2014 ANNUAL REPORT

We change for the better
when we grow for the future

# LET'S GROW

البنك العربي المتحد
UNITED ARAB BANK

معاً للنمو

LET'S GROW

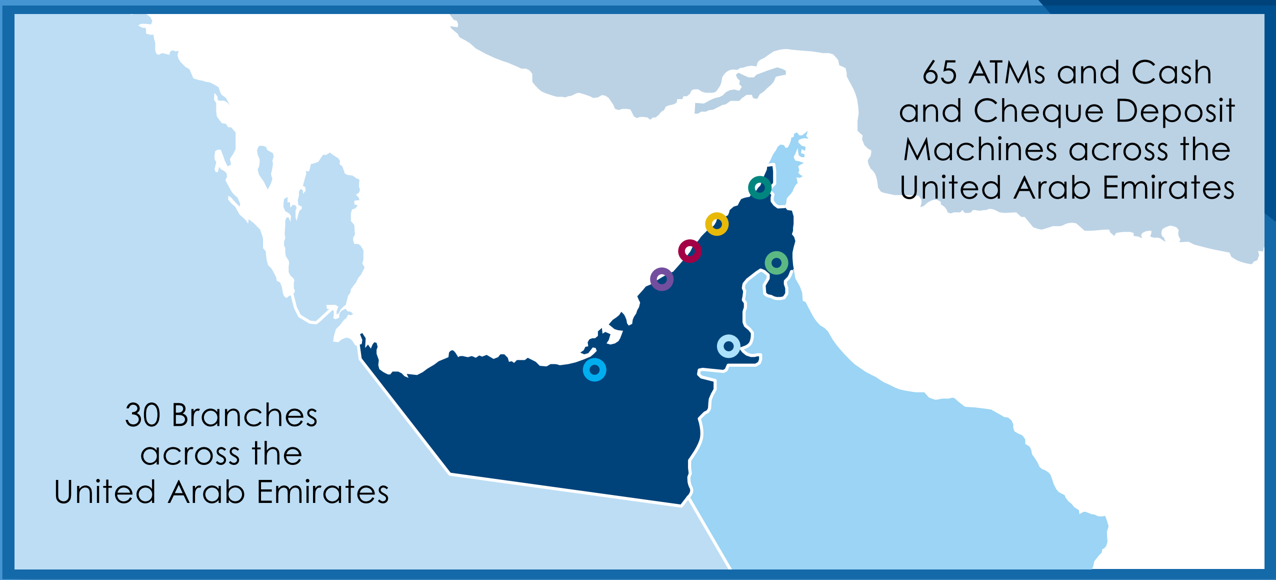
**His Highness Sheikh Khalifa Bin Zayed Al Nahyan**
President of The United Arab Emirates.

**His Highness Sheikh Mohammed Bin Rashid Al-Maktoum**
Vice President and Prime Minister of UAE
and Ruler of Dubai

**His Highness Dr. Sheikh Sultan bin Mohammed Al Qasimi**
Supreme Council Member and Ruler of Sharjah

**His Highness Sheikh Mohammed Bin Zayed Al Nahyan**
Crown Prince of Abu Dhabi and Deputy Supreme Commander
of UAE Armed Forces

## Branches




Sharjah 7 Branches

Dubai 11 Branches

Abu Dhabi 6 Branches

Al Ain 2 Branches

Ras Al Khaimah 2 Branches

Ajman 1 Branch

Fujairah 1 Branch

## Sharjah

**UAB Tower - Head Office**
UAB Tower, Al Majaz Street
Buhaira Corniche
P.O. Box 25022
Tel: +971 (0) 6 507 5222
Fax: +971 (0) 6 507 5950

**UAB Tower Branch**
UAB Tower, Al Majaz Street
Buhaira Corniche
P.O. Box 25022
Tel: +971 (0) 6 507 5944
Fax: +971 (0) 6 507 5980

**Mareijah Branch**
Mina Office Building
Al Mina Road
P.O. Box 881
Tel: +971 (0) 6 511 8111
Fax: +971 (0) 6 568 8058

**Corniche Branch**
Al Muhannad Tower
Buhaira Corniche
P.O. Box 60868
Tel: +971 (0) 6 519 5111
Fax: +971 (0) 6 554 9801

**King Faisal Street Branch**
Utmost Building
Abu Shagara
King Faisal Street
P.O. Box 23226
Tel: +971 (0) 6 509 4200
Fax: +971 (0) 6 552 1056

**Industrial Area Branch**
Abdullah Rashid Al Shamsi Building
Sharjah Industrial Area - 12
P.O. Box 150730
Tel: +971 (0) 6 513 2666
Fax: +971 (0) 6 535 9134

**Juraina Branch**
Matajer Al Juraina
Muweileh Suburb
P.O. Box 28741
Tel: +971 (0) 6 505 9333
Fax: +971 (0) 6 545 8457

**Mirgab Branch**
Matajer Al Mirgab
Al Heira Suburb
P.O. Box 28497
Tel: +971 (0) 6 516 3555
Fax: +971 (0) 6 565 9079

## Abu Dhabi

**Khalifa Street Branch**
Sh. Faisal Bin Sultan Al Qassimi Building
GIBCA, Khalifa Street
P.O. Box 3562
Tel: +971 (0) 2 627 5000
Fax: +971 (0) 2 626 2649

**Airport Road Branch**
Emirates Property Investment Co. Building
Sh. Rashid Bin Saeed Al Maktoum Street
P.O. Box 30183
Tel: +971 (0) 2 693 0900
Fax: +971 (0) 2 658 6287

**Khalidiya Branch**
Al Montazah Tower, Plot No. C-63
Zayed First Street
Al Khalidiya Area
P.O. Box 94002
Tel: +971 (0) 2 616 1333
Fax: +971 (0) 2 658 0526

**Marina Square Branch (Reem Island)**
Paragon Bay Mall
Al Reem Island
P.O. Box 109197
Tel: +971 (0) 2 493 7400
Fax: +971 (0) 2 650 2259

**Al Raha Branch**
Shop No.3, Building-C, Al Zeina
Al Raha Beach Area
P.O. Box 146004
Tel: +971 (0) 2 691 2900
Fax: +971 (0) 2 676 6203

**Mussafah Industrial Area Branch**
Ahmad Mubarak Building
Ground Floor & Mezzanine Floor
Musaffah Industrial Area
P.O. Box 133444
Tel: +971 (0) 2 401 9200
Fax: +971 (0) 2 447 5962

## Al Ain

**Al Ain Branch**
Sheikh Faisal Bin Sultan Al Qassimi Building
Sheikh Zayed 1st Street
P.O. Box 16077
Tel: +971 (0) 3 766 3122
Fax: +971 (0) 3 766 5168

**Industrial Area Branch**
Building No. 4
Shop No. 1 to 6 and 10 & 11
Saaneyaa
P.O. Box 64607
Tel: +971 (0) 3 701 5111
Fax: +971 (0) 3 722 0840

## Dubai

**Deira Branch**
Al Salemiyah Tower
Baniyas Street, Deira
P.O. Box 4579
Tel: +971 (0) 4 222 0181
Fax: +971 (0) 4 227 4309

**Jebel Ali Branch**
Jebel Ali Free Zone
Plot No.MO 0697, Gate No.5
Behind Enoc Petrol Pump
Jebel Ali
P.O. Box 16823
Tel: +971 (0) 4 802 7400
Fax: +971 (0) 4 887 6121

**Sheikh Zayed Road Branch**
Al Moosa Tower II
Sheikh Zayed Road
P.O. Box 34893
Tel: +971 (0) 4 707 1900
Fax: +971 (0) 4 332 1332

**Marina Promenade Branch**
Marine Promenade Tower, Ground Floor,
Marine Drive North, Dubai Marina
P.O. Box 38452
Tel: +971 (0) 4 567 3700
Fax: +971 (0) 4 456 1296

**Manara Indigo Branch**
Indigo Central-6, Ground Floor
Al Manara Area
P.O. Box 38457
Tel: +971 (0) 4 515 4700
Fax: +971 (0) 4 338 5294

**Oud Metha Branch**
Eleganza Apartments, Showroom No.S3
Oud Metha Road
P.O. Box 120767
Tel: +971 (0) 4 405 9600
Fax: +971 (0) 4 358 2371

**Al Mas Branch**
Al Mas Tower
Jumeirah Lakes Towers
P.O. Box 392185
Tel: +971 (0) 4 381 8300
Fax: +971 (0) 4 399 2781

**Al Quoz Branch**
Reemas Building, Ground Floor
First Floor - Offices 1, 2, 8, 9, 10 & 11
Al Quoz First Area, Sh. Zayed Road
P.O. Box 392066
Tel: +971 (0) 4 309 2666
Fax: +971 (0) 4 380 8970

**Business Bay Branch**
Executive Tower, Bay Avenue Part J, Shop No.10
Business Bay
P.O Box 27589
Tel: +971 (0) 4 373 6998
Fax: +971 (0) 4 338 6948

**Dubai Media City Branch**
Concorde Towers, Floor 1
Dubai Media City
P.O. Box 390074
Tel: +971 (0) 4 373 6999
Fax: +971 (0) 4 338 6948

**Tecom Branch**
Grosvenor Business Tower, Showroom No.S07
Al Thanyah First, Tecom
P. O. Box 390091
Tel: +971 (0) 4 278 0401
Fax: +971 (0) 4 551 6810

## Ras Al Khaimah

**Dehan Branch**
Sheikh Faisal Bin Sultan Al Qassimi Building
Sheikh Mohammed Salem Al Qassimi Street
Dehan Al Sharqiya
P.O. Box 38282
Tel: +971 (0) 7 206 8111
Fax: +971 (0) 7 235 9875

**Nakheel Branch**
Health Building
Al Muntasir Street
Al Nakheel
P.O. Box 615
Tel: +971 (0) 7 205 9222
Fax: +971 (0) 7 227 0969

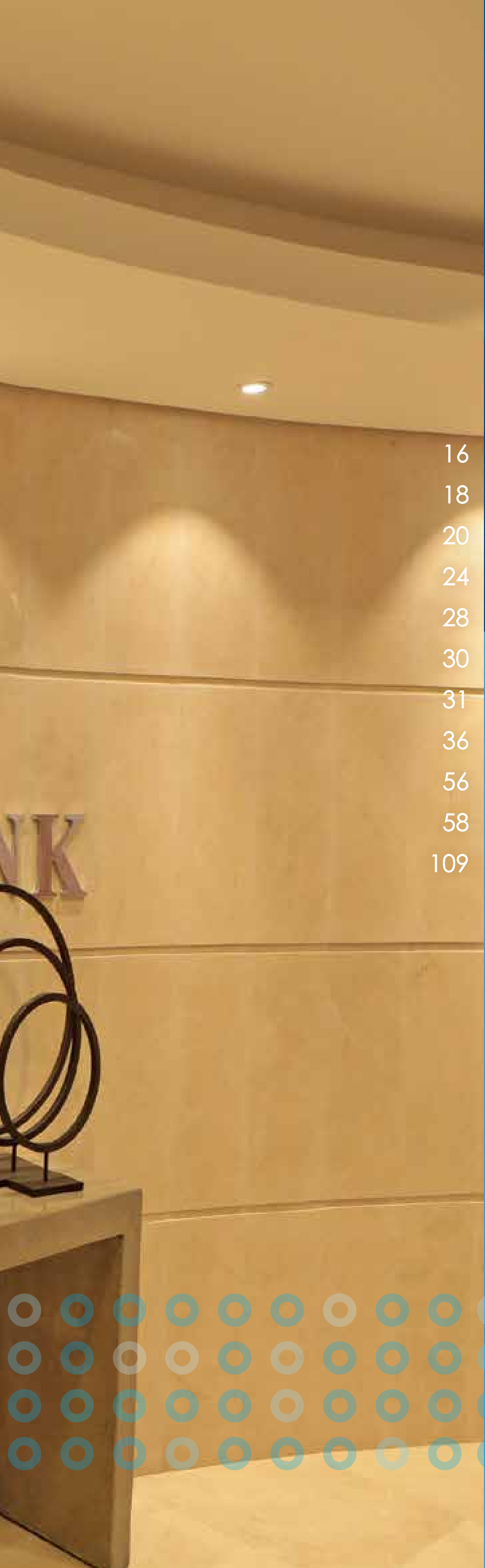
## Ajman

**Ajman Branch**
GMC Hospital Complex
Sharjah-Ras Al Khaimah Highway Road
P.O. Box 2700
Tel: +971 (0) 6 703 9100
Fax: +971 (0) 6 746 5727

## Fujairah

**Fujairah Branch**
Al Rostamani Tower
Hamad Bin Abdullah Street
P.O. Box 8552
Tel: +971 (0) 9 205 6333
Fax: +971 (0) 9 223 9982


Welcome to
UNITED ARAB BAN



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# MESSAGE FROM THE CHAIRMAN

**H.E. Sheikh Faisal Bin Sultan Bin Salem Al Qassimi**
*Chairman*

On behalf of the Board of Directors, I am honored to present the United Arab Bank P.J.S.C. (UAB) 2014 Annual Report, highlighting the Bank's activities and achievements for the year ended 31 December 2014.

The Bank continued its growth momentum in 2014. Net profits grew by 10% in 2014 to reach AED605m, representing the highest ever annual Net Profit in the Bank's history. Throughout the year we continued to make substantial progress on our journey to become a more efficient retail and commercial bank, whilst remaining true to our traditional values.

Our strategic alliance with our major shareholder, The Commercial Bank of Qatar, has positioned us well for future growth. This coupled with the Bank's corporate governance and prudent risk culture constitutes the vital framework that enables us to meet our goals and achieve long-term success.

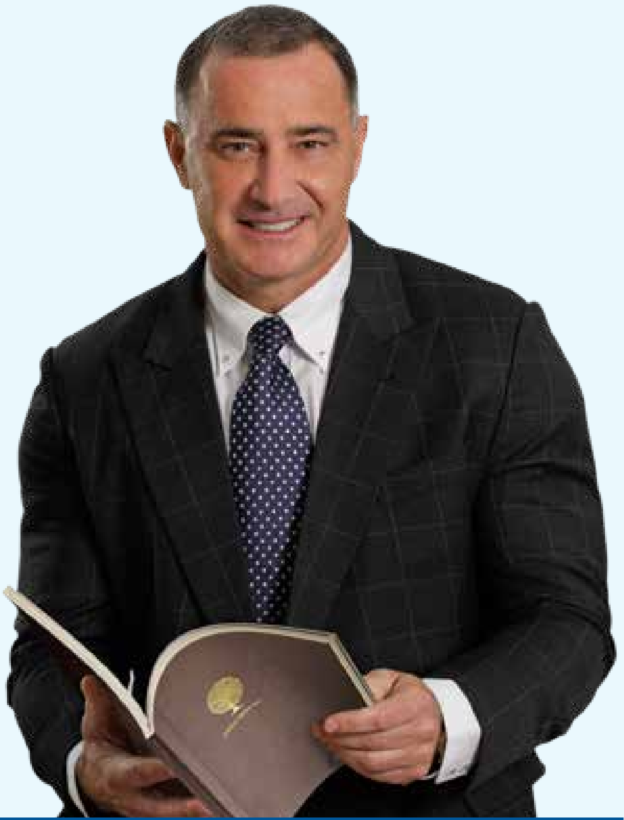
Throughout the year we continued to make substantial progress on our journey to become a more efficient retail and commercial bank, whilst remaining true to our traditional values.

I would like to thank fellow Board Members, the Executive Management team, and employees for their collective efforts in contributing to this year's accomplishments. I would also like to extend my gratitude to our valued shareholders for their support and to our customers for their trust and loyalty. Their commitment has been instrumental in leading our progression. I would also like to thank the Central Bank, and all our regulators, for their ongoing support.

Finally, on behalf of UAB shareholders and the Board of Directors, I would like to express our appreciation and gratitude to His Highness Sheikh Khalifa bin Zayed Al Nahyan, President of the UAE; His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE; His Highness Sheikh Dr. Sultan bin Muhammad Al Qassimi, Member of the Supreme Council and Ruler of Sharjah; and His Highness General Sheikh Mohammed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces, for their vision, leadership, and support.

**Sheikh Faisal Bin Sultan Bin Salem Al Qassimi**
*Chairman*

# MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



**Paul Trowbridge**
*Chief Executive Officer*

I am pleased to report another significant year for United Arab Bank, underpinned by continued progress across all of our core strategic objectives. We have continuously reshaped and strengthened our business to create a low risk, efficient bank focused on becoming the best bank for our retail and commercial customers and delivering value for our shareholders.

Through a combination of Income growth, up 32%, and robust cost control, our Operating Profit increased to AED979m over AED721m in 2013. As the Bank continued to expand its branch network and presence across the UAE, we generated growth across multiple segments whilst exceeding the needs of our customers. This was, is, and will always be a bank focused on customers' needs and developing lasting relationships.

> We have continuously reshaped and strengthened our business to create a low risk, efficient bank focused on becoming the best bank for our retail and commercial customers and delivering value for our shareholders.

On behalf of the executive management team, I would like to take this opportunity to thank our Chairman, Deputy Chairman and members of the Board. Their stewardship and guidance represent an essential pillar to the ongoing success of UAB.

We would like to acknowledge the benefits derived from the strategic alliance with The Commercial Bank of Qatar. With an alliance that includes Turkey's Alternatifbank alongside National Bank of Oman, UAB will continue to derive value from a range of synergies and business opportunities that arise.

The Bank would also like to express its appreciation and gratitude to the Governor and staff of the Central Bank and the Government of the UAE for their endless support and direction for both UAB and the UAE banking sector as a whole.

Given our customer centric approach, we would like to recognize the commitment, dedication and professionalism of our employees and the service they provide to our customers. Finally, our success relies on the loyalty of our customers and I personally thank them for their ongoing trust and constant backing.

We will continue to deliver innovative offerings that meet the desires of our customers and reflect our commitment to the UAE community, whilst in parallel maximizing value for our shareholders and wider stakeholders.

**Paul Trowbridge**
*Chief Executive Officer*

## BOARD OF DIRECTORS

H.E. Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
*Chairman*

Mr. Omar Hussain Alfardan
*Vice Chairman*

H.E. Sheikh Abdullah Bin Ali Bin Jabor Al Thani
*Director*

H.E. Sheikh Mohammed Bin Faisal Al Qassimi
*Director*

## BOARD OF DIRECTORS

Mr. Ahmad Mohamed Al Midfa
*Director*

Ms. Najla Al Midfa
*Director*

Mr. Mohamed Abdulbaki Mohamed
*Director*

Mr. Ahmed Mohamad Bakheet Khalfan
*Director*

Mr. Nicholas Coleman
*Director*

Mr. Andrew C. Stevens
*Director*

Mr. Robert Sharpe
*Director*
*(Resigned in September 2014)*

Mr. Ahmed Salem Abdulla Salem Al Hosani
*Director*

# EXECUTIVE TEAM

Paul Trowbridge
*Chief Executive Officer*

Awni Alami
*Deputy Chief Executive Officer*

Sheikh Mohamed Al Nuaimi
*Executive Vice President*

Brian West
*Executive Vice President,*
*Chief Financial Officer*

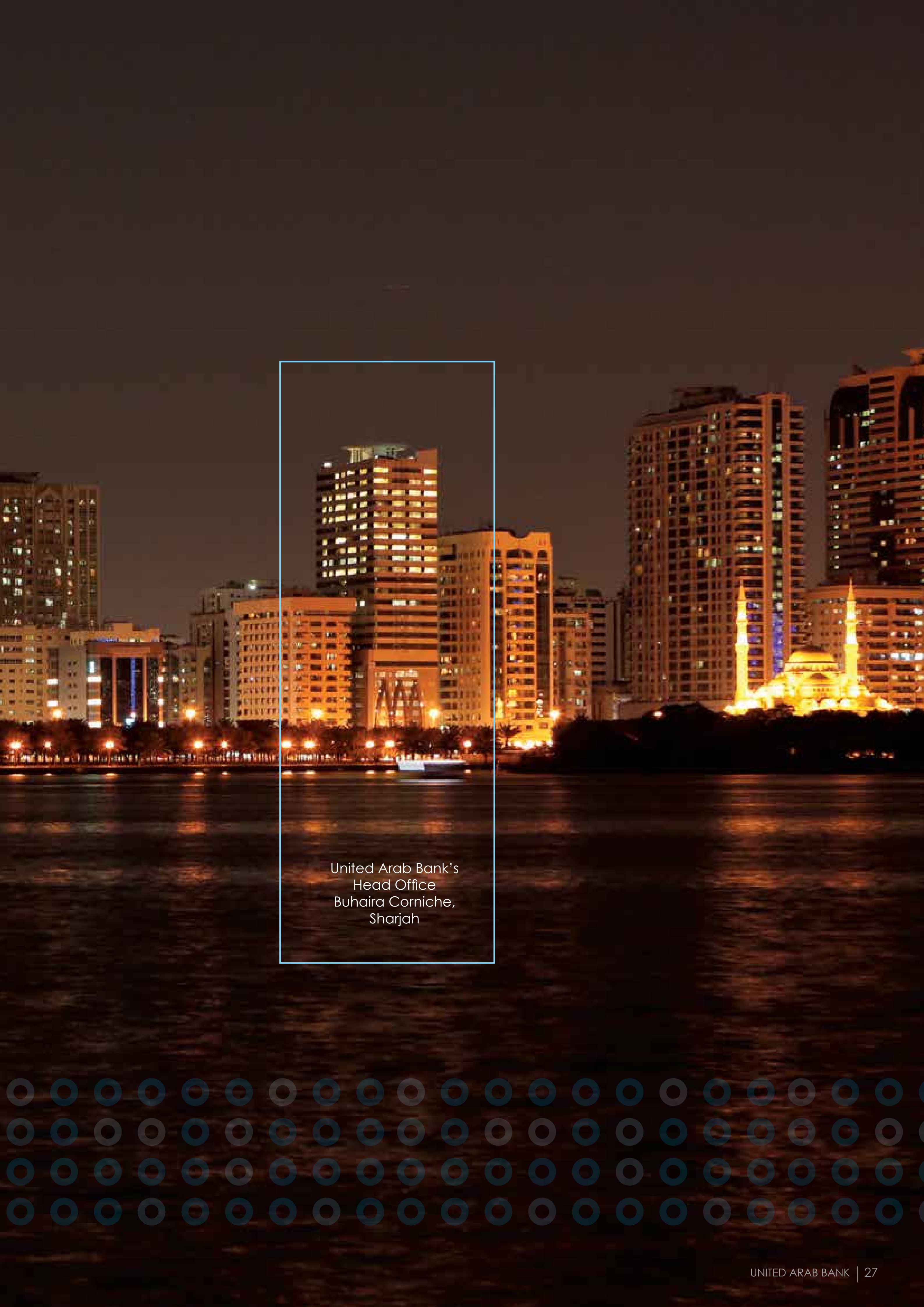
Howard S. Kitson
*Executive Vice President,*
*Wholesale & International Banking*

Tony B. Graham
*Executive Vice President,*
*Retail Banking*

Dr. Mondher Bellalah
*Executive Vice President,*
*Chief Risk Officer*

Abdelhamid Ghazouani
*Executive Vice President,*
*Operations, Organization & IT*

Anthony Macrae
*Executive Vice President,*
*Business Support*



United Arab Bank's
Head Office
Buhaira Corniche,
Sharjah


UNITED ARAB BANK

UAB continued to deliver strong performance in 2014, generating a record high Net Profit and further reinforcing the momentum the Bank has established in recent years. UAB's growth trajectory remained on track throughout the year, whilst consistently adhering to our customer centric strategy. Our sustainable success has been built on an improving business mix and efficient funding base, ultimately supporting significant increases in both our Customer Loans and Deposits portfolios.

2014 Net Profit of AED605m represents an increase of 10% over 2013, with Operating Profit recording an impressive 36% uplift to reach AED979m. The Bank generated significant growth in business volumes with Customer Loans increasing 17% on prior year, supported by an even more impressive 24% growth in Customer Deposits to AED18.7b over the same period.

UAB continues to take a cautious and proactive approach to risk management, with the Bank in compliance with Central Bank provisioning requirements. As at 31 December 2014 the Bank reported a Capital Adequacy Ratio of 14.7%, comfortably above the minimum regulatory requirement of 12%, with our Advances to Stable Ratios Ratio well within the required limits.

With 30 branches now in operation across Dubai, Abu Dhabi, Sharjah and the Northern Emirates, the Bank is well positioned to deliver on its objective of being the first choice for its target market customers. As we move into 2015, UAB will continue to grow whilst remaining true to its traditional values, capitalizing on the opportunities presented by the UAE's ongoing development and contribute to the national economy as a whole.

## AWARDS

2014 saw UAB win numerous awards reflecting the Bank's never-ending commitment to its loyal customers and investors, reinforcing UAB's aim to strive for continuous excellence. These accolades reflect the Bank's ongoing efforts in becoming the number one Bank for its customers.

Paul Trowbridge, CEO and Tony B. Graham, EVP – Retail Banking receiving two awards for "Best Customer Loyalty Program" and "Best Premium Card" from CPI Financial.


UAB is awarded "Most Overall Improved Bank in Customer Experience Call Centre UAE" by Ethos Integrated Solutions at the 10th Annual Customer Experience Benchmarking Index for retail banks and exchange houses throughout the GCC.

Yusra Baqi, SVP - Retail Branch Management, receives recognition from HH Sheikh Abdullah Bin Salem Al Qassimi, Deputy Ruler of Sharjah, for the "Distinguished Woman in the Banking and Finance Sector" at the 16th National Career Exhibition at the Sharjah Expo.

UAB is named "Fastest Growing Bank in the Middle East" and "Fastest Growing Bank in the UAE" in Banker Middle East Industry Awards for 2014.

# REVIEW OF PERFORMANCE

## 1. Wholesale and International Banking

UAB's Wholesale and International Banking unit ("WIB") maintained its momentum in 2014 by extending its strategy of diversification, both sectorial and across the Emirates, to achieve sustainable asset and revenue growth.

Following an in-depth business review in the first quarter, WIB pursued a broad strategy to onboard new customers across preferred economic sectors. The emphasis for new business was on the education, healthcare and hospitality sectors, in addition to managing relationships across the Bank's traditional sectors such as government, construction and transportation.

Throughout the year WIB focused on deepening relationships with clients by enhancing its transaction banking proposition and improving client service, both of which helped generate additional fee income streams. The roll out of bespoke training for relationship teams was introduced to improve 'share of wallet' with corporate customers, with a Client Service Unit and Client Service Feedback Forums established during the year to efficiently serve the transactional needs of our corporate customers.

Wholesale and International Banking team at UAB.

Awani Alami, Deputy CEO, Howard S. Kitson, EVP-Wholesale & International Banking and Humaid Al Attar, SVP - Wholesale Client Acquisition at UAB with a corporate client.

With increased focus on transaction and trade business, current account balances rose substantially, with export finance volumes improving 30% year on year. UAB's Wage Payment System was integrated with the UAE Central Bank portal, allowing the Bank to gain a better share of employee related retail business from our corporate clients. The Bank's cash and document 'Pickup & Delivery' service was launched to improve volume flows through our accounts and going forward UAB will continue to invest in its cash and trade platforms with the launch of UAB's enhanced Wholesale Transaction Banking Portal planned in H2 2015.

UAB's Financial Institutions business was substantially upgraded during the year with fresh leadership and a medium term strategy developed for this unit. Key focus areas include trade finance support for the Bank's importing and exporting clients, better reciprocity measurement and improved trade transactional deal flows, ultimately ensuring UAB's Financial Institution unit will generate sizable income growth in 2015 and beyond.

## 2. Retail Banking

UAB's Retail Banking business recorded an increase of 30% in revenue and 38% growth in operating profit, placing the unit among the best performing Retail businesses in the UAE.

The restructuring of our front line distribution process completed in Q4 2013 yielded dividends in 2014 with revenue per Retail Banking employee rising 17% compared to the previous year. Average sales per retail sales officer now rank amongst the highest in the UAE, which positions us well for sustainable growth in 2015.

Retail Banking earned a number of industry accolades in 2014 including 'Best Loyalty Programme in the UAE' and 'Best Premium Credit Card in the UAE' from The Banker Middle East Magazine. Our Contact Centre was recognized as "Most Overall Improved Bank in Customer Experience, Call Center, UAE" within Ethos Integrated Solutions Customer Experience Benchmarking Index. Each of these indicate our continued improvement in customer propositions and customer experience.

Further enhancements were made to our award winning 'UAB Rewards' loyalty programme with customers now able to redeem flights on over 900 airlines and book stays in 200,000 hotels worldwide. 'UAB Rewards' is now the largest instant travel redemption programme in the UAE and continues to be utilised at the forefront of our salary transfer acquisition initiatives.

During the year, we were proud to open three full service branches and one electronic banking unit, bringing the total number of branches and service locations to 30.

2014 saw the successful launch of additional life and general insurance products from Zurich International through our distribution channels. We also concluded a distribution agreement with MasterCard with further Retail, Corporate and SME card products planned for 2015.

Finally, our partnership with FC Barcelona, now in its second year, continued to raise brand awareness for UAB and attract new to bank customers with our unique FC Barcelona affinity credit and debit card products proving popular with our customers.

Tony B. Graham with a branch team in Dubai.


Tony B. Graham and Mohammad Marria, Senior Estate Planner at Just Wils, at the launch of conventional and Shari'ah-compliant will-writing and registration service to UAB's customers.


A ribbon cutting ceremony at Business Bay branch – led by Tony B. Graham, Yusra Al Baqi and members of the Retail Banking team.


UAB's CEO, Paul Trowbridge, and Zurich's CEO Brian Reilly, sign 5-year exclusive General Insurance distribution agreement.

UAB Media City branch inauguration with Tony B. Graham, Yusra Al Baqi and members of the Retail Banking team.

## 3. Small and Medium Enterprises (SME)

UAB launched its dedicated Small and Medium Enterprises ("SME") division in 2012 to support this vital component of the UAE economy. Across the last 12 months we have continued to enhance our propositions and by gaining an in-depth understanding of our customers businesses we constantly look to exceed their expectations.

Since its inception the division has developed a broad range of financial solutions including transactional banking services, business finance, trade and working capital finance. In addition, by leveraging the wider capabilities of UAB the division offers its customers additional Treasury and Capital Market services to support their individual growth aspirations.

SME team with Sreeram Subramaniam, SVP – SME Banking in UAB.

In line with the Bank's sustainable growth strategy, SME has achieved balanced growth across its working capital and parameterized lending portfolios, whilst its focus on acquiring low cost deposits to generate a positive divisional funding gap helps support the Bank's overall cost of funds management. Following its impressive financial performance in 2013, SME recorded a 100% uplift in Customer Loans and 60% increase in Customer Deposits in 2014, to position itself as a key player in the sector.

A standout performer in 2014 was our dedicated SME unit established in Abu Dhabi. Opened in late 2013 the unit now services more than 10% of SME's customer loans and is aligned with UAB's wider strategic approach of capturing significant growth in Abu Dhabi as we move confidently forward into 2015 and beyond.

## 4. Islamic Banking

UAB offers Shari'ah compliant products and services to Wholesale, Retail, SME and Treasury clients through its Islamic Banking window. UAB's Islamic Banking unit is committed to providing the same flexible and quality approach that the Bank's conventional customers have become accustomed to.

To ensure the integrity of its Shari'ah compliant propositions UAB maintains a separate set of general ledgers for its Islamic Banking operations to ensure the books of account are managed appropriately.

UAB's Islamic Banking unit made significant progress across 2014, noting the following key accomplishments:

1. Appointed a Shari'ah Supervisory Board ("SSB") to strengthen, distinguish and provide guidance to the business.
2. Completed the first of its kind Murabaha Syndication deal of USD 100m.
3. Expanded its traditional Retail offering by launching new propositions focused on the Corporate and SME segments, including:
   - Murabaha Letter of Credit;
   - Murabaha Asset Financing;
   - Financing against Trust Receipts; and
   - Commodity Murabaha Bill Financing.

UAB Islamic Banking is regulated by the Central Bank of the UAE and supervised by the SSB. The SSB oversees, monitors and ensures all UAB Islamic Banking activities are in compliance with rules, regulations and principals of Shari'ah.


UAB delegation, Essam Baotob, Head of Islamic Banking Services, visits Ajman Rehabilitation Centre for the Disabled to support special needs integration.

UAB's Islamic business will continue to push forward whilst retaining the integrity of its propositions. Aligned to UAB's overarching strategy, Islamic Banking will continue to enhance its customer experience, satisfy the financial needs of its clients and maintain asset quality.

## 5. Treasury and Capital Markets

UAB's Treasury and Capital Markets ("T&CM") function contributed significantly to the Bank's highest ever Net Profit in 2014, generating impressive growth across all product lines.

By adding new initiatives, T&CM has consistently assisted in strengthening relationships with the Bank's Corporate and high-net-worth clients through the provision of a wide range of products and services to satisfy their specific needs. In 2014, this was again evident with the Bank establishing a dedicated FX trading desk to support the overall revenue of T&CM.

As part of its Asset and Liability management function, T&CM has played a key role in ensuring a stable and diversified source of funding is available to support the continued growth of UAB. In addition to supporting segmental units in attracting customer deposits, the function increased overall funding through a combination of short and medium term wholesale deposits as well as medium term bilateral and club facilities. Overall, effective funding management helped maintain the Bank's efficient cost of funds which help underpin UAB's optimal net interest margins.

The Bank's Investment Portfolio increased to AED 2.5b, mainly comprising fixed income securities, being a mix of government, semi-government and other corporate bonds and Sukuks from UAE and GCC countries. In line with the Bank's future growth strategy, plans are in place to further diversify its investment activities to other geographical regions and asset classes.

# CORPORATE GOVERNANCE REPORT

# INTRODUCTION

## UAB's Corporate Governance Framework

Sound Corporate Governance plays a fundamental role in the culture and business practices of UAB. The Bank's Corporate Governance framework relates to the way the business and activities of the Bank are directed and managed, taking into account all stakeholders and the role of the Bank in the community.

The Governance framework of UAB ensures adequate Board oversight over the risks inherent to our business. It focuses on:

- the separation of the Board of Directors' and the Executive Management's duties and responsibilities;
- the effectiveness of the Board and Management Committees;
- the role of the external and internal auditors;
- transparency and accurate timely disclosure of information; and
- cooperation with supervisory and regulatory authorities to ensure full compliance with applicable regulations and best practices.

UAB complies with each of the Central Bank, UAE Securities and Commodities Authority and Abu Dhabi Securities Exchange regulatory requirements, and constantly strives to adopt industry best practices.

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 and are available on the Investor Relations section on our website (www.uab.ae).

## Transparency and Disclosure

As part of our efforts to continuously enhance disclosure and transparency, the delivery of accurate and timely information to our stakeholders represents a key priority of the Bank. Information is distributed through a number of channels including the distribution of press releases, letters and reports.

In addition, a dedicated Investor Relations section is set up as part of the Bank's website through which financial and non-financial reports are cascaded.

Financial reports include published annual reports and financial results in both English and Arabic. Other important documents to shareholders such as the Memorandum and Articles of Association, shareholder structure, share price performance and analysts' reports are also available on the website.

# BOARD OF DIRECTORS

## Role of the Board of Directors

The Board of Directors is empowered, under the Bank's Articles of Association, with the widest powers necessary to carry out the activities and functions required to fulfill the objectives of the Bank. The Board responsibilities include establishing the Bank's strategy and ensuring that the Bank manages risk effectively through approving and monitoring the Bank's risk appetite. Adopting the Bank's Corporate Governance framework falls within the responsibilities of the Board to help ensure the implementation of solid internal controls and disclosures, and the establishment of adequate policies and procedures necessary for the Bank's sound operations, and compliance with applicable regulatory and statutory requirements at all times.

The Terms of Reference of the Board of Directors and Board Committees are stipulated in the Bank's Corporate Governance Charter.

## Role of the Chairman

The Chairman is elected by the Board in accordance with the Bank's Articles of Association. The position of Chairman of the Board and Bank's Chief Executive Officer at UAB is not held by the same individual.

The Chairman provides leadership for all aspects of the Board's activities and ensures that the Board meets its commitments to comply with the applicable laws and regulations and that all the resolutions adopted by the Board are effectively implemented.

The Chairman's responsibilities include:

- Providing leadership to the Board, setting its agenda, chairing its meetings and ensuring the effective implementation of Board's decisions;
- Ensuring the Board has within its membership the relevant knowledge of the banking industry as well as with financial and accounting expertise;
- Facilitating the effective contribution of Directors and the building of constructive relations between Directors;
- Promoting the highest standards of Corporate Governance and ensuring the Board discharges its duties and complies with relevant laws and regulatory requirements;
- Ensuring effective communications with shareholders;
- Arranging regular evaluations of the performance of the Board; and
- Building an effective Board and planning succession to all Board appointments.

## Directors Obligations and Duties

Board Members commit to the following obligations in carrying out their duties as Directors of the Board, in accordance with the highest corporate governance standards:

- Having the necessary skills, qualifications and knowledge of the Bank's affairs and business;
- Acting honestly and in good faith with a view to protecting the best commercial interests of the Bank;
- Observing confidentiality, conflict of interest and transparency requirements when assuming their responsibilities as Directors;
- Acting in accordance with the obligations stipulated under the Articles of Association and all applicable laws and regulations;
- Not being convicted of any crime or felony or a crime involving moral turpitude;
- Disclosing any direct or indirect interests that they may have in connection with the Bank and which could conflict with the proper performance of their duties; and
- Attending regularly and participating effectively in Board meetings and general meetings of the shareholders.

## Board Composition and Nomination

The board is composed of 12 non-executive board members. The members are elected at the Annual General Assembly for a three-year term. Members are eligible for re-election.

5 members represent The Commercial Bank of Qatar, the major shareholder, 2 members represent the founder of the Bank and the remaining represent the private sector and minority shareholders.

The Board collectively possesses professional knowledge, business expertise, industry knowledge and financial awareness to carry out its oversight responsibilities. All Board members are in regular attendance of the meetings.

# BOARD MEMBERS PROFILE

Membership of the Board of Directors as at 31 December 2014 comprised:

### H.E. Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
### Chairman of UAB

*Appointed to the Board in 1975*

Founder of United Arab Bank, H.E. Sheikh Faisal Bin Sultan Bin Salem Al Qassimi has served as the Chairman of the Board of Directors since the Bank's inception in 1975 and has since then remained the largest single individual shareholder of the Bank. Beyond his instrumental role at UAB, H.E. Sheikh Faisal is currently the Chairman of the Board of Directors of a number of private companies. He also formerly served as the Chairman of the Board of Arab Organization of Industries and Establishment.

Following graduation from Jordanian Officer Cadet School and Mons Officer Cadet School in UK, he served in the U.A.E. Armed Forces in different capacities prior to retiring at the rank of Major General including Under Secretary of the Ministry of Defense, Chief of Staff, and Chairman of the Court of Crown Prince at the time – H.H. Sheikh Khalifa bin Zayed Al Nahyan.

As an influential figure, H.E. Sheikh Faisal was decorated with several medals including the Jordanian Star 1st Class by King Hussein; 1st Class Medal of Merit by the President of Egypt; Superior Order Staff General by the King of Morocco; Nilein Medal by the President of Sudan; and 1st Class Emirates Military Medal by the President of United Arab Emirates H.H. the late Sheikh Zayed bin Sultan Al Nahyan.

*External Board Appointments:*

- Chairman – GIBCA Group of Companies
- Chairman – Faisal Holding LLC
- Chairman – Grand Stores
- Chairman – Hospitality Management Holdings LLC

## Mr. Omar Hussain Alfardan
## Vice Chairman of UAB

Chairman – Board Executive Committee

*Appointed to the Board in 2007*

Mr. Alfardan is serving as Vice Chairman of the Board of Directors and represents The Commercial Bank of Qatar, the largest corporate shareholder of United Arab Bank.

Mr. Alfardan holds a BA in Business Administration and a Masters in Finance from Webster University, Geneva.

*External Board Appointments:*

- Vice Chairman – Alternatifbank, Turkey
- Board Member – The Commercial Bank of Qatar
- Board Member and Director – Alfardan Subsidiaries
- Board Member – United Development Company P.S.C., Qatar
- Board Member – Arabian Agencies Company LLC, Qatar
- Board Member – Qatar Red Crescent Society

*Other External Appointments:*

- President & CEO – Alfardan Group Holding, Alfardan Hotels & Resorts, Alfardan Automotive Group (Qatar and Oman) and Alfardan Properties (Qatar and Oman)
- Trustee – American University, Beirut

## H.E. Sheikh Abdullah Bin Ali Bin Jabor Al Thani
## Director

Chairman - Board Risk Committee

*Appointed to the Board in 2008*

H.E. Sheikh Abdullah has served on the Board of Directors of United Arab Bank since February 2008 as a representative of The Commercial Bank of Qatar, the largest corporate shareholder of UAB.

He holds a BA in Social Science from Qatar University.

*External Board Appointments:*

- Chairman – The Commercial Bank of Qatar
- Deputy Chairman – National Bank of Oman

*Other External Appointments:*

- Owner – Vista Trading Company
- Partner – Dar Al Manar
- Partner – Domopan Qatar
- Partner – Integrated Intelligence Services

## H.E. Sheikh Mohammed Bin Faisal Al Qassimi
## Director

Member – Board Executive Committee
Member – Board Credit Committee
*Appointed to the Board in 2011*

H.E. Sheikh Mohammed Bin Faisal Al Qassimi is the founder of MANAFA LLC, a holding company with diversified activities in the fields of hospitality, real estate, tourism, car rental and private equity.

A graduate from Webster University in Business Administration and Accounting, he holds key directorships and senior positions at various business groups and associations including the Italian Chamber of Commerce in the UAE and the GCC and Faisal Holding Co LLC.

H.E. Sheikh Mohammed is a member of CMA and the Society of Technical Analysts of UK.

*External Board Appointments:*
- Chairman – Manafa LLC

## Mr. Ahmad Mohamed Al Midfa
## Director

Member - Board Credit Committee
*Appointed to the Board in 1992*

Mr. Al Midfa is a prominent businessman with private investment in the real estate, industry, securities and advertising sectors. He previously held several senior positions such as the Director of the Bureau of HH the Ruler of Sharjah, Director General of Sharjah Ports and Customs Department Chairman of Sharjah Chamber of Commerce and Industry and Chairman of Expo Center Sharjah.

He represents UAE Federation of Chambers of Commerce as a Member in the Joint Chambers of: Italian-Arab Chamber of Commerce, and US-Arab Chamber of Commerce.

Mr. Al Midfa has a Bachelor of Science in Commerce from Cairo University.

*External Board Appointments:*
- Chairman – newly formed International association of Exposition Management and Arabian Gulf Chapter
- Chairman – Ruwad Establishment – Sharjah
- Chairman – Al Manarah Investment & Development Centre
- Board Member – Dana Gas
- Board Member – The UAE Federation of Chambers of Commerce and Industry

## Ms. Najla Al Midfa
## Director

Member - Board Executive Committee
*Appointed to the Board in 2012*

Ms. Al Midfa is the founder of Khayarat, a social enterprise that enables young Emiratis to make informed career choices and achieve success in the private sector.

In her previous role, as Senior Manager at the Khalifa Fund for Enterprise Development, Ms. Al Midfa led a team of business counselors through the due diligence process: counseling entrepreneurs, evaluating business plans, and selecting ventures for financing. She also designed and led several youth-related initiatives, such as Khalifa Funds Young Entrepreneurs Series.

Prior to joining Khalifa Fund, Ms. Al Midfa was a senior associate at McKinsey and Company's New York office, where she worked on a range of strategy-related projects, primarily serving clients across the financial institutions sector. Her previous work experience also includes roles within PricewaterhouseCoopers and Shell.

Ms. Al Midfa holds a BSc (Hons) from the University of Bath in the UK, and an MBA from Stanford University.

*External Board Appointments:*

- Board Member – Sharjah Business Women Council
- Board Member – Young Arab Leaders (UAE Chapter)

*Other External Appointments:*

- Founding Member – The Women's Corporate Directors (GCC Chapter)
- Fellow – The Aspen Institute's Middle East Leadership Initiative
- Member – The Aspen Institute's Global Leadership Network

## Mr. Mohamed Abdulbaki Mohamed
## Director

Chairman – Board Audit Committee
Member – Board Risk Committee
Member – Board Credit Committee
*Appointed to the Board in 1997*

Mr. Abdulbaki has extensive experience in the banking sector. He previously served as the General Manager of the Emirates Industrial Bank and Acting CEO of the Real Estate Bank. He also served as a Board Member for a number of companies including Emirates National Plastics Industry, Abu Dhabi National Hotels Co., National District Cooling (TABREED), Foodco Holding, ISO Octane Co., American Community School (ACS) and Le Chaine Des Rotissuer.

Mr. Abdulbaki has a Bachelor of Science from the Polytechnic Institute of New York, U.S.A

*External Board Appointments:*

- Chairman and CEO – Petrolcom Oil and Gas Service
- Chairman – The Cristal Hotels and Resorts Management
- Board Member – Arab Fund of Economic and Social Development, Kuwait
- Board Member – Interplast and Cosmoplast

*Other External Appointments:*

- CEO – Emirates Development Bank

## Mr. Ahmed Mohamad Bakheet Khalfan
## Director

Chairman – Board Credit Committee
Member – Board Audit Committee
Member – Board Risk Committee
*Appointed to the Board in 1995*

Mr. Khalfan previously served as the Deputy General Manager of Emirates Industrial Bank and was Chairman of the Board of Directors of Emirates Modern Poultry Company and Vice Chairman of Emirates Rawabi. He also served as Board Member for various companies in the United Arab Emirates including ALICO, Gulf Glass and Takaful Re.

He has a Bachelor of Science from the North Eastern University, Boston.

## Mr. Nicholas Coleman
## Director

Member – Board Credit Committee
Member – Board Audit Committee
Member – Board Risk Committee (as of November 2014)
*Appointed to the Board in 2011*

Mr. Coleman is one of the 5 directors representing The Commercial Bank of Qatar on the UAB Board.

Mr. Coleman was the Group Chief Financial Officer for Commercial Bank from 2008 to 2013. Previously he held various CFO roles in London with Morgan Stanley, The Bank of New York, National Westminster Bank and Royal Bank of Scotland. He also worked with Arthur Young in Kuwait.

Mr. Coleman graduated from London Guildhall University with a BA (Hons) in Economics and is a Fellow of the Institute of Chartered Accountants in England and Wales.

*External Board Appointments:*

- Board Member – Alternatifbank, Turkey
- Board Member – The financial services subsidiary companies of Alternatifbank, Turkey

## Mr. Andrew C. Stevens
## Director

Member - Board Executive Committee
Member - Board Credit Committee
*Appointed to the Board in 2007*

Mr. Stevens is one of 5 Directors representing The Commercial Bank of Qatar on the UAB Board. He was previously with Standard Chartered Bank serving in Ireland, Hong Kong, Bahrain and Uganda.

Mr. Stevens graduated from Birmingham University, England with a B.Com (Hons) in Banking and Finance.

*External Board Appointments:*

- Board Member – Alternatifbank, Turkey
- Board Member – National Bank of Oman
- President / Chairman – Orient 1 Limited, Bermuda
- Vice Chairman – CBQ Finance Ltd, Bermuda
- Board Member – QIC International LLC, Qatar

## Mr. Robert Sharpe
## Director

Member – Board Audit Committee
Member – Board Risk Committee
*Appointed to the Board in 2012 (Resigned in September 2014)*

Mr. Sharpe has over 30 years of experience in Banking, together with considerable experience as an Independent Board Director, having served on the boards of several listed and private companies in the UK and Europe. He represents The Commercial Bank of Qatar.

Prior to his current role, he was the Chairman of a Joint Venture between Barclays Bank and HSBC covering all their UK cash payment processes and was an Independent Director on the Board of the Barclays Bank Global Pension Fund.

*External Board Appointments:*
- Board Member – The National Bank of Oman (Resigned in October 2014)
- Board Member – Alternatifbank, Turkey (Resigned in March 2014)

## Mr. Ahmed Salem Abdulla Salem Al Hosani
## Director

Member – Board Audit Committee
*Appointed to the Board in 2012*

Mr. Al Hosani was elected to the Board of Directors of United Arab Bank at the 2012 Annual General Meeting.

He holds a Master of Science in Business Management from the University of Wales.

*External Board Appointments:*
- Board Member – Ras Al Khaimah National Insurance Company
- Board Member – Pharmaceutical Industries Company (Julphar)
- Board Members – Masher Holding Company (Kuwait)

*Other External Appointments:*
- Real Estate Development Manager – Al Sahel Real Estate Company

# BOARD ACTIVITIES IN 2014

The Board of Directors met 8 times in 2014 and received information in between meetings on a regular basis from the Board and Management Committees in relation to the Bank's business developments.

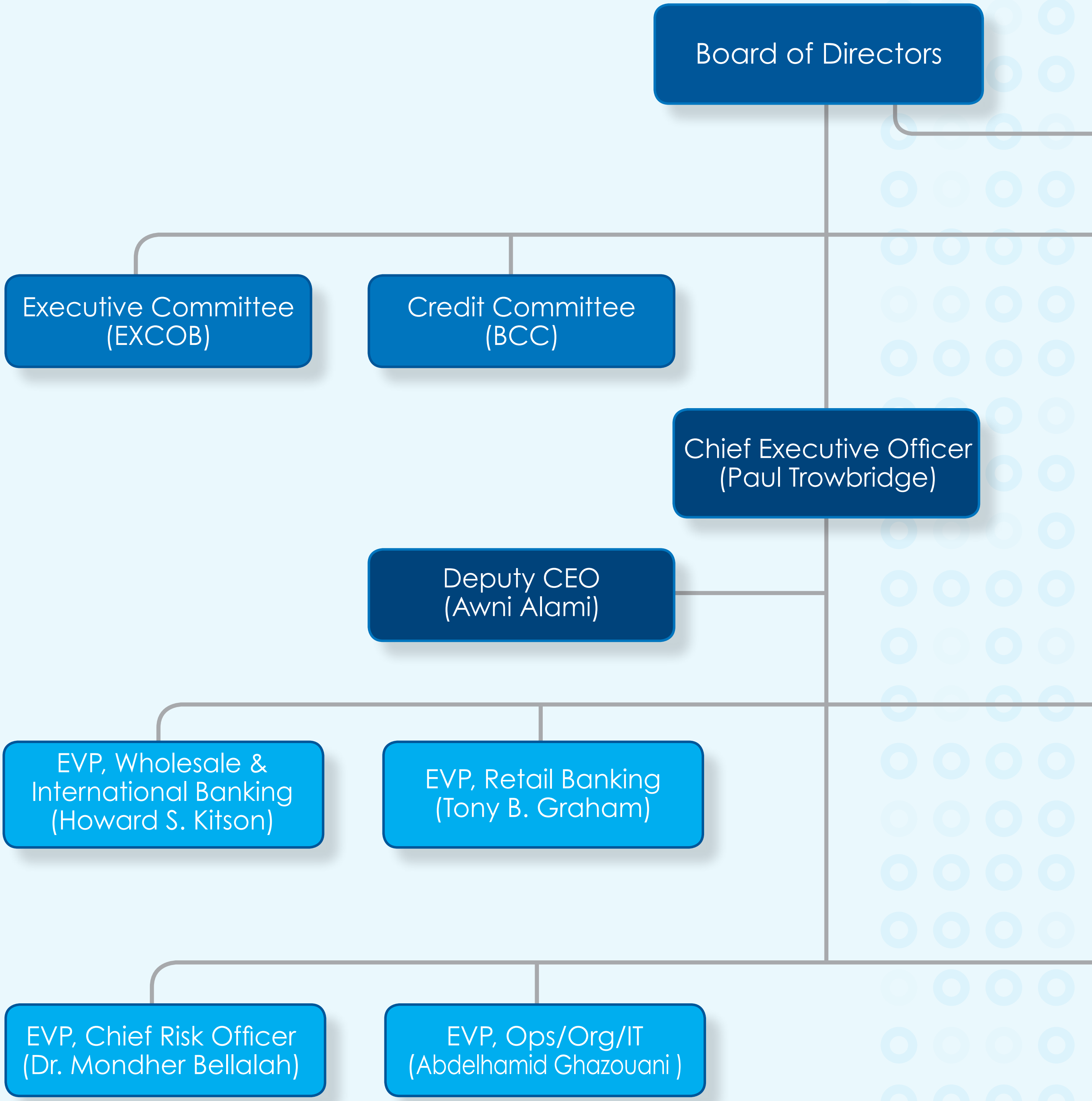
2014 Board Meetings Calendar:

| | |
|---|---|
| 22 January 2014 | Board of Directors meeting to approve the 2013 end of year results and issue the AGM invitations |
| 3 March 2014 | Review of YTD financial and business performance |
| 23 April 2014 | Board meeting to approve Q1 2014 financial results and review the YTD financial and business performance |
| 7 May 2014 | Review of YTD financial and business performance |
| 20 July 2014 | Board meeting to approve Q2 2014 financial results and review the YTD financial and business performance |
| 17 September 2014 | Review of YTD financial and business performance |
| 22 October 2014 | Board meeting to approve Q3 2014 financial results and review the YTD financial and business performance |
| 8 December 2014 | Board of Directors meeting to review YTD financial and business performance and approve 2015 budget |

| | BOD | EXCOB | BAC | BCC | BRC |
|---|---|---|---|---|---|
| H.E. Sheikh Faisal Bin Sultan Bin Salem Al Qassimi | C | | | | |
| Mr. Omar Hussain Alfardan | VC | C | | | |
| H.E. Sheikh Abdullah Bin Ali Bin Jabor Al Thani | M | | | | C |
| H.E. Sheikh Mohammed Bin Faisal Al Qassimi | M | M | | M | |
| Mr. Ahmad Mohamed Al Midfa | M | | | M | |
| Ms. Najla Al Midfa | M | M | | | |
| Mr. Mohamed Abdulbaki Mohamed | M | | C | M | M |
| Mr. Ahmed Mohamad Bakheet Khalfan | M | | M | C | M |
| Mr. Nicholas Coleman | M | | M | M | M* |
| Mr. Andrew C. Stevens | M | M | | M | |
| Mr. Robert Sharpe | M | | M | | M |
| Mr. Ahmed Salem Abdulla Salem Al Hosani | M | | M | | |
| | | | | | |
| Number of Meetings in 2014 | 8 | 9 | 8 | 12 | 5 |

C Chairman
M Member
BOD Board of Directors
EXCOB Board Executive Committee
BAC Board Audit Committee
BCC Board Credit Committee
BRC Board Risk Committee
*Member as of November 2014 (following the resignation of Mr. Sharpe)

# ORGANIZATIONAL CHART




*Management Committees (formed by the CEO):*

- Executive Management Committee (EXCOM)
- Business Technology Investment Committee (BTIC)
- Asset & Liability Committee (ALCO)
- Premises Steering Committee (PSC)

Company Secretary & Investor Relations (Rima Boutros)

Risk Committee (BRC)

Audit Committee (BAC)

SVP, Chief Audit Executive (Tamer A. Hamid)

EVP, Chief Financial Officer (Brian West)

EVP (Sh. Mohamed Al Nuaimi)

EVP, Business Support (Anthony Macrae)

SVP, Head of Treasury (Sarfraz Rizvi)

General Management Credit Committee (GMCC)

General Management Risk Committee (GMRC)

Management Investment Committee (MIC)

# BOARD COMMITTEES

The UAB Board of Directors established the following Board Committees to assist the Board in carrying out its duties and obligations and offer a more detailed review of important areas of responsibility.

## BOARD EXECUTIVE COMMITTEE ("EXCOB")

EXCOB acts on behalf of the Board or any of its sub-committees when they are not in session, except for those powers and actions that are restricted to the Board based on legal provisions or the Bank's Articles of Association.

EXCOB is responsible for the development and overseeing of the Bank's long-term strategy and its implementation, review and recommendation of the Bank's annual budgets and business plans, review of the Bank's financial and operating performance, and handling of other matters including (but without limitation) corporate governance, compensation and Human Resources.

EXCOB meets at least 4 times a year. In 2014, the committee held 9 meetings.

## BOARD AUDIT COMMITTEE ("BAC")

BAC monitors the integrity of the Bank's financial statements, the soundness of internal controls, the compliance with legal and regulatory requirements, the independence and qualifications of the external auditor and the performance, output and reports submitted by the internal audit function. The internal audit function has a direct reporting line to the BAC.

BAC meets at least 4 times per year. In 2014, the committee held 8 meetings.

## BOARD CREDIT COMMITTEE ("BCC")

BCC is responsible for evaluating and granting counter party credit facilities and approving the Bank's investment activities within authorized limits.

BCC is held on an adhoc basis. In 2014, the committee held 12 meetings.

## BOARD RISK COMMITTEE ("BRC")

BRC monitors and is responsible for all aspects of enterprise risk management including (but without limitation to) credit risk, market risk, operational risk, legal risk, regulatory risk, liquidity risk and financial risks. The Committee is responsible for reviewing and approving the policies on all risk issues and maintaining oversight of the Bank's risks through reports received from the General Management Risk Committee.

BRC meets at least 4 times per year. In 2014, the committee held 5 meetings.

## Performance Evaluation of Board and Board Committees

BRC reviews, on an annual basis, the performance of the Board against its terms of reference and reports accordingly to the Board of Directors.

# MANAGEMENT COMMITTEES

The Terms of Reference of the Management Committees are stipulated in the Bank's Management Committee Charter.

The Bank has 7 Management Committees that report regularly to the Board or the relevant Board committees on their activities.

## EXECUTIVE MANAGEMENT COMMITTEE ("EXCOM")

EXCOM is responsible for recommending strategy, monitoring performance in relation to the business of UAB, and ensuring compliance with legal and regulatory requirements and internal policies.

EXCOM meets at least 4 times a year.

## GENERAL MANAGEMENT RISK COMMITTEE ("GMRC")

GMRC is the highest ruling authority at management level on all aspects of enterprise risk management including: credit risk, market risk, operational risk, legal risk, regulatory risk, liquidity risk, financial risk, and all audit matters of the Bank.

GMRC provides recommendations on all risk and investment policy and portfolio issues to the BRC, and to other Board Committees as appropriate.

GMRC meets at least 4 times a year.

## GENERAL MANAGEMENT CREDIT COMMITTEE ("GMCC")

Deriving its authority from BCC, the committee is the highest management level authority on all counterparty risk exposures, credit product programs and underwriting exposures on syndications and securities transactions.

GMCC meets as and when required.

## BUSINESS TECHNOLOGY INVESTMENT COMMITTEE ("BTIC")

The mandate of the committee is to align technology initiatives with UAB business strategy, by setting the strategic technology direction and monitoring progress of the efficient and effective operations of the Bank's systems.

BTIC meets at least 4 times a year.

## ASSET AND LIABILITY COMMITTEE ("ALCO")

ALCO is a decision making body for developing policies relating to asset, liability and market risk management (i.e. balance sheet structure, funding, pricing, hedging, investment and limits).

ALCO meets at least 6 times a year.

## MANAGEMENT INVESTMENT COMMITTEE ("MIC")

The committee is mandated to manage the Bank's investments under the direct supervision of the CEO.

MIC meets at least 4 times a year.

## PREMISES STEERING COMMITTEE ("PSC")

PSC is mandated to monitor the development and efficient use of the Bank's premises, grounds and extended facilities.

PSC meets on a weekly basis.

## Performance Evaluation of Management Committees

GMRC reviews, on an annual basis, the performance of the Management Committees against their terms of reference and reports accordingly to the BRC.

# RISK MANAGEMENT

The Bank operates a prudent approach to risk with rigorous management controls to keep the Bank safe, support sustainable business growth and minimize loses within risk appetite. The Bank benefits from a strong and independent Risk Management Group with its key objective to maintain a robust control framework, identify and escalate emerging risks and support sustainable business growth within risk appetite through good risk reward decisions.

Our approach to risk is founded on a robust control framework and a strong risk management culture which ensures business units remain accountable for risk and therefore guides the way in which employees approach their work, behave and make decisions. Board-level engagement, in parallel with the direct involvement of executive management in Bank-wide risk issues, ensures matters are promptly escalated and remediation plans are initiated where required.

Risk management strategy and risk appetite are developed and reviewed in unison with the Bank's strategy. The Bank uses an enterprise-wide risk management framework to ensure a sound and consistent approach is applied across all business units and all risk types in order to drive improvements in its risk profile in line with risk appetite. The framework articulates individual and collective accountabilities for risk management, risk oversight and risk assurance and supports the discharge of responsibilities to customers, shareholders and regulators. It will evolve as the Bank continues to grow and be periodically updated to reflect any changes in the nature of our business and / or the external environment.

The Risk Management Group, under the Chief Risk Officer, consists of specialized functions for managing credit risk in Corporate, Large Corporate, Strategic Clients, Financial Institutions, SME and Retail businesses with the help of Risk Analytics, Operational Risk, Market Risk, Credit Monitoring, Recovery, Collections, Legal and Compliance. Risks faced by the Bank are managed through various specialized Management and Board Committees within established risk tolerance levels as set out in the risk appetite statement. The risk governance structure includes three lines of defense comprising business units, Risk Management Group and Internal Audit. Business units identify and manage risks within the established risk appetite framework; Risk Management Group provides risk assessment criteria and establishes appropriate controls; Internal Audit provides independent assurance to the executive team and Board on the effectiveness of risk management policies, processes and procedures.

The Bank continuously strengthens its risk management practices and invests in enhanced technology and other tools where appropriate to upgrade its overall risk management framework. In 2014, the Bank implemented an automated credit origination and approval system and employed advanced risk assessment models, embedded advanced retail scorecards and upgraded Moody's corporate credit risk rating system with sophisticated credit rating models. Risk management policies, processes and procedures are constantly updated to suit the ever changing risk environment and establish an ongoing risk identification, measurement, monitoring, mitigation and reporting.

The Risk Management Group dynamically manages risks taken to ensure that there is a well-developed risk-reward assessment framework to continuously evaluate relationships and to convert them into business opportunities. We continue to strengthen our risk management by adopting an integrated risk management framework and manage enterprise wide risks with the objective of optimizing risk adjusted returns.

## Operational Risk

The Bank defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Operational Risk is relevant to every aspect of the Bank's business and covers a wide spectrum of issues. Losses arising through fraud, unauthorized activities, errors, omission, inefficiency, system failure or from external events all fall within the Operational Risk definition.

In order to mitigate such operational losses the Bank has in place:

- Detailed policies and procedures regularly updated to enhance the internal control environment;
- Risk Self-Assessment processes with Key Indicators used to provide early warning indicators to support appropriate actions; and
- Operational Risk training to develop and enhance staff awareness and improve the control environment.

The Bank has a well-defined operational risk framework and an independent Operational Risk function reporting directly to the Chief Risk Officer, with oversight of operational risk provided by the Board Risk Committee.

## Compliance

The role of Compliance within the Bank is to provide assurance to the Executive Team and Board that the expectations of its regulator, the Central Bank of the UAE, are met and that the risk of the Bank being used to facilitate financial crime is minimized.

The Compliance function operates independently of the business and submits periodic reports to the Executive Team and Board. One of its key tasks is to ensure all relevant stakeholders are kept informed of the latest regulatory developments with this achieved by maintaining close links with the Central Bank and providing appropriate training and advice to relevant members of the Bank's management and employees.

In addition, Compliance closely monitors accounts opened by nationals of high-risk countries and conducts Anti-Money Laundering / Sanctions related investigations. Furthermore, Compliance conducts perpetual screening of the Bank's customer base to ensure no blacklisted individuals / entities hold accounts with the Bank, thus mitigating the reputational risk.

The Bank has and will continue to ensure the Compliance function has the required resources, in the form of people, processes and systems, to provide assurance that the expectations of its regulator are being satisfied.

## Legal

The Legal team provides support to the Risk Management Group with its key objective to provide advice and guidance on various operational and strategic issues. It acts as the Bank's legal counsel with its priorities being to:

- Advise the Bank on effective solutions for current and anticipated material legal and regulatory issues;
- Ensure major corporate actions, transactions, cases and projects are managed in an efficient and commercial manner which the goal of minimizing the Bank's legal, regulatory and other risks;
- Draft, review and update the Bank's documentation, templates, general terms and conditions; and
- Review all contracts and agreements which the Bank will become party to, including (but not limited to): Global Master Repurchase Agreements; International Swap and Derivative Agreements; Islamic Banking Structures.

## INTERNAL AUDIT

UAB's Internal Audit Department ("IAD") is positioned as the third line of defense within the Bank's governance framework, providing independent assurance over both the first line (business units, support functions) and second line (Risk, Compliance).

IAD supports the Bank in achieving its goals by providing objective and independent assurance that UAB's governance, risk management, and internal control processes are operating effectively and makes recommendations to enhance these where applicable. This is delivered through a suite of audit assurance and advisory services and by tracking and reporting on the timely management implementation of audit recommendations.

IAD reports functionally to the Board of Directors, through BAC, and reports administratively to the Chief Executive Officer.

The independence of the IAD is further ensured through the direct approval by the BAC of the following:

- Internal Audit Charter and Policy;
- Internal Audit resources;
- Internal Audit Plan;
- Internal Audit Risk Assessment methodology; and
- Internal Audit Department's performance objectives and performance appraisal of the Chief Audit Executive.

The Internal Audit Plan, which is approved by the BAC, is developed using a risk assessment methodology with additional input from senior management. It is reviewed continuously during the year to ensure any relevant changes are implemented.

IAD is represented on relevant management risk and governance forums and, in addition, liaises with external stakeholders, including the external auditors and Central Bank teams, to share the results of internal audit reviews.

The Chief Audit Executive presents regular updates of progress in relation to the Internal Audit Plan along with the results of its work to the BAC and senior management.

## HUMAN RESOURCES

2014 again represented a year where UAB's reliance on the quality of its human capital helped support the Bank's overall growth.

Central to UAB's strategy remains its dedication to developing skilled and capable UAE Nationals. Emiratis now comprise 45% of the Bank's workforce, up from 44% in 2013, and through initiatives such as UAB's Al Tamayouz Emiratisation program, the Bank goes beyond merely recruiting talented individuals to creating an environment where aspiring Emiratis receive the required training and support to build a meaningful career, thus contributing to the Bank's ongoing success.

Aligned to this approach, the Reyadah initiative was launched in 2014 whereby 15 of the Bank's high performing UAE National employees completed a rigorous selection process to qualify for a structured 12 month program comprising of technical training, leadership development and focused coaching plans to ensure they have the necessary skillset to progress into management roles in the near future.

Recognizing its broader responsibility to contributing to the UAE's economy and development of its human capital, the Bank continues to build on its close relationships with a range of higher education institutions as well as participate in a number of public recruitment fairs. In addition, UAB is committed to playing a proactive role supporting numerous Emiratisation initiatives organized by the UAE Central Bank and will continue to provide the necessary assistance to maintain the momentum crucial to the success of these initiatives.

In 2014, with the help of one of the region's leading HR consultants, the Bank conducted its annual Employee Engagement Survey to ensure the Bank's leadership team gains a true insight into emotional commitment UAB's employees has to the Bank and its strategic objectives. With an impressive participation rate of 83% participation, UAB recorded a positive response score of 67%, which compares favorably to other GCC Financial Services institutions. The survey will be conducted annually with the results evaluation by the leadership team with and the timely execution of any follow-up actions to maintain positive responses. Given the proven correlation between an engaged employee with higher services levels and greater customer satisfaction, the Bank is well positioned as it moves forward.

Consistent with the evolution of working practices in light of the increased role of technology in the workplace, in 2014 UAB launched its online Learning Management System (LMS). Employees now benefit from instant access to a huge array of structured learning modules across subjects ranging from compulsory compliance requirements, specific technical proficiencies or soft skill improvement courses.

Finally, given UAB's continued growth, throughout 2014 HR remained focused on ensuring the Bank possesses robust succession plans. Key to this objective is ensuring development activities are concentrated in areas to enhance capabilities at all levels within the organization, thereby guaranteeing a healthy pipeline of technical and leadership talent to sustain success for many years to come.

## CORPORATE SOCIAL RESPONSIBILITY

UAB takes very seriously its obligations to the wider UAE society. Over recent years, the Bank has prioritised supporting and recruiting citizens with special needs and working closely with organisations that champion their contribution to the community.

As part of this initiative the Bank continues to make an annual contribution to the Al Thiqah Club for the Disabled, a remarkable organisation which provides invaluable support for people with special needs in the UAE. This support extends with UAB being the exclusive sponsor of its Program Training sessions, which are centred on integrating special-needs citizens into society. This year, the Bank also supported the Sharjah City for Humanitarian Services, which provides specialized services to persons with disabilities including education, therapy and rehabilitation.

During the holy month of Ramadan, UAB opened an Iftar tent for prayer, hosting fasters and providing Iftar Banquets as part of a social program featuring a wide range of philanthropic activities. The Bank also recently announced its UAE National day chant production, carrying a Loyalty message to His Highness Sheikh Khalifa bin Zayed Al Nahyan, President of the UAE, and Their Highnesses UAE Supreme Council Members and Rulers of the Emirates. This vast production, completed in December on the occasion of UAE National Day, has been acclaimed for bringing together household names across modern arts including singers, media personalities and athletes from the Arab world.

Social responsibility has and always will be a pillar of the Bank's success. Going forward, UAB sees it as an absolute priority to build upon our initiatives to give back to the community, the community in which our customers live and work.

## SHAREHOLDERS PROFILE

### Meeting of the Shareholders

The Annual General Meeting ("AGM") is the meeting of the UAB shareholders, the supreme governance body of the Bank. The Articles of Association of the Bank provides the statutory framework for the calling and the conduct of the AGM and Extraordinary General Meeting ("EGM").

The AGM is held during the first four months of the year, to:

- Consider and approve the end of year financial statements, the Board of Directors' report and External Auditor's Report;
- Consider and approve the proposal of the Board of Directors regarding the distribution of dividends;
- Discharge the Board members and the external auditors from any liability for the previous year;
- Consider and approve the Directors' Remuneration;
- Appoint the external auditors for the next financial year and determine their fees; and
- Elect the Board of Directors.

Shareholders may convene under an EGM, which is called to take decisions on items other than those falling under the remit of the AGM. The Statutory framework for the calling, conduct and remit of the EGM is stipulated under the Articles of Association of the Bank.

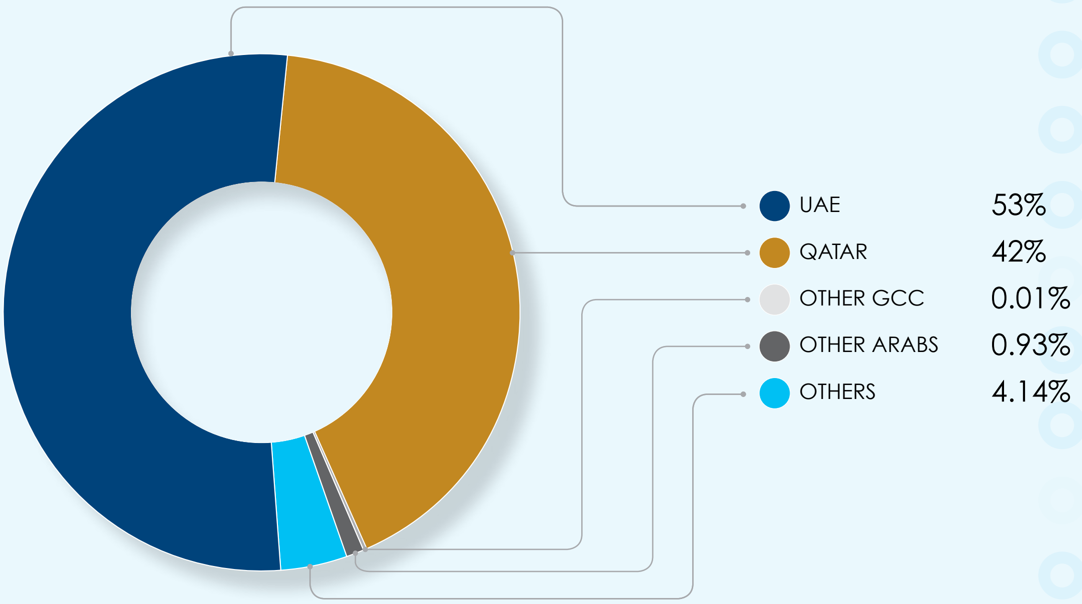
Last year's AGM took place on March 3, 2014. An EGM was scheduled on the same day to approve the amendment of the Articles of Association.

### Major Shareholders

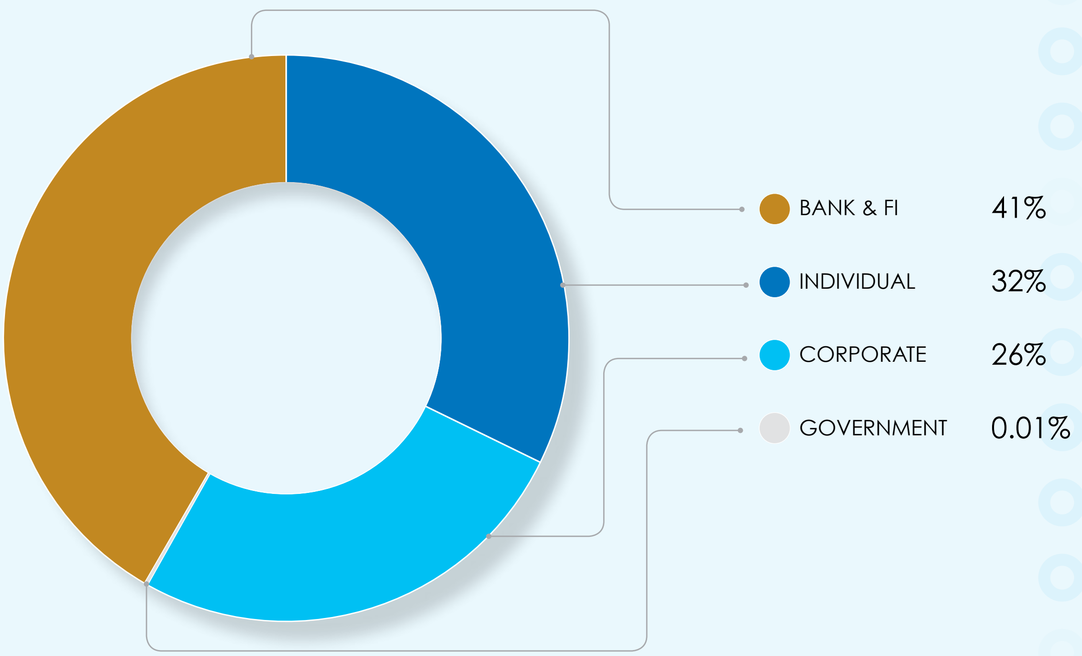
List of major Shareholders who owned 5% of total shares and above as at December 31, 2014:

- Commercial Bank of Qatar 40.00%
- Sheikh Faisal Bin Sultan Bin Salem Al Qassimi 8.31%
- GIBCA Limited Company 5.64%
- Jumaa Al Majed Abdullah Muhairi 5.31%

## Shareholding by Nationality*




## Shareholding by Investor Type*




* Total might not equal 100% due to rounding


40 YEARS IN THE UAE
LET'S GROW

# DIRECTORS' REPORT

Year ended 31st December 2014

On behalf of the Board of Directors of United Arab Bank, I would like to present our Annual Report for the year ended 31 December 2014.

Although market conditions remained challenging, the economic recovery continues to take shape, supported by both continued public sector borrowing, particularly in Abu Dhabi, and strong growth in Dubai's more diversified private sector, specifically in the core segments of trade, transport and tourism.

Given the improving economic environment UAB was well placed to capture the benefits through its UAE focused business model, with Net Profit up 10% on prior year to AED605m. Across the 12 month period, all business units generated sustainable Balance Sheet growth. Customer Loans and Advances increased 17% to AED17.9b, whilst Customer Deposits reported an even more significant uplift of 24% to AED18.7b.

In 2014 our credit portfolios continued to perform favourably compared to the banking sector as a whole, whilst we maintained our risk profile at acceptable and appropriate levels. Although the bank has taken great strides in growing its asset portfolios in recent years, focus on Balance Sheet optimisation for sustainable returns will be our key objective as we move forward. Accordingly we will continue to review and improve our risk management techniques in line with best practice.

With the support and guidance of our alliance partner, The Commercial Bank of Qatar, we are following a simple business model focused on becoming the best bank for our retail and commercial customers, helping the UAE prosper and delivering value for our shareholders.

The Board of Directors recommends the following appropriations of profit for the year ended 31 December 2014, subject to the approval of the Central Bank:

| | (AED'000) |
|---|---|
| **Opening Balance in Retained Earnings at 1 January** | **737,494** |
| Profit for the year | 605,408 |
| Transfers from Revaluation Reserve | 2,659 |
| Dividend distributed relating to 2013 | (298,920) |
| **Balance available for appropriation** | **1,046,641** |
| | |
| **Proposed Appropriation of Profit** | |
| Transfer to Special Reserve | (60,541) |
| Transfer to Statutory Reserve | (60,541) |
| Directors' Remuneration | (10,800) |
| **Closing Balance in Retained Earnings at 31 December** | **914,759** |

After the proposed appropriation of profit, and subject to the General Assembly's approval, total Shareholders' Funds will increase to AED2.912b at 31 December 2014 compared with AED2.482b at the end of 2013. The Directors propose that a cash dividend of 10% of the Paid up Capital is paid in 2015 amounting to AED114.6m, along with a scrip dividend of 20% of the Paid up Capital amounting to AED229.2m, subject to the approval of the UAE Central Bank and the General Assembly.

I would like to extend my thanks to our Board of Directors, whose dedication and guidance underpins our continued success. On behalf of the Board of Directors, I would like to express our gratitude and appreciation to the UAE Government for its ongoing support of the financial and banking sectors. We also wish to highlight our appreciation to the UAE Central Bank, and all our regulators, for their continuous and valuable support. And last but not least, we would like to thank The Commercial Bank of Qatar for their ongoing guidance and strategic partnership. UAB looks forward to further success as we move into 2015.

**Sheikh Faisal Bin Sultan Bin Salem Al Qassimi**
*Chairman*
21 January 2015

UNITED ARAB BANK
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BARÇA EXPERIENCE
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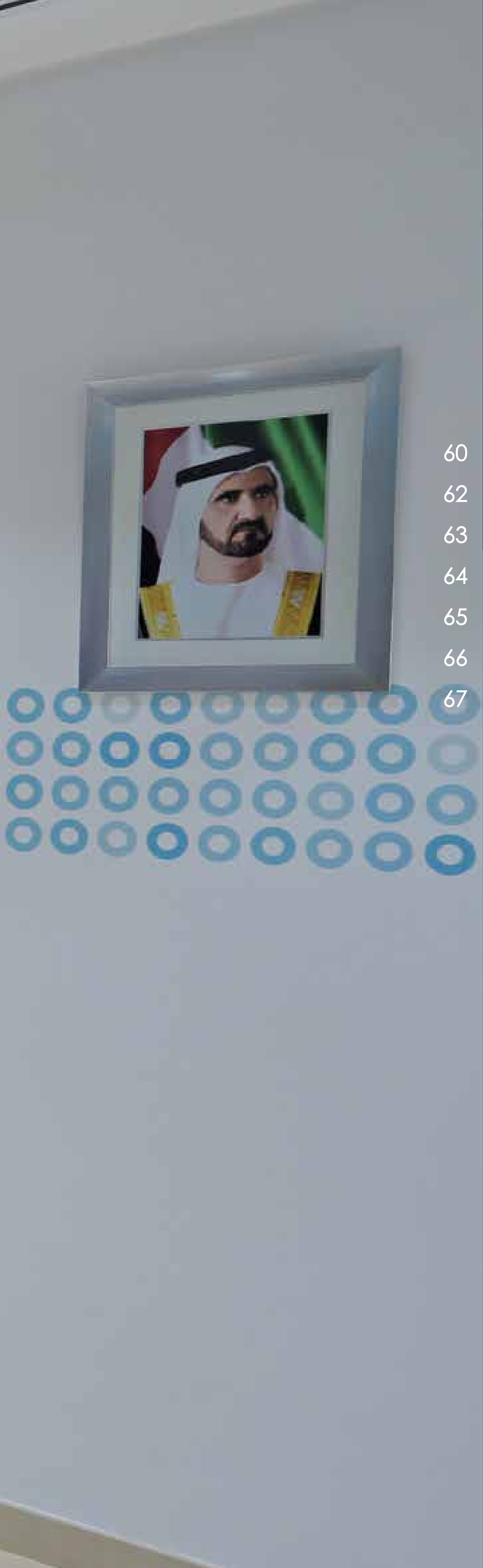
# CONSOLIDATED FINANCIAL STATEMENTS



# CONTENTS

# 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 judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, 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 Lower Gulf Limited
Austin Alan Henry Rudman
Registration No: 844

21 January 2015

# UNITED ARAB BANK P.J.S.C.
# CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2014

| | Notes | **2014 AED'000** | *2013 AED'000* |
|---|---|---|---|
| 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 page 60 and 61.

# UNITED ARAB BANK P.J.S.C.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

| | Notes | **2014 AED'000** | 2013 AED'000 |
|---|---|---|---|
| **Profit for the year** | | **605,408** | 552,479 |
| **Other comprehensive income** | | | |
| ***Items that are or may be reclassified to profit or loss*** | | | |
| 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) |
| | | **(15,018)** | (58,923) |
| **Total comprehensive income for the year** | | **590,390** | 493,556 |

The attached notes 1 to 26 form part of these consolidated financial statements.
The Independent Auditors' report is set out on page 60 and 61.

# UNITED ARAB BANK P.J.S.C.
# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2014

| | Notes | **2014 AED'000** | *2013 AED'000* |
|---|---|---|---|
| **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** | | **25,709,285** | 21,549,756 |
| **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** | | **22,797,624** | 19,068,225 |
| **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** | | **2,911,661** | 2,481,531 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS** | | **25,709,285** | 21,549,756 |

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.
The Independent Auditors' report is set out on page 60 and 61.

# UNITED ARAB BANK P.J.S.C.
# CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2014

| | Notes | **2014 AED'000** | 2013 AED'000 |
|---|---|---|---|
| **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 |

The attached notes 1 to 26 form part of these consolidated financial statements.
The Independent Auditors' report is set out on page 60 and 61.

# UNITED ARAB BANK P.J.S.C.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

| | *Share capital AED'000* | *Special reserve AED'000* | *Statutory reserve AED'000* | *General reserve AED'000* | *Revaluation reserve AED'000* | *Retained earnings AED'000* | *Cumulative changes in fair value AED'000* | *Total AED'000* |
|---|---|---|---|---|---|---|---|---|
| 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** |

| | *Share capital AED'000* | *Special reserve AED'000* | *Statutory reserve AED'000* | *General reserve AED'000* | *Revaluation reserve AED'000* | *Retained earnings AED'000* | *Cumulative changes in fair value AED'000* | *Total AED'000* |
|---|---|---|---|---|---|---|---|---|
| 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 page 60 and 61.

# 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.

## 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:

| *Name* | *Legal Status* | *Beneficial ownership* | *Country of incorporation* | *Principal activities* |
|---|---|---|---|---|
| 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.

## 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.

## 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.

## 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:

| | ***2014*** | *2013* |
|---|---|---|
| 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.

## 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.

## 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.

## 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.

## 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.

## 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

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| 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 |

## 5 INTEREST EXPENSE

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Interest on customer deposits | **160,060** | 139,374 |
| Interest on inter bank transactions | **64,393** | 32,598 |
| | **224,453** | 171,972 |

## 6 OTHER OPERATING INCOME

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| 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 |
| | **155,510** | 81,037 |

## 7 LOANS AND ADVANCES

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| 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 |
| 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) |
| Net loans and advances | **17,940,903** | 15,285,481 |

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

## 7 LOANS AND ADVANCES *(continued)*

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| **(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 |
| Gross amount of loans and advances | **18,466,434** | 15,573,416 |

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 | |
|---|---|---|---|---|
| | **Interest in suspense AED'000** | **Impairment provisions AED'000** | Interest in suspense AED'000 | Impairment provisions AED'000 |
| 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).

## 7 LOANS AND ADVANCES *(continued)*

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

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Gross exposure AED'000 | Specific provision and interest in suspense AED'000 | Gross exposure AED'000 | Specific provision and interest in suspense AED'000 |
| **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.

## 8 PROPERTY AND EQUIPMENT

| | Freehold land and buildings AED'000 | Motor vehicles, leasehold improvements, furniture, fixtures and equipment AED'000 | Capital work-in-progress AED'000 | Total AED'000 |
|---|---|---|---|---|
| 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 | **281,826** | **217,046** | **14,443** | **513,315** |
| 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 | **5,253** | **98,947** | **-** | **104,200** |
| Net Carrying Value: | | | | |
| **At 31 December 2014** | **276,573** | **118,099** | **14,443** | **409,115** |

### 8 PROPERTY AND EQUIPMENT *(continued)*

| | *Freehold land and buildings AED'000* | *Motor vehicles, leasehold improvements, furniture, fixtures and equipment AED'000* | *Capital work-in-progress AED'000* | *Total AED'000* |
|---|---|---|---|---|
| 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 | 96,342 | 188,572 | 5,249 | 290,163 |
| 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 | 1,576 | 76,295 | - | 77,871 |
| Net Carrying Value: | | | | |
| At 31 December 2013 | 94,766 | 112,277 | 5,249 | 212,292 |

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'.

## 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:

| | **2014** | 2013 |
|---|---|---|
| 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 |
| *Weighted average number of ordinary shares:* 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

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| 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.

## 12 INVESTMENTS

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

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.

## 14 OTHER ASSETS

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| 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

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| 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

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| 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 |

## 17 OTHER LIABILITIES *(continued)*

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| **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 |

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:

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| 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.

## 18 SHARE CAPITAL AND RESERVES *(continued)*

### 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.

## 19 CUMULATIVE CHANGES IN FAIR VALUES

| | **2014 AED'000** | *2013 AED'000* |
|---|---|---|
| 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)** | - |
| At 31 December | **(66,893)** | (51,875) |

## 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:

| | **2014 AED'000** | *2013 AED'000* |
|---|---|---|
| *Key management personnel of the Group*: | | |
| Loans and advances | **19,619** | 16,882 |
| Customers' deposits | **42,389** | 37,151 |
| *Shareholders*: | | |
| Due from banks | **2,609** | 135,350 |
| Due to banks | **3,575** | 225,499 |
| Medium term borrowings | **141,695** | 91,803 |
| *Directors:* | | |
| Loans and advances | **55,774** | 65,325 |
| Customers' deposits | **14,459** | 13,870 |
| Commitments and contingencies | **45** | 45 |
| *Other related entities:* | | |
| 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 |
| *Shareholders, directors, their related entities and key management personnel* | | |
| Accrued interest income | **1,350** | 95 |
| Accrued interest expense | **895** | 521 |

## 20 RELATED PARTY TRANSACTIONS *(continued)*

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 |
|---|---|---|
| *Shareholders, directors, their related entities and key management personnel* | | |
| 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.

## 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 | | | |
|---|---|---|---|---|---|---|---|
| | **Positive fair value AED'000** | **Negative fair value AED'000** | **Notional amount AED'000** | **Within 3 months AED'000** | **3-12 months AED'000** | **1-5 years AED'000** | **Over 5 years AED'000** |
| *Derivatives held for trading:* | | | | | | | |
| 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** | **-** |
| | **37,241** | **(36,892)** | **6,392,012** | **2,699,572** | **1,195,412** | **2,497,028** | **-** |
| *Derivatives held for fair value hedge:* | | | | | | | |
| Interest rate swaps | **-** | **(27,441)** | **752,625** | **-** | **-** | **-** | **752,625** |
| *Derivatives held for cash flow hedge:* | | | | | | | |
| Interest rate swaps | **-** | **(1,096)** | **183,605** | **-** | **-** | **183,605** | **-** |
| ***Total*** | **37,241** | **(65,429)** | **7,328,242** | **2,699,572** | **1,195,412** | **2,680,633** | **752,625** |

*At 31 December 2013*

| | | | | Notional amounts by term to maturity | | | |
|---|---|---|---|---|---|---|---|
| | Positive fair value AED'000 | Negative fair value AED'000 | Notional amount AED'000 | Within 3 months AED'000 | 3-12 months AED'000 | 1-5 years AED'000 | Over 5 years AED'000 |
| *Derivatives held for trading:* | | | | | | | |
| 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 | - |
| | 79,702 | (81,117) | 9,572,379 | 1,548,115 | 6,866,083 | 1,158,181 | - |
| *Derivatives held for cash flow hedge:* | | | | | | | |
| Interest rate swaps | 3,676 | (903) | 238,687 | - | - | 238,687 | - |
| *Total* | 83,378 | (82,020) | 9,811,066 | 1,548,115 | 6,866,083 | 1,396,868 | - |

## 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.

## 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:

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

## 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.

## 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 safe-guarding 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.

## 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.

| | Notes | ***Maximum exposure 2014 AED'000*** | *Maximum exposure 2013 AED'000* |
|---|---|---|---|
| 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.

## 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 | |
|---|---|---|---|---|
| | **Assets AED'000** | **Contingent Liabilities and commitments AED'000** | Assets AED'000 | Contingent Liabilities and commitments AED'000 |
| 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 | **24,979,526** | **6,671,011** | 21,104,904 | 5,941,326 |

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:

| | **Maximum exposure 2014 AED'000** | Maximum exposure 2013 AED'000 |
|---|---|---|
| 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 |
| | **25,505,057** | 21,392,839 |
| Less: impairment provision and interest in suspense on loans and advances | **(525,531)** | (287,935) |
| | **24,979,526** | 21,104,904 |

***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.

## 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.

| | Neither past due nor impaired | | | | |
|---|---|---|---|---|---|
| | High grade 2014 AED'000 | Standard grade 2014 AED'000 | Sub - standard grade 2014 AED'000 | Past due or individually impaired 2014 AED'000 | Total 2014 AED'000 |
| 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** |
| | **9,661,775** | **14,246,476** | **504,412** | **1,092,394** | **25,505,057** |

| | Neither past due nor impaired | | | | |
|---|---|---|---|---|---|
| | High grade 2013 AED'000 | Standard grade 2013 AED'000 | Sub - standard grade 2013 AED'000 | Past due or individually impaired 2013 AED'000 | Total 2013 AED'000 |
| 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 |
| | 9,336,471 | 11,029,086 | 392,667 | 634,615 | 21,392,839 |

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.

## 23 RISK MANAGEMENT *(continued)*

**Credit Risk** ***(continued)***

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

| | Less than 30 days 2014 AED'000 | 31 to 60 days 2014 AED'000 | 61 to 90 days 2014 AED'000 | More than 91 days 2014 AED'000 | Total 2014 AED'000 |
|---|---|---|---|---|---|
| Loans and advances | **414,038** | **91,829** | **45,288** | **68,373** | **619,528** |

| | 2013 AED'000 | 2013 AED'000 | 2013 AED'000 | 2013 AED'000 | 2013 AED'000 |
|---|---|---|---|---|---|
| Loans and advances | 195,141 | 96,205 | 63,362 | 33,891 | 388,599 |

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***

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Loans and advances | **478,893** | 555,710 |

**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:

| | 2014 | 2013 |
|---|---|---|
| Advances to Stable 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.

## 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:

| | Less than 3 months AED'000 | From 3 months to 6 months AED'000 | From 6 months to 12 months AED'000 | Sub total less than 12 months AED'000 | 1 to 5 years AED'000 | Over 5 years AED'000 | Subtotal over 12 months AED'000 | Undated AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|---|---|
| **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) | - |

## 23 RISK MANAGEMENT *(continued)*

**Liquidity risk *(continued)***

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

| | *Less than 3 months AED'000* | *From 3 months to 6 months AED'000* | *From 6 months to 12 months AED'000* | *Sub total less than 12 months AED'000* | *1 to 5 years AED'000* | *Over 5 years AED'000* | *Subtotal over 12 months AED'000* | *Undated AED'000* | *Total AED'000* |
|---|---|---|---|---|---|---|---|---|---|
| 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 | 7,609,605 | 1,561,292 | 1,212,313 | 10,383,210 | 6,332,411 | 4,503,246 | 10,835,657 | 330,889 | 21,549,756 |
| 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 | 12,165,540 | 2,129,719 | 2,545,258 | 16,840,517 | 2,191,520 | 468 | 2,191,988 | 2,517,251 | 21,549,756 |
| Net liquidity gap | (4,555,935) | (568,427) | (1,332,945) | (6,457,307) | 4,140,891 | 4,502,778 | 8,643,669 | (2,186,362) | - |

## 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** | *On demand AED'000* | *Less than 3 months AED'000* | *3 to 12 months AED'000* | *1 to 5 years AED'000* | *Over 5 years AED'000* | *Total AED'000* |
|---|---|---|---|---|---|---|
| 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** |

| | *On demand AED'000* | *Less than 3 months AED'000* | *3 to 12 months AED'000* | *1 to 5 years AED'000* | *Over 5 years AED'000* | *Total AED'000* |
|---|---|---|---|---|---|---|
| 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.

## 23 RISK MANAGEMENT *(continued)*

**Liquidity risk *(continued)***

*Analysis of financial liabilities by remaining contractual maturities (continued)*

| | *On demand AED'000* | *Less than 3 months AED'000* | *3 to 12 months AED'000* | *1 to 5 years AED'000* | *Over 5 years AED'000* | *Total AED'000* |
|---|---|---|---|---|---|---|
| 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)** |

| | *On demand AED'000* | *Less than 3 months AED'000* | *3 to 12 months AED'000* | *1 to 5 years AED'000* | *Over 5 years AED'000* | *Total AED'000* |
|---|---|---|---|---|---|---|
| 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:

| | *On demand AED'000* | *Less than 3 months AED'000* | *3 to 12 months AED'000* | *1 to 5 years AED'000* | *Over 5 years AED'000* | *Total AED'000* |
|---|---|---|---|---|---|---|
| 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.

## 23 RISK MANAGEMENT *(continued)*

**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.

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:

| 31 December 2014 | *Less than 3 months AED'000* | *3 to 12 months AED'000* | *1 to 5 years AED'000* | *Over 5 years AED'000* | *Non Interest Sensitive AED'000* | *Carrying amount AED'000* |
|---|---|---|---|---|---|---|
| **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 |
| | 7,255,770 | 2,252,930 | 9,243,400 | 3,300,109 | 3,657,076 | 25,709,285 |
| **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 |
| | 7,300,214 | 4,967,170 | 1,426,400 | - | 12,015,501 | 25,709,285 |
| Interest rate sensitivity | (44,444) | (2,714,240) | 7,817,000 | 3,300,109 | (8,358,425) | - |
| Cumulative interest rate sensitivity gap | (44,444) | (2,758,684) | 5,058,316 | 8,358,425 | - | - |

## 23 RISK MANAGEMENT *(continued)*

**Interest rate risk *(continued)***

| 31 December 2013 | *Less than 3 months AED'000* | *3 to 12 months AED'000* | *1 to 5 years AED'000* | *Over 5 years AED'000* | *Non Interest Sensitive AED'000* | *Carrying amount AED'000* |
|---|---|---|---|---|---|---|
| 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 |
| | 5,851,000 | 1,084,486 | 8,589,008 | 2,875,990 | 3,149,272 | 21,549,756 |
| 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 |
| | 7,004,635 | 4,171,890 | 519,228 | - | 9,854,003 | 21,549,756 |
| Interest rate sensitivity | (1,153,635) | (3,087,404) | 8,069,780 | 2,875,990 | (6,704,731) | - |
| Cumulative interest rate sensitivity gap | (1,153,635) | (4,241,039) | 3,828,741 | 6,704,731 | - | - |

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.

| | ***2014*** | | *2013* | |
|---|---|---|---|---|
| | ***Change in basis points*** | ***Sensitivity of net interest income*** | *Change in basis points* | *Sensitivity of net interest income* |
| **Currency** | | | | |
| 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.

## 23 RISK MANAGEMENT *(continued)*

**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.

| | ***2014*** | | *2013* | |
|---|---|---|---|---|
| | ***Change in currency rate in %*** | ***Effect on profit AED'000*** | *Change in currency rate in %* | *Effect on profit AED'000* |
| **Currency** | | | | |
| 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.

## 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.

## 24 SEGMENTAL ANALYSIS *(continued)*

**Primary segment information *(continued)***

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

| | Retail banking AED'000 | Corporate banking AED'000 | Others AED'000 | Total AED'000 |
|---|---|---|---|---|
| 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 | **102,224** | **297,417** | **205,767** | **605,408** |
| Capital Expenditure - Property and equipment | **72,717** | **130,046** | **20,568** | **223,331** |
| At 31 December 2014 | | | | |
| Segment Assets | **5,314,360** | **12,555,618** | **7,839,307** | **25,709,285** |
| Segment Liabilities | **5,440,063** | **11,814,205** | **5,543,356** | **22,797,624** |

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

| | Retail banking AED'000 | Corporate banking AED'000 | Others AED'000 | Total AED'000 |
|---|---|---|---|---|
| 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 | 105,115 | 351,572 | 95,792 | 552,479 |
| Capital Expenditure - Property and equipment | 22,019 | 45,611 | 8,389 | 76,019 |
| At 31 December 2013 | | | | |
| Segment Assets | 4,914,126 | 11,051,587 | 5,584,043 | 21,549,756 |
| Segment Liabilities | 5,549,257 | 9,079,330 | 4,439,638 | 19,068,225 |

**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.

**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:

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

## 25 FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

**Financial Instruments and assets recorded at fair value *(continued)***

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

## 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.

## 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:

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| **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 |

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| **Tier I and II Capital** | | |
| 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.

# BASEL II - PILLAR 3 DISCLOSURES

# UNITED ARAB BANK P.J.S.C.
# BASEL II - PILLAR 3 DISCLOSURES

At 31 December 2014

These disclosures are being made in compliance with Circular No. 27/2009 dated 17 November 2009 issued by the Central Bank of the UAE and are in conformity with Basel II capital adequacy calculations for 31 December 2014 prepared in line with the circular. References have been made to the audited financial statements of 31 December 2014 for additional details only, where considered relevant.

These disclosures pertain to the operations of United Arab Bank (the "Bank") and its subsidiary (the "Group") as at 31 December 2014.

## A. CAPITAL STRUCTURE

| Category | Summarized terms & conditions and main features | 2014 AED'000 | 2013 AED'000 |
|---|---|---|---|
| **Tier 1 Capital** | | | |
| 1. Paid up share capital | Ordinary Shares of AED 1 each | **1,145,861** | 996,401 |
| 2. Reserves | | | |
| a. Statutory reserve (incl. Share Premium) | Under Article 192 of UAE Commercial Companies Law No 8 of 1984 | **495,214** | 434,673 |
| b. Special reserve | Under Article 82 of Union Law No. 10 of 1980 | **412,659** | 352,118 |
| c. General Reserve | As per Shareholders' resolution on recommendation of Board | **9,311** | 9,311 |
| d. Retained earnings | After transfer of Net Profit but before appropriations for the year | **914,759** | 737,494 |
| Tier 1 Capital - Subtotal | | **2,977,804** | 2,529,997 |
| **Tier 2 Capital** | | | |
| General provisions | In terms of rules laid down by the Central Bank of the UAE | **242,807** | 174,456 |
| Revaluation reserve | Revaluation reserve on Bank's property assets | **750** | 3,409 |
| Cumulative changes in fair values | Unrealized loss on available-for-sale investments | **(66,893)** | (51,875) |
| Less: Deductions for inadmissible items | Revaluation reserve on Bank's property assets | **(750)** | (3,409) |
| Tier 2 Capital - Subtotal | | **175,914** | 122,581 |
| **Tier 3 Capital** | | **-** | - |
| **Total eligible Capital after deductions - Capital Base** | | **3,153,718** | 2,652,578 |

## B. CAPITAL ADEQUACY

### a) Qualitative Disclosures

The Bank has adopted Standardized Approach for computation of Credit and Market Risks and Basic Indicator Approach for Operational Risks, in terms of guidelines for implementation of Basel II capital accord issued by the Central Bank of the UAE under Circular No. 27/2009 dated 17 November 2009.

**Risk Management objectives and policies**

The Bank operates a Group Risk Department headed by the Chief Risk Officer (CRO). This department is responsible for managing all three risk segments, namely Credit, Market and Operational risks. The Bank has also created the Board Audit Committee (BAC) and Board Risk Committee (BRC), which approves the Bank's policies on all audit and risk issues and provides oversight of the Audit, Risk and Compliance functions of the bank. These steps ensure that the risk management framework has a solid foundation and is able to address all relevant risks in a coordinated and well structured manner.

*- Credit Risk*

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Bank. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Bank. 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 geographic location.

The Bank 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 which are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and to take corrective action.

*- Market Risk*

The main components of the Bank's Market Risk are interest risk, foreign exchange risk and equity price 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 Bank 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 re-price in a given period. The Bank's Treasury Department manages this risk through monitoring of such gaps on a regular basis.

Fluctuations in exchange rates for different currencies are a source of Foreign Exchange Risk. The Board has established limits on the open Foreign Exchange position in order to manage such risks. These forex positions are monitored on a daily basis and hedging strategies are used by the Treasury Department to ensure that positions are maintained within the established limits.

## B. CAPITAL ADEQUACY *(continued)*

### a) Qualitative Disclosures *(continued)*

Equity Price risk arises due to fluctuations in prices of Bank's equity holdings. This risk is avoided by keeping exposures at very low levels, besides regular monitoring of the prices.

In addition to the above safeguards, market risks are also reviewed on a regular basis by the Bank's Asset and Liability Committee (ALCO), and corrective measures taken where considered necessary.

- *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 Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage these risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes (including the use of Internal Audit).

### b) Quantitative Disclosures

In terms of Circular No. 27/2009 dated 17 November 2009 issued by the Central Bank of the UAE, the minimum capital requirement is 12% of Total Risk Weighted Assets. Computations of the Group's Capital Adequacy Ratio are as follows:

| Category | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| Risk Weighted Assets | | |
| 1. Credit Risk - Standardized Approach | **19,424,576** | 15,629,117 |
| 2. Market Risk - Standardized Approach | **75,568** | 3,417 |
| 3. Operational Risk - Basic Indicator Approach | **1,999,763** | 1,003,933 |
| Total Risk Weighted Assets | **21,499,707** | 16,636,467 |
| Capital Base | **3,153,718** | 2,652,578 |
| Capital Ratio (%) | | |
| a. Total for the Group | **14.7%** | 15.9% |
| b. Tier 1 ratio only for the Group | **13.9%** | 15.2% |

## C. CREDIT RISK UNDER STANDARDIZED APPROACH

### 1. Details of Exposures, Risk Mitigants and Risk Weighted Assets as at 31 December 2014:

| Category | On and Off Balance Sheet Exposures (Gross outstanding) AED'000 | Specific Provision & Interest in Suspense AED'000 | Exposure before Credit Risk Mitigants AED'000 | Credit Risk Mitigants AED'000 | Exposure after Credit Risk Mitigants AED'000 | Exposure after Credit Conversion Factors (CCF) AED'000 | Risk Weighted Assets AED'000 |
|---|---|---|---|---|---|---|---|
| Claims on Sovereigns | 2,124,990 | - | 2,124,990 | - | 2,124,990 | 2,124,990 | - |
| Claims on Non-Central Govt Public Sector Entities (PSEs) | 870,040 | - | 870,040 | - | 870,040 | 870,040 | - |
| Claims on Multi Lateral Development Banks | - | - | - | - | - | - | - |
| Claims on Banks | 3,230,939 | - | 3,230,939 | - | 3,230,939 | 3,125,327 | 1,130,435 |
| Claims on Securities Firms | - | - | - | - | - | - | - |
| Claims on Corporates | 15,294,881 | - | 15,294,881 | - | 15,294,881 | 11,060,497 | 11,848,632 |
| Claims included in the Regulatory Retail Portfolio | 3,293,414 | - | 3,293,414 | - | 3,293,414 | 3,293,414 | 2,486,507 |
| Claims secured by Residential Property | 2,051,897 | - | 2,051,897 | - | 2,051,897 | 2,051,897 | 747,570 |
| Claims secured by Commercial Real Estate | 1,440,080 | - | 1,440,080 | - | 1,440,080 | 1,440,080 | 1,407,632 |
| Past Due Loans | 472,866 | (259,025) | 213,841 | - | 213,841 | 213,841 | 253,714 |
| Higher-Risk Categories | - | - | - | - | - | - | - |
| Other Assets | 1,672,261 | - | 1,672,261 | - | 1,672,261 | 1,672,261 | 1,550,086 |
| Claims on Securitized Assets | - | - | - | - | - | - | - |
| Credit Derivatives (Banks Selling Protection) | - | - | - | - | - | - | - |
| **TOTAL** | 30,451,368 | (259,025) | 30,192,343 | - | 30,192,343 | 25,852,347 | 19,424,576 |

## C. CREDIT RISK UNDER STANDARDIZED APPROACH *(continued)*

Details of Exposures, Risk Mitigants and Risk Weighted Assets as at 31 December 2013:

| *Category* | On and Off Balance Sheet Exposures | Specific Provision & Interest in Suspense | Exposure before Credit Risk Mitigants | Credit Risk Mitigants | Exposure after Credit Risk Mitigants | Exposure after Credit Conversion Factors (CCF) | Risk Weighted Assets |
|---|---|---|---|---|---|---|---|
| | (Gross outstanding) *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| Claims on Sovereigns | 1,830,334 | - | 1,830,334 | - | 1,830,334 | 1,830,334 | - |
| Claims on Non-Central Govt Public Sector Entities (PSEs) | 793,216 | - | 793,216 | - | 793,216 | 793,216 | 27,038 |
| Claims on Multi Lateral Development Banks | - | - | - | - | - | - | - |
| Claims on Banks | 2,449,509 | - | 2,499,509 | - | 2,449,509 | 2,527,455 | 699,173 |
| Claims on Securities Firms | - | - | - | - | - | - | - |
| Claims on Corporates | 14,899,610 | - | 14,899,610 | - | 14,899,610 | 11,123,487 | 9,292,428 |
| Claims included in the Regulatory Retail Portfolio | 2,659,314 | - | 2,659,314 | - | 2,659,314 | 2,659,314 | 2,041,034 |
| Claims secured by Residential Property | 1,999,023 | - | 1,999,023 | - | 1,999,023 | 1,999,023 | 738,234 |
| Claims secured by Commercial Real Estate | 1,257,979 | - | 1,257,979 | - | 1,257,979 | 1,257,979 | 1,257,979 |
| Past Due Loans | 246,016 | (113,480) | 132,536 | - | 132,536 | 132,536 | 145,703 |
| Higher-Risk Categories | - | - | - | - | - | - | - |
| Other Assets | 1,510,642 | - | 1,510,642 | - | 1,510,642 | 1,510,642 | 1,427,528 |
| Claims on Securitized Assets | - | - | - | - | - | - | - |
| Credit Derivatives (Banks Selling Protection) | - | - | - | - | - | - | - |
| TOTAL | 27,695,643 | (113,480) | 27,582,163 | - | 27,582,163 | 23,833,986 | 15,629,117 |

## C. CREDIT RISK UNDER STANDARDIZED APPROACH (*continued*)

### 2. Gross Exposure under Standardized Approach based on External Ratings

### a) Qualitative Disclosures

For purposes of computing Risk Weighted Assets, only ratings assigned by ECAIs (External Credit Assessment Institutions) as approved by the Central Bank of the UAE are considered.

### b) Quantitative Disclosures

**Gross Exposure before Credit Risk Mitigants (CRM)**

| Category | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Rated AED'000 | Unrated AED'000 | Total AED'000 | Rated AED'000 | Unrated AED'000 | Total AED'000 |
| Claims on Sovereigns | 1,849,626 | 275,364 | 2,124,990 | 1,410,038 | 420,296 | 1,830,334 |
| Claims on Non-Central Govt Public Sector Entities (PSEs) | 368,311 | 501,729 | 870,040 | 135,190 | 658,026 | 793,216 |
| Claims on Multi Lateral Development Banks | - | - | - | - | - | - |
| Claims on Banks | 3,172,873 | 58,066 | 3,230,939 | 2,231,401 | 81,819 | 2,313,220 |
| Claims on Securities Firms | - | - | - | - | - | - |
| Claims on Corporates | 947,713 | 14,347,168 | 15,294,881 | 623,401 | 8,521,171 | 9,144,572 |
| Claims included in the Regulatory Retail Portfolio | - | 3,293,414 | 3,293,414 | - | 2,659,314 | 2,659,314 |
| Claims secured by Residential Property | - | 2,051,897 | 2,051,897 | - | 1,999,023 | 1,999,023 |
| Claims secured by Commercial Real Estate | - | 1,440,080 | 1,440,080 | - | 1,257,979 | 1,257,979 |
| Past Due Loans | - | 213,841 | 213,841 | - | 246,016 | 246,016 |
| Higher-Risk Categories | - | - | - | - | - | - |
| Other Assets | 12,024 | 1,660,237 | 1,672,261 | 11,132 | 1,499,510 | 1,510,642 |
| Claims on Securitized Assets | - | - | - | - | - | - |
| Credit Derivatives (Banks Selling Protection) | - | - | - | - | - | - |
| **TOTAL** | 6,350,547 | 23,841,796 | 30,192,343 | 4,411,162 | 17,343,154 | 21,754,316 |

## C. CREDIT RISK UNDER STANDARDIZED APPROACH *(continued)*

### 3. Exposure by Currency Type

The Bank's exposures are mainly in local currency, hence, risk of exposures in foreign currency is minimal. For details kindly refer to Note 23 "Risk Management – Currency Risk" of Notes to the Financial Statements as at 31 December 2014.

### 4. Exposure by Geographical Region

The Bank has branches only in the UAE, hence, its exposures are mainly within the country. For details kindly refer to Note 23 "Risk Management – Credit Risk" of Notes to the Financial Statements as at 31 December 2014.

### 5. Exposure by Economic Sector

For details kindly refer to Note 23 "Risk Management – Credit Risk" of Notes to the Financial Statements as at 31 December 2014.

### 6. Exposures by Residual Contractual Maturity

For details kindly refer to Note 23 "Risk Management – Liquidity Risk" of Notes to the Financial Statements as at 31 December 2014.

### 7. Past due and impaired loans

### a) Qualitative Disclosures

**Definitions of past due and impaired**

Past due accounts are those where the obligations are not met on the due date.

A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more event(s) that has occurred after the initial recognition of the asset, and based on reliable estimates which impact(s) future cash flows of the financial asset or group of financial assets.

Evidence of impairment may include: (a) indications that the borrower or a group of borrowers is experiencing significant financial difficulty; (b) the probability that they will enter bankruptcy or other financial re-organisation; (c) default or delinquency in interest or principal payments; (d) conduct of the account is not in line with Central Bank of the UAE guidelines; (e) where observable data indicates that there is a measurable decrease in the estimated future cash flows; and (f) where the entity is in arrears or facing economic conditions that correlate with defaults.

## C. CREDIT RISK UNDER STANDARDIZED APPROACH *(continued)*

### a) Qualitative Disclosures *(continued)*

Description of approaches followed for creating Specific and General Provisions:

Specific

Specific provisioning on loans and advances are made as follows:

- On Corporate accounts provisions are made in compliance with the above, in particular, with IAS 39 standards

- On Retail accounts provisions are made as outlined below:

| | |
|---|---|
| - Substandard accounts | 25% |
| - Doubtful accounts | 50% |
| - Loss accounts | 100% |

General

General Provisions are calculated in line with the Central Bank of the UAE guidelines. According to the guidelines, such provisions are required to be increased progressively until 2014 to the level of 1.5% of the Credit Risk Weighted Assets (CRWA) for Loans and Advances and off Balance Sheet commitments (excluding those impaired), computed in terms of Basel II standardised approach.

## C. CREDIT RISK UNDER STANDARDIZED APPROACH *(continued)*

### b) Quantitative Disclosures

- Past due and impaired Loans by Industry Segment as at 31 December 2014:

| Category | Past due but not impaired | | | | Impaired loans | Provision & Interest in Suspense |
|---|---|---|---|---|---|---|
| | 0-30 days Past due | 31-60 days past due | 61-90 days past due | Over 91 days past due | | |
| | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| Agriculture, Livestock and Fishery | - | - | - | 35 | - | - |
| Extractive Industries | - | - | - | - | - | - |
| Manufacturing Industries | 8,703 | 3,988 | 1,951 | 16,293 | 2,236 | 2,236 |
| Electricity, Gas and Water | 8,800 | 1,675 | 1,778 | 4,752 | - | - |
| Construction | 14,803 | 254 | 262 | 7,123 | 79,349 | 12,418 |
| Wholesale / Retail Trade | 103,788 | 18,586 | 22,186 | 27,001 | 243,272 | 226,240 |
| Restaurants and Hotels | - | - | - | - | 38,845 | 18,131 |
| Transportation, Storage and Communication | 313 | 408 | 4 | 38 | - | - |
| Real Estate and Business Services | - | - | - | - | - | - |
| Social and Private Services | - | - | - | - | - | - |
| Financial Services Sector | 261 | - | - | - | - | - |
| Government | - | - | - | - | - | - |
| Household / Personal | 277,370 | 66,918 | 19,107 | 13,131 | 109,164 | - |
| **Total** | **414,038** | **91,829** | **45,288** | **68,373** | **472,866** | **259,025** |

## C. CREDIT RISK UNDER STANDARDIZED APPROACH *(continued)*

### b) Quantitative Disclosures *(continued)*

- Past due and impaired Loans by Industry Segment as at 31 December 2013:

| Category | Past due but not impaired | | | | Impaired loans | Provision & Interest in Suspense |
|---|---|---|---|---|---|---|
| | 0-30 days Past due | 31-60 days past due | 61-90 days past due | Over 91 days past due | | |
| | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| Agriculture, Livestock and Fishery | - | - | - | 20 | 11 | 11 |
| Extractive Industries | - | - | - | - | - | - |
| Manufacturing Industries | 16,116 | 2,146 | 5,332 | 395 | 3,189 | 1,767 |
| Electricity, Gas and Water | 89 | 1,000 | - | - | - | - |
| Construction | 4,802 | 7,930 | 10 | 16,922 | 31,898 | 10,097 |
| Wholesale / Retail Trade | 11,885 | 14,894 | 1,008 | 16,428 | 117,521 | 62,532 |
| Restaurants and Hotels | - | - | - | - | 10,032 | 9,613 |
| Transportation, Storage and Communication | 1,594 | 2 | - | 16 | 3,526 | 3,389 |
| Real Estate and Business Services | 3,240 | 2 | - | 84 | - | - |
| Social and Private Services | - | - | - | - | - | - |
| Financial Services Sector | 260 | - | - | - | - | - |
| Government | - | - | - | - | - | - |
| Household / Personal | 157,155 | 70,231 | 57,012 | 26 | 79,839 | 26,071 |
| Total | 195,141 | 96,205 | 63,362 | 33,891 | 246,016 | 113,480 |

## C. CREDIT RISK UNDER STANDARDIZED APPROACH *(continued)*

### b) Quantitative Disclosures

- Past due and impaired loans by Geographic Region as at 31 December 2014:

| Geographic Region | Past due but not impaired | | | | Impaired loans | Provision & Interest in Suspense |
|---|---|---|---|---|---|---|
| | 0-30 days Past due | 31-60 days past due | 61-90 days past due | Over 91 days past due | | |
| | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| **United Arab Emirates** | **414,038** | **91,829** | **45,288** | **68,373** | **472,866** | **259,025** |
| **Total** | **414,038** | **91,829** | **45,288** | **68,373** | **472,866** | **259,025** |

- Past due and impaired loans by Geographic Region as at 31 December 2013:

| Geographic Region | Past due but not impaired | | | | Impaired loans | Provision & Interest in Suspense |
|---|---|---|---|---|---|---|
| | 0-30 days Past due | 31-60 days past due | 61-90 days past due | Over 91 days past due | | |
| | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| United Arab Emirates | 195,141 | 96,205 | 63,362 | 33,891 | 246,016 | 113,480 |
| Total | 195,141 | 96,205 | 63,362 | 33,891 | 246,016 | 113,480 |

- Reconciliation of changes in Provision for Impaired Loans

For details kindly refer to Note 7 "Loans and Advances" of Notes to the Financial Statements as at 31 December 2014. Amounts of related provisions reported in the note include General Provision amounting to AED 242,807 (AED'000) reported under Tier 2 Capital in these disclosures.

### 8. Credit Risk Mitigation – Disclosures for Standardized Approach

### a) Qualitative Disclosures

The Bank 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 which is subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and to take corrective action.

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, inventory and trade receivables. The Bank also obtains guarantees from parent companies for loans to their subsidiaries or other Group companies.

The Bank monitors the market value of collateral, and requests additional collateral in accordance with the underlying agreement. It also monitors the market value of collateral obtained, during its review of the adequacy of the allowance for impairment losses. It is the Bank'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 Bank does not occupy repossessed properties for business use.

## C. CREDIT RISK UNDER STANDARDIZED APPROACH *(continued)*

### 8. Credit Risk Mitigation – Disclosures for Standardized Approach *(continued)*

### b) Quantitative Disclosures

| Exposures | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Gross Exposure prior to Credit Risk Mitigation | **30,192,343** | 23,833,986 |
| Credit Risk Mitigants | | |
| - Direct Deductions: | | |
| Exposure covered by on-balance sheet netting | **-** | - |
| - Substitution by Risk Weights: | | |
| Exposure covered by Guarantees | | |
| from 100% | **(159,623)** | (184,946) |
| to 20% | **3,500** | 5,515 |
| 50% | **153,146** | 171,828 |
| 100% | **2,977** | 7,603 |
| 150% | **-** | - |
| Exposures covered by collaterals under simple approach | | |
| from 150% | **(315)** | (1,384,248) |
| from 100% | **(1,321,656)** | - |
| from 75% | **(26,181)** | - |
| to 0% | **1,348,152** | 1,384,248 |
| **Net Exposures after Credit Risk Mitigation** | **30,192,343** | **23,833,986** |
| **Risk Weighted Assets** | **19,424,576** | **15,629,117** |

## D. MARKET RISK UNDER STANDARDISED APPROACH

### 1. Capital required against Market Risk and equivalent Risk Weighted Assets

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| Interest rate risk | **8,953** | 252 |
| Equity position risk | **-** | - |
| Foreign exchange risk | **115** | 158 |
| Commodity risk | **-** | - |
| Options risk | **-** | - |
| **Total Capital Requirement** | **9,068** | 410 |
| Risk Weighted Assets (Capital requirement divided by 12%) | **75,568** | 3,417 |

### 2. Interest Rate Risk

The Bank has nominal Interest Rate Risk on its Trading Book, as shown above. For details, concerning Interest Rate Risk on its Banking Book, kindly refer to Note 23 "Risk Management – Market Risk – Interest Rate Risk" of Notes to the Financial Statements at 31 December 2014.

### 3. Equity Position Risk

The Bank has no Equity Position on its Trading Book, hence Capital required is nil. However, there are a few investments in its banking book under available for sale category. For details please refer to Note 12 "Investments" of Notes to the Financial Statements at 31 December 2014.

### 4. Foreign Exchange Risk

The amount shown above, represents Foreign Exchange Risk on both banking and trading books. Since AED is pegged to USD, positions in USD and other GCC currencies pegged to USD are excluded. For more details please refer to Note 23 "Risk Management – Currency Risk" of Notes to the Financial Statements at 31 December 2014.

### 5. Options Risk

The Bank's exposure in Options bought and sold are perfectly matched; hence there is no capital charge on such positions.

## D. MARKET RISK UNDER STANDARDISED APPROACH *(continued)*

### 6. Revaluations Gains / (Losses) During The Year

The Bank accounts for changes in fair values of Available for sale investments (both debt and equity) and cash flow hedges through Equity. Details of such charges are given in Note 19 "Cumulative Changes in Fair Values" of Notes to the Financial Statements at 31 December 2014.

Gains / (losses) due to changes in fair values added to / (deducted from) Tier 1 / Tier 2 Capital are as follows:

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| Amount added to / (deducted from) in Tier 1 capital | **-** | - |
| Amount added to / (deducted from) in Tier 2 capital | **(66,893)** | (51,875) |
| **Total** | **(66,893)** | (51,875) |

## E. OPERATIONAL RISK – BASIC INDICATOR APPROACH

Computation of Capital Charge and Risk Weighted Assets equivalent for Operational Risk is as follows:

| | | **2014 AED'000** | | 2013 AED'000 |
|---|---|---|---|---|
| Gross Income (including Interest in suspense) | **2012** | **772,173** | 2011 | 586,665 |
| | **2013** | **1,050,593** | 2012 | 772,173 |
| | **2014** | **1,376,855** | 2013 | 1,050,593 |
| | | **3,199,621** | | 2,409,431 |
| 3-year average | | **1,066,540** | | 803,144 |
| Beta factor | | **15%** | | 15% |
| Capital requirement before applying National Discretion | | **159,981** | | 120,472 |
| UAE National Discretion Factor | | **1.5** | | - |
| Capital requirement after applying National Discretion | | **239,972** | | 120,472 |
| Risk Weighted Assets equivalent (Capital requirement divided by 12 %) | | **1,999,763** | | 1,003,933 |