>72,717</u>	<u>130,046</u>	<u>20,568</u>	<u>223,331</u>
At 31 December 2014				
Segment Assets	<u>5,314,360</u>	<u>12,555,618</u>	<u>7,839,307</u>	<u>25,709,285</u>
Segment Liabilities	<u>5,440,063</u>	<u>11,814,205</u>	<u>5,543,356</u>	<u>22,797,624</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

24 SEGMENTAL ANALYSIS (continued)

Segmental information for the year ended 31 December 2013 was as follows:

	<i>Retail banking AED'000</i>	<i>Corporate banking AED'000</i>	<i>Others AED'000</i>	<i>Total AED'000</i>
Interest and other income	345,303	632,314	233,850	1,211,467
Interest and other expense	(139,750)	(203,036)	(131,842)	(474,628)
Impairment losses on loans and advances	(96,153)	(67,249)	(5,062)	(168,464)
Depreciation	(4,285)	(10,457)	(1,154)	(15,896)
Profit for the year	<u>105,115</u>	<u>351,572</u>	<u>95,792</u>	<u>552,479</u>
Capital Expenditure - Property and equipment	<u>22,019</u>	<u>45,611</u>	<u>8,389</u>	<u>76,019</u>
At 31 December 2013				
Segment Assets	<u>4,914,126</u>	<u>11,051,587</u>	<u>5,584,043</u>	<u>21,549,756</u>
Segment Liabilities	<u>5,549,257</u>	<u>9,079,330</u>	<u>4,439,638</u>	<u>19,068,225</u>

Secondary segment information

The Group operates in only one geographic area, the Middle East. Accordingly, no further geographical analysis of operating income, net profit and net assets is given.

25 FAIR VALUES OF FINANCIAL INSTRUMENTS**Determination of fair value and fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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At 31 December 2014

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**Financial Instruments and assets recorded at fair value**

The following table shows an analysis of financial instruments and assets recorded at fair value by level of the fair value hierarchy:

31 December 2014	<i>Level 1</i> <i>AED'000</i>	<i>Level 2</i> <i>AED'000</i>	<i>Level 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Financial Assets				
<i>Derivative financial instruments</i>				
Forward foreign exchange contracts	-	365	-	365
Currency options	-	36,876	-	36,876
	-	37,241	-	37,241
<i>Financial investments available-for-sale</i>				
<i>Quoted investments</i>				
Government debt securities	947,637	-	-	947,637
Other debt securities	1,526,484	-	-	1,526,484
Equities	12,333	-	-	12,333
<i>Unquoted Investments</i>				
Equities	-	-	76	76
	2,486,454	-	76	2,486,530
<i>Investment properties</i>				
	-	110,794	-	110,794
	2,486,454	148,035	76	2,634,565
Financial Liabilities				
<i>Derivative financial instruments</i>				
Interest rate swaps	-	28,537	-	28,537
Forward foreign exchange contracts	-	16	-	16
Currency options	-	36,876	-	36,876
	-	65,429	-	65,429

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Financial Instruments and assets recorded at fair value (continued)

31 December 2013	<i>Level 1</i> <i>AED '000</i>	<i>Level 2</i> <i>AED '000</i>	<i>Level 3</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
Financial Assets				
<i>Derivative financial instruments</i>				
Interest rate swaps	-	3,927	-	3,927
Forward foreign exchange contracts	-	32	-	32
Currency options	-	79,419	-	79,419
	-	83,378	-	83,378
<i>Financial investments available-for-sale</i>				
<i>Quoted investments</i>				
Government debt securities	1,083,065	-	-	1,083,065
Other debt securities	520,797	-	-	520,797
Equities	11,479	-	-	11,479
<i>Unquoted Investments</i>				
Equities	-	-	76	76
	1,615,341	-	76	1,615,417
<i>Investment properties</i>				
	-	73,802	-	73,802
	1,615,341	157,180	76	1,772,597
Financial Liabilities				
<i>Derivative financial instruments</i>				
Interest rate swaps	-	2,583	-	2,583
Forward foreign exchange contracts	-	18	-	18
Currency options	-	79,419	-	79,419
	-	82,020	-	82,020

The following is a description of the determination of fair value for financial instruments and assets which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency options and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial investments – available-for-sale

Available-for-sale financial assets valued using a valuation technique or pricing models primarily consist of unquoted equities and debt securities. These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Financial Instruments and assets recorded at fair value (continued)

Movements in level 3 financial instruments measured at fair value

There was no movement between the levels of financial instruments during the year (2013: AED Nil).

Gains or losses on level 3 financial instruments included in the profit or loss for the year:

No gains or losses on level 3 financial instruments were included in the profit or loss for the year (2013: AED Nil).

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument is negligible.

Financial Instruments not recorded at fair value

The fair values of financial instruments not recorded at fair value includes cash and balances with UAE Central Bank, due from banks, loans and advances, other assets (excluding prepayments), due to banks, customers' deposits and other liabilities that are categorised as level two based on market observable inputs. The fair values of financial instruments not recorded at fair value are not materially different to their carrying values.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

Asset for which fair value approximates carrying value

For financial assets and financial liabilities that have short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without specific maturity.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit and maturity. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

26 CAPITAL ADEQUACY

The Group actively manages the capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules / ratios") and adopted by the Central Bank of UAE in supervising the Bank.

Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital base and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital base, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

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At 31 December 2014

26 CAPITAL ADEQUACY (continued)

The risk asset ratio calculations, in accordance with the capital adequacy guidelines as per Basel II accord established for the global banking industry, are as follows:

	<i>2014</i>	<i>2013</i>
	<i>AED'000</i>	<i>AED'000</i>
Risk Weighted Exposures		
Credit Risk	19,424,576	15,629,117
Market Risk	75,568	3,417
Operational Risk	1,999,763	1,003,933
Total Risk Weighted Exposures	21,499,907	16,636,467
Tier I and II Capital	<i>2014</i>	<i>2013</i>
	<i>AED'000</i>	<i>AED'000</i>
Tier I Capital	2,977,804	2,529,997
Tier II Capital	175,914	122,581
Capital Base	3,153,718	2,652,578
Capital Ratio:		
Total regulatory capital as a percentage of total risk weighted assets	14.7%	15.9%
Total tier I regulatory capital as a percentage of total risk weighted assets	13.9%	15.2%

Regulatory capital consists mainly of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation less accrued dividends. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the Central Bank of UAE. The other component of regulatory capital is Tier 2 capital, which includes General provisions and Cumulative changes in fair values.

The Group has complied with all the requirements as set by the Central Bank of UAE in respect of capital adequacy.