

ANNUAL REPORT 2013

RAK BANK

Simply Better

The National Bank of Ras Al-Khaimah (P.S.C.)



His Highness Shaikh Khalifa bin Zayed Al Nahyan
President of the United Arab Emirates



His Highness Shaikh Saud Bin Saqr AL Qassimi
Member of the Supreme Council
Ruler of Ras Al Khaimah



His Highness Shaikh Mohammed Bin Saud Bin Saqr Al Qassimi

Crown Prince
Ras Al Khaimah

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CHAIRMAN'S LETTER

We are pleased to present the results of your Bank for the financial year ended 31st December 2013. Net profit for the year amounted to AED1,430.8 million, a moderate increase over the previous year, continuing the Bank's leadership position in the UAE in terms of Return on Assets and Return on Equity.

The underlying business of most of our core product lines performed exceptionally well during 2013 and we saw large increases in fee income across the board. However top line growth was affected by a significant reduction in our National loan portfolio which was actively targeted for re-financing by other banks. We also decided to take a further conservative stance with regard to loan provisioning throughout the year.

A major initiative for 2013 was our Islamic Banking window 'AMAL' which was launched during the month of January and it already is contributing positively to the Bank's bottom line. Under AMAL the Bank has introduced a new portfolio of Shari'ah compliant products such as Current and Saving Accounts, Deposits, Personal and Auto finance, Credit and Debit Cards, Business Finance and Takaful programs.

2013 marked a major management change for the Bank, with Mr. J G Honeybill retiring after leading the Bank for 18 years. We would like to express our sincere appreciation to Mr. Honeybill for leading the dramatic transformation of the Bank from a predominantly corporate bank in 1996 delivering circa AED 50 million in profit to now be the UAE's leading Personal and SME bank consistently delivering superior results. We would also like to acknowledge the incredible contribution of Mr. David Martin, our former advisor for Personal banking. David led the strategic direction of our Personal banking business for some 15 years and along with Graham built RAKBANK to be what it is today. Sadly David Martin passed away recently after a long battle with illness.

The Directors also welcomed Mr. Peter England as our new Chief Executive Officer effective from 1st November 2013 and he has the full support from the Board to commence the next chapter of the development of the Bank.

The Directors, at the board meeting held on 29th January 2014, have recommended a cash dividend of 50%. The Directors consider that the Bank is well placed to meet the continuing challenges which will be faced during 2014. The dividend recommendations will result in 41.4% of net profit being retained within the Bank's shareholders equity thereby increasing capital and reserves to strengthen the Bank's overall position and provide support for future growth. The Directors propose to increase the general banking risk reserve by AED 100 million, credit risk reserve by AED 100 million and regulatory credit risk reserve by AED26 million to align it at 1.5% of the Bank's total credit risk weighted assets. These measures will increase the Bank's shareholders' equity to AED 5.7 billion after payment of the proposed cash dividend.

We are grateful for the continued whole-hearted support of His Highness Sheikh Saud bin Saqr Al-Qasimi, Member of the Supreme Council and Ruler of Ras Al Khaimah and the Government of Ras Al-Khaimah. The Directors also wish to thank the management and staff of the Bank for their performance during 2013 and the Bank's customers for their continued support.



H.E. Sheikh Omar Bin Saqr Al-Qasimi

Chairman

For and on behalf of Board of Directors

29th January 2014

CEO'S REPORT

FINANCIAL PERFORMANCE

I am delighted to be writing my first CEO's report on RAKBANK's financial performance for the financial year. Before moving on to discuss the Bank's performance in 2013 I would first like to convey my sincere appreciation to our Chairman H.E. Sheikh Omar Bin Saqr Al-Qasimi and the Board of Directors for having the faith in me to take over the helm of such an incredibly successful organisation.

RAKBANK as we know it today was effectively created by two very capable individuals, Mr. Graham Honeybill and Mr. David Martin. RAKBANK was 're-invented' in the late 1990s by Graham and David, moving away from its traditional Corporate lending focus, and becoming an amazingly powerful Retail and SME bank. The success of the Bank really is outstanding with RAKBANK being far away number 1 in the UAE in terms of Return on Equity, Return on Assets, and Tier 1 Capital as well as bad debt ratios. In fact, in terms of Return on Assets, RAKBANK is ranked in the top 20 in the entire world which truly is a remarkable achievement.

To move on to the financial results, the 2013 net profit increase of AED 28 million over the 2012 net profit of AED 1,402.8 million was mainly due to positive variances of 5.5% in net interest income and profit from Islamic financing and a 20.2% increase in non-interest income. This was partially offset by a 62.9% increase in provision for loan impairment which came off the back of a remarkably low provision number in 2012 and contained an element of additional precautionary provisions taken against loans that have been restructured. Operating expenditure was well contained growing at 7.6% which was lower than the growth in income leading to a marginally lower cost income ratio.

Net interest income and profit from Islamic financing increased by AED 123.7 million in 2013 to AED 2,357 million. This was mainly the result of 8.5% growth in gross loans and advances which at the year-end stood at AED 22.4 billion. Loan and advances includes Islamic financing assets of AED 1.2 billion. Non-interest income increased by 20.2% (AED 133.5million) to AED 793.4 million compared to last year. A major contributor to this increase was investment income which increased by AED 78 million to reach AED 150 million. Total operating income increased by AED 257.2 million to AED 3.2 billion. The 8.9% growth in total operating income over last year is due to a rise in loans, Islamic financing and investments, plus strong performances in non-funded income streams like Investments, Bancassurance commission and fees from wealth management products and income from foreign exchange transactions.

Due to the increasing investment in the Bank's branch network and information technology, operating costs increased by 7.6% (AED 97.6 million) compared to last year. During the year, the Bank opened its 34th branch and the first branch in the emirate of Fujairah to complement the existing branch network in the country's east coast region. The Bank also launched Fast Lane, the first dedicated Islamic Auto Finance Centre in Al Barsha in Dubai to offer AMAL Auto Finance solutions to car buyers in just 60 minutes. Furthermore, RAKBANK added new services on Mobile Banking throughout the year as the Bank continues to add convenience to the customers' banking experience by expanding web-based solutions and prioritizing customer service. Even with the investments in these developments, the increase in operating costs remained below the total operating income growth of 8.9%, indicating healthy profitability levels and cost income ratio reduced to 43.8% compared to last year's ratio of 44.3%.

The total impairment charge increased by 62.9% to AED 340.6 million compared to last year's charge of AED 209.1 million. A number of factors contributed to this increase being, the 2012 number was exceptionally low on the back of write-backs from earlier years, the bank experienced significant deterioration in one of its Personal loan portfolios, and as a result we decided to take further precautionary provisions against restructured loans within this portfolio. As always, the Bank is well provisioned against loan losses with a conservative loan loss coverage ratio of 73.3% compared to 62.8% at the end of last year and this coverage ratio does not take into consideration mortgaged properties and other realizable assets collaterals available against these loans. Nonperforming loans made up only 2.4% of the loans and Islamic Finance portfolio compared to 2.5% at the end of last year and net credit losses to average loan advances remained low at 1.6% which is a testament to the bank's high underwriting standards and asset quality.

Total assets increased by 10.6% to AED 30.1 billion. The major contributor to this increase was loans and advances and investment portfolio which rose by 8% and 70% respectively. Bank's investment portfolio stood at AED 2.7 billion which is entirely denominated in USD or AED. The regulatory liquid asset ratio at the end of the year was 19.8% and advances to stable resources ratio stood comfortably at 88.1%.

Customer deposits grew by 11% to AED23.1 billion. This includes Islamic deposits of AED 2 billion. Customer deposits, together with retained profit, was sufficient to support the growth in loans and investments.

The Bank's Tier 1 ratio as per Basel II after considering the profit for 2013 and the proposed dividend was 29.01% at the year-end as against a requirement of 12% set by the U.A.E. Central Bank. We consider that this level of capital provides the Bank with ample room for growth during 2014.

RATINGS

The bank is currently rated by the following leading rating agencies. The following ratings have remained unchanged during the year:

Rating Agency	Deposits	Financial Strength	Support
Moody's	Baa1 / P2-	D+	-
Fitch	BBB+ / F2	C	2
Capital Intelligence	A-/ A2	BBB+	2

We are pleased to note that all of our ratings carry a stable outlook.

OUTLOOK FOR 2014

As noted during the course of 2013 the Bank's performance was significantly impacted by the loss of income from a significant portion of its National loan portfolio through refinancing of these loans to other banks. Additionally, we saw a deterioration in asset quality on this portfolio which we expect will continue to an extent throughout 2014. These factors negatively affected what otherwise would have been another very strong year of growth for the Bank.

To address these issues during the course of 2014 management needs to aggressively drive Asset growth and fee income from all of its other lines of business to ensure continued growth particularly in top line revenue. We will continue with our focus on Personal banking and RAKFinance and look for increased opportunities in the broader SME banking space. We believe the positive factors in the UAE economy will support our ambitious growth plans in these areas. My management team and I will need to actively explore new opportunities for revenue growth across the spectrum of Personal and SME Financial services in the UAE to ensure continued growth and success. We will continue our efforts to be a leader in Internet and mobile technology, and also continue our focus on opportunities in Islamic finance as this becomes an increasingly important element of the UAE banking market. We will also continue with policy of continual IT infrastructure ever-greening and on-going improvement in Operations and broader service quality to ensure that we remain in a leadership position in Personal and SME banking.

In closing I would like to echo HE Sheikh Omar Bin Saqr Al-Qasimi's thanks for the continued support of His Highness Sheikh Saud bin Saqr Al-Qasimi, Member of the Supreme Council and Ruler of Ras Al Khaimah and the Government of Ras Al-Khaimah. I would also like to thank the Chairman and all of the Directors for their on-going guidance and counsel as we move from this transition phase in the Bank's history to the next chapter in the development of the Bank.



Peter England

RAKBANK AT A GLANCE

Founded in 1976, RAKBANK, also known as the National Bank of Ras Al-Khaimah, is one of the country's oldest local financial institutions and today one of its fastest growing and most dynamic banks. According to The Bankers Top 100 Arab Bank Rankings for 2013, RAKBANK is the 1st in the Arab World by Return on Assets and 5th by Return on Capital. The Bank's convenient banking channels include 34 branches by end of 2013, as well as Telephone, Online, and Mobile Banking services.

National Bank of Ras Al Khaimah (RAKBANK) is a public joint stock company incorporated in the Emirate of Ras Al Khaimah and is registered under the UAE Federal Commercial Companies Law No (8) of 1984 under License number 12322. It operates in the UAE under a banking license issued by the Central Bank of the UAE. The Bank employs around 2,400 people and serves over 700,000 retail and business customers in the UAE.

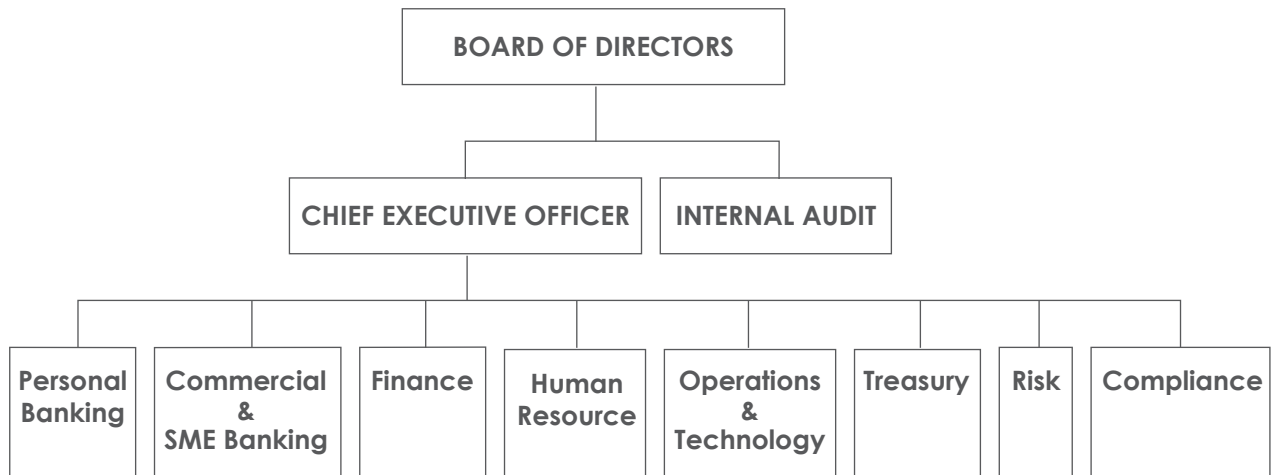
CAPITAL STRUCTURE AND OWNERSHIP

RAKBANK's authorized and issued share capital is AED 1,676.25 million shares with face value of AED 1 each. The Government of Ras Al Khaimah holds 52.76% of the Bank's share capital. RAKBANK is listed on Abu Dhabi Securities Exchange, ADX.



ORGANIZATION

The below chart sets out the organization structure of the Bank.



The National Bank of Ras Al-Khaimah (P.S.C) comprises the Bank and three subsidiaries (together the "Group"). These subsidiaries are RAK Islamic Finance Pvt. J.S.C in which the Bank owns 99.9%, BOSS FZCO and RAK Technologies FZCO in which the Bank owns 80%. RAK Islamic Finance Pvt. J.S.C has an authorized and issued capital of AED 100 million, and was incorporated to enable the Bank to sell Sharia-compliant financial products. BOSS FZCO and RAK Technologies FZCO have been incorporated to provide back office support services to the Bank. Both BOSS FZCO and RAK Technologies FZCO have an authorized and issued share capital of AED 500,000 each and were formed under the Dubai Silicon Oasis Authority guidelines.

BOARD OF DIRECTORS

**H.E. Shaikh Omar bin Saqr Al-Qasimi**

Chairman

H.E. Shaikh Omar Al-Qasimi was appointed by the government of Ras Al Khaimah to join the RAKBANK Board of Directors and was elected Chairman on March 4, 2006.

External appointments:

Chairman of Gulf Cement

Bachelor of Politics and Public Administration (Eastern Michigan University)

**H.E. Engr. Sheikh Salem Bin Sultan Al-Qasimi**

Director

H.E. Engr. Sheikh Salem Al Qasimi is a member of the Government of Ras Al-Khaimah Executive Council.

External appointments:

Chairman of the RAK Department of Civil Aviation

Member of General Civil Aviation Authority

Founder and Chairman of RAKABELA Catering Company

Chairman of Ras Al Khaimah National Travel Agency (RANTA) and Ras Al Khaimah Travel agency (RAKTA)

Founder and Chairman of UAE Fencing Federation

Board Member of the UAE National Olympic Committee and

Executive Office

Executive Certificate in Air Transport, Air & Space Law & Regulation (McGill)

Executive Certificate in Innovations in Governance (Harvard University)

Executive Certificate in Competitive Strategy (INSEAD)

Executive Masters of Business Administration (American University of Sharjah)

Bachelor of Science in Mining Engineering (University of Arizona)

**Mr. Hamad Abdulaziz Al Sagar**

Director

Mr. Hamad Al Sagar is a former member of the Municipality of Kuwait and a former member of the Kuwait Planning Board. He was also on the Board of Kuwait Investment Authority.

External appointments:

Board Member of National Bank of Kuwait

Board Member of Shuaa Capital

Bachelor in Economics (University College of Dublin)

**Mr. Yousuf Obaid Bin Essa Al Nuaimi**

Director

Mr. Yousuf Al Nuaimi has 37 years of banking experience with HSBC Group.

External appointments:

Chairman of the Board of RAK Chamber of Commerce and Industry

Board Member of Federal Chamber of Commerce

President of Ras Al Khaimah Reconciliation and Commercial Arbitration Centre

Member of the Programme Advisory Committee at Higher Colleges of Technology in Ras Al Khaimah

Board Member of Sheikh Saqr Charity

Member of the Human Resources Development Committee in Banking and Financial Sector

Mr. Salem Ali Al Sharhan

Director

Mr. Salem Ali Al Sharhan is the former Group Chief Financial Officer of Etisalat.

External appointments:

Advisor to His Highness the Ruler of Ras Al Khaimah
Member of Ras Al Khaimah Executive Council
Board Member of Dubai International Financial Centre Authority

Bachelor of Science (UAE University)

**Mr. Ahmed Essa Al Naeem**

Director

Mr. Ahmed Al Naeem has 39 years of work experience with the Ras Al Khaimah government. He is the former General Manager of RAK Petroleum and RAK Gas. He is also a former member of the Ras Al Khaimah Municipal Council and of the Ras Al Khaimah Chamber of Commerce, Industry, and Agriculture and has held many ministerial posts.

External appointments:

Director of Gulf Pharmaceutical Industries (Julfhar)
Chairman of RAK Trade Centre
Vice Chairman of United Insurance Company
Vice Chairman of RAK National Insurance Company
Chairman of Emirates Travel Agency
Chairman of Al Naeem Mall

B.E. in Telecommunications & Electrical (Briton College)
Radar Diploma Course (Marconi College)

**Mr. Abdul Aziz Abdullah Al Zaabi**

Director

Mr. Abdul Aziz is the former CEO of Real Estate Bank.

External appointments:

Vice Chairman of RAK Properties and Head of the Executive and Investment Committee
Chairman of Gulf Livestock
Chairman of RAK Charity

Bachelor in International Business (San Jose State University)

**Mr. John Graham Honeybill**

Director

Mr. John Honeybill has over 44 years of banking experience in 12 different countries, with 20 years spent working in various parts of the Gulf region. He was RAKBANK CEO between 1996 and 2013 for a total of 18 years.

Senior Management Training (Stanford/National University of Singapore and Manchester Business School)



MANAGEMENT TEAM



Mr. Peter England

Peter England became the CEO of RAKBANK on 1st November 2013. Before that, Peter spent seven years as the Head of Retail Banking at CIMB Bank Berhad, a subsidiary of CIMB Group and one of the largest banks in ASEAN, where he managed individual and small enterprise customers in Malaysia, Singapore and Cambodia and worked on developing a wide range of conventional and Islamic products and services. Peter was also a Director of CIMB's Insurance, Takaful and Asset Management business which were joint ventures with Aviva and The Principal Group respectively. Peter has over 34 years of working experience in all aspects of retail banking, SME banking and wealth management and holds a Master's degree in Business Administration from the University of Southern Queensland, Australia.



Mr. K.S. Ramakrishnan (Ram)

Ram joined RAKBANK in April 2009 as Head of Internal Audit, reporting to the Audit Committee of the Board of Directors. He has over 30 years of banking experience in Operations, Credit Risk Control, and Audit. Previously, Ram was the Global Head of Credit Risk Control at Standard Chartered Bank in Singapore and Senior VP of DBS Bank Limited also in Singapore. Ram is a fellow of the Institute of Chartered Accountants of India (FCA), Graduate of the Institute of Cost and Works Accountants of India (ICWAI), and Certified Information Systems Auditor (CISA) of the ISACA, USA.



Mr. Ian Hodges

Ian Hodges joined RAKBANK in 2007 as Head of Personal Banking where he oversees the Bank's branches as well as its various business units including Cards, Business Finance, Wealth Management, Mortgages, Bancassurance, Auto Loans, Marketing, and RAKBANK Direct. He is directly responsible for guiding the Heads of the Business units in implementing the Bank's retail and small business strategy. Ian has over 25 years of experience in banking and formerly served as Director of Retail Branch Network at Co-operative Financial Services in London. He also spent 10 years with Lloyds Bank in various positions.



Mr. Raghuveer Mehra

Raghuveer Mehra was promoted to RAKBANK Head of Credit and Assets in October 2013 to look after the entire Credit, Collections, and Product for the Personal Banking portfolio. Raghuveer joined the Bank in 2005 and has held different positions since including Head of Mortgages and Head of Retail Credit and Collections. The bulk of his 18 years of work experience is in the UAE where he was responsible for launching Mashreqbank's mortgage product in 2003 and heading Operations and Product Development at Tamweel Home Finance. Raghuveer holds an MBA in Finance, Sales and Marketing from Trinity College.

Mr. Tim Basford

Tim Basford was appointed RAKBANK's Chief Operating Officer in December 2010. He is responsible for ensuring that the Bank continues to lead the market in the use of technology especially with its Mobile and Internet Banking platforms. He is also responsible for managing the Bank's Information Security, Business Continuity approach, and full Back Office Operations including Account Opening, Payments and Treasury. Prior to working at RAKBANK, Tim spent 23 years in several positions at HSBC in Hong Kong, Taiwan, Korea and New York, as well as 9 years at First Direct in the UK, the first no-branch bank.



Mr. Deepak Majithia

Deepak Majithia joined RAKBANK in August 2013 as the Head of Finance. Prior to this, he was the Country Chief Financial Officer at UBS where he was responsible for the Wealth Management and Investment Banking segments in India, Thailand, Malaysia, Indonesia, and Philippines. Deepak has over 16 years of experience in the finance function of the banking industry, covering Retail Banking, Wholesale Banking, Investment Banking and Treasury. Deepak is a qualified Chartered Accountant from the Institute of Chartered Accountants of India.



Mr. Rahul Oberoi

Rahul Oberoi became RAKBANK's Head of Commercial Banking in May 2012 and has been responsible since for implementing a growth strategy for the Commercial Banking and SME business across the UAE. Rahul has over 20 years of experience in the banking industry which includes launching the mid-corporate business at Abu Dhabi Commercial Bank, developing and launching Small Business Banking (SME) for Barclays Bank Plc in UAE, and managing the overall functions of the Business Banking Unit at Citibank UAE. Rahul holds a Master's degree in Business Administration from Rotterdam School of Management.



Mr. Malcolm D'Souza

Malcolm D'Souza is the Head of Treasury at RAKBANK. Malcolm is responsible for Investments in Fixed Income Bonds, Notes, and Foreign Exchange Trading and Customer flows. He also oversees the Asset Liability Management (ALM) Money Markets, Nostro Funding, and Liquidity Management bank-wide. Malcolm has over 35 years of multi-functional experience with many leading banks in India and the Middle East including Andhra Bank, Banque Indosuez, HSBC, Lloyds, and Standard Chartered. Malcolm has a Commerce degree from Osmania University and an ACI Diploma from Association Cambiste Internationale.



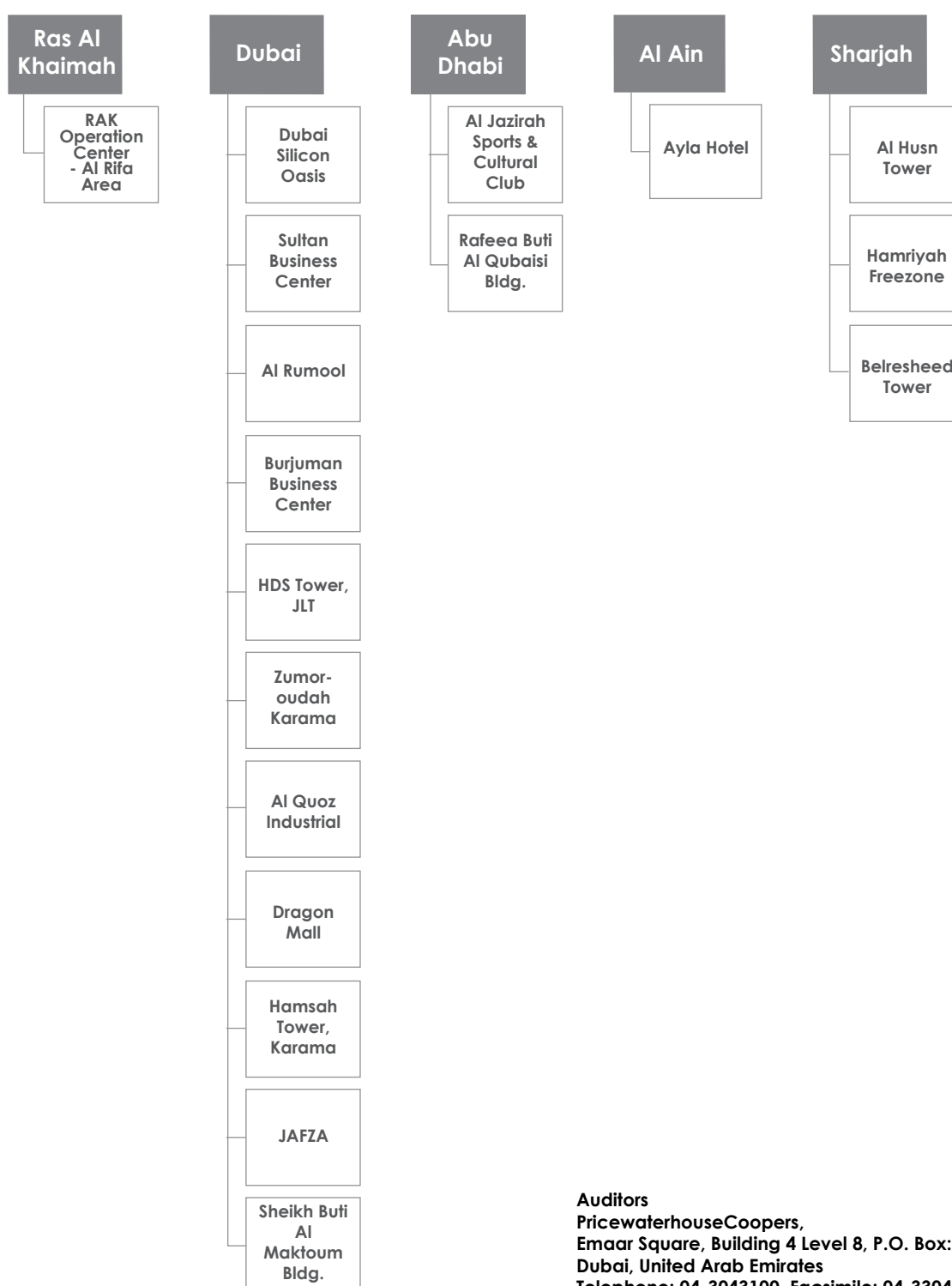
RAKBANK BACK OFFICES IN THE UAE

HEAD OFFICE

RAKBANK Building, Sheikh Mohammed Bin Zayed Road, P.O. Box 5300, Ras Al Khaimah

Telephone: 07 2062222, Telefax: 07 2435454, E-mail: nbrakho@emirates.net.ae

SWIFT: NRAKAEAK



Auditors

PricewaterhouseCoopers,
Emaar Square, Building 4 Level 8, P.O. Box: 11987,
Dubai, United Arab Emirates
Telephone: 04-3043100, Facsimile: 04-3304100

NETWORK OF RAKBANK BRANCHES AROUND THE UAE

Ras Al Khaimah	Dubai	Abu Dhabi	Al Ain	Sharjah	Ajman	Fujairah
Al Nakheel Branch 07 2062107 PO Box 5300	Deira Maktoum Branch 04 2913623 PO Box 1531	Abu Dhabi Tourist Club Branch 02 4127100 PO Box 2289	Al Ain Branch 03 7029000 PO Box 1130	King Faisal Branch 06 5988018 PO Box 41010	Ajman Branch 06 5988266 PO Box 31011	Fujairah Branch 09 2039611 PO Box 9915
RAKtown Branch 07 2062202 PO Box 164	Deira Souq Branch 04 2913775 PO Box 1531	Khalidiya Branch 02 4127600 PO Box 2289		Sharjah Industrial Branch 06 5988200 PO Box 41010		
Shaam Branch 07 2062333 PO Box 6868	Umm Hurair Branch 04 2915333 PO Box 1531	Airport Road Branch 02 4127575 PO Box 2289		Al Rolla Branch 06 5988400 PO Box 41010		
Badr Branch 07 2062402 PO Box 5300	Oud Metha Branch 04 2915103 PO Box 1531	Mussafah Branch 02 4127600 PO Box 2289		Kalba Branch 09 2039500 PO Box 11171		
Al Rams Branch 07 2062366 PO Box 6035	Al Ghusais Branch 04 2913505 PO Box 1531	Corniche Branch 02 4127666 PO Box 2289		Khorfakkan Branch 09 2039550 PO Box 10114		
Al Mannai Branch 07 2913960 PO Box 5300	Mirdiff Branch 04 2916100 PO Box 1531	Al Jazira Branch 02 4127666 PO Box 2289				
Al Dhait Branch 07 2062252 PO Box 33338	Sheikh Zayed Road Branch 04 2913700 PO Box 28221					
	Emaar Business Park Branch 04 2913655 PO Box 1531					
	Marina Diamond Branch 04 4224811 PO Box 1531					
	Al Quoz Branch 04 2913775 PO Box 1531					
	Ibn Battuta Branch 04 3685890 PO Box 1531					
	Dragon Mart Branch 04 2916161 PO Box 1531					
	Al Quoz Industrial Branch 04 2916079 PO Box 1531					

CORPORATE CULTURE

VISION

TO OFFER *Simply Better*
BANKING SOLUTIONS IN THE UAE

MISSION

We aim to be a leading, customer-focused retail and small business bank in the UAE that offers innovative and competitive financial products through convenient channels.

STRATEGY

We focus on maximizing our shareholder and asset value by building long-term relationships with our customers and employees and establishing a culture built on transparency, accountability, and service quality.

VALUES

- We shy away from what we don't understand and maintain a prudent lending policy.
- We consider speed of decision making paramount in everything we do.
- We believe that service quality is a primary factor that differentiates us from our competitors. We proactively address customers' issues and treat them as opportunities for improvement.
- We are strongly committed to our home emirate of Ras Al Khaimah as we invest in creating job opportunities and in developing our UAE Nationals to be future leaders in the banking sector.
- We seek to establish ourselves as a competent and transparent financial institution and continue to focus on maximizing our shareholder and asset value.



2013 - A YEAR IN REVIEW

LAUNCH OF AMAL

RAKBANK established an Islamic Banking division AMAL and an Islamic Finance Company with an issued capital of AED 100 million. AMAL offers a suite of Sharia-compliant products and services in retail and business banking including Personal, Auto, Home, and Business Finance.



NEW CEO

John Graham Honeybill retired as RAKBANK CEO on October 31st 2013 and moved on to become one of the Bank's Directors. Peter England began his official duties as CEO on November 1st 2013.

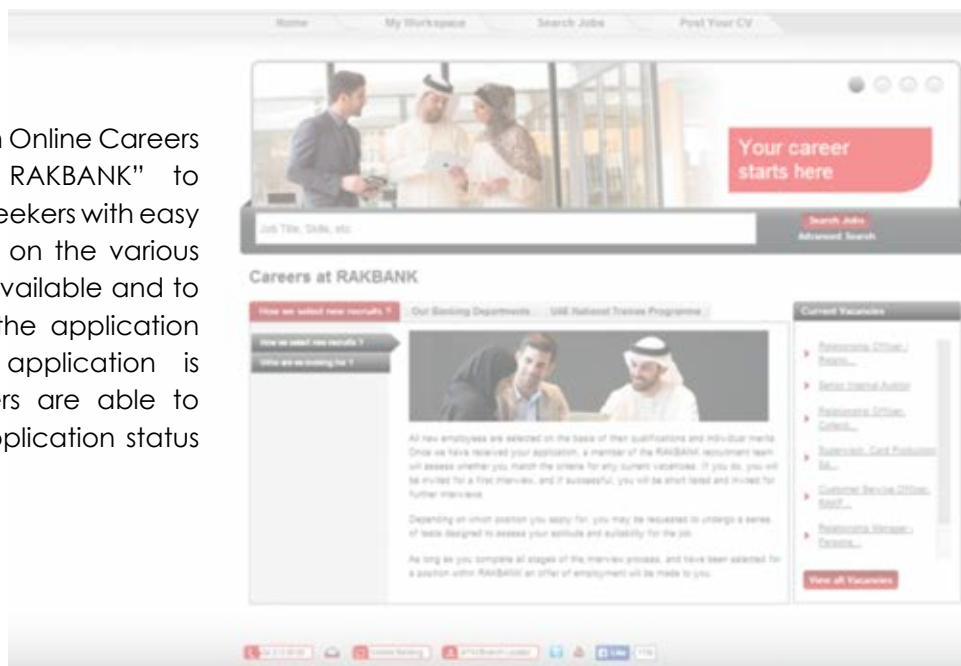
BRANCHES

RAKBANK opened a new branch in Fujairah and relocated an existing one in Kalba. It also launched AMAL Fast Lane in Dubai as the first center in the region dedicated to timely services in Sharia-compliant Auto Finance, where application turnaround time is 60 minutes only.



CAREERS

RAKBANK launched an Online Careers Portal "Careers at RAKBANK" to provide potential job seekers with easy access to information on the various career opportunities available and to guide them through the application process. Once an application is made, registered users are able to keep track of their application status online as well.



PRODUCTS

RAKBANK introduced two new cards in 2013:

- I. The Titanium Business Credit Card is a free-for-life credit card for SMEs that combines convenience and savings to facilitate payments and extend exclusive benefits.
- II. The Bayani Prepaid Card is a reloadable Prepaid Card with 2 wallets (AED and US\$) that caters to the large Filipino community by giving them the opportunity to instantly send money back home at the best rates simply through SMS.



SERVICES

- I. The Bank expanded its web-based solutions by introducing Click & Collect through which existing and new customers can open their RAKBANK Fast Saver, Current, and Savings accounts on www.rakbank.ae in a completely online interface. In just 48 working hours, Click & Collect ensures that customers can visit a UAE branch of their choice anytime within a month to pick up their welcome pack which includes their debit card, PIN, cheque book, and Online and Mobile Banking details all at once.

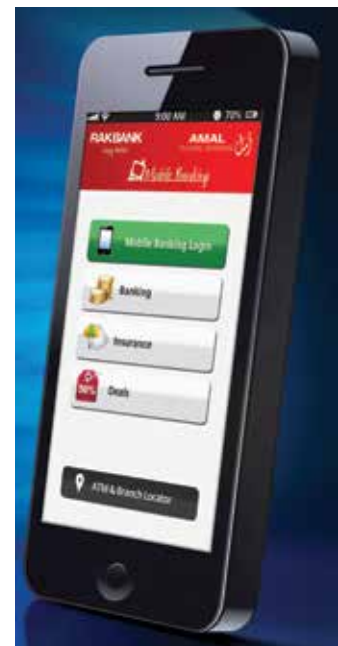
Opening a RAKBANK Account is even easier online



- One click. One visit. One account
- Opened in just 48 hours
- First of its kind in the UAE



- II. The Bank introduced additional services to Mobile Banking to enable customers to order new cheque books, transfer balances, apply for supplementary cards, report a lost or stolen credit card, seek investment details, apply for an advance against salary, and much more.
- III. The Bank revamped the Mobile Banking application to include information about the Bank's products, insurance policies, and RAKBANK Deals - a one-stop online destination to a wide array of great offers from the Bank's Lifestyle Privileges, RAKfeast and Prepaid Card offers. The new, integrated application makes it easy for customers to browse through current offers on the "Best Deals" section and discover great bargains nearby using GPS.



CORPORATE SOCIAL RESPONSIBILITY (CSR)

As it maintained its dynamic growth in the market in 2013, the Bank remained focused on its corporate social responsibility (CSR) commitments, which are an important element in its growth and development approach.

ENVIRONMENT & SUSTAINABILITY

RAKBANK continues to honour its sustainability commitments which reduce the Bank's consumption of paper, toners, and energy. For starters, the Bank encourages customers to make use of RAKBANK Online and Mobile Banking as well as electronic Bank statements to reduce the proliferation of paper without compromising the Bank's service quality. The Bank also implements a paper and toner recycling system in its back offices.

In 2013 it sponsored six Ras al Khaimah schools to take part in Emirate's Environmental Group's cleanup campaign in RAK to raise awareness among students on environmental wellbeing. It was also involved with the likes of Emirates Environmental Group, HP Planet, and Union Paper Mills on various projects.

SUPPORTING SOCIAL GOOD

RAKBANK is constantly scouting for opportunities to help better society. The Bank's work focuses on providing much needed financial support to many local and global charities especially those involved in educational and medical projects that target children with special needs. As a national bank, we are committed to our home emirate, but our collaborations extend beyond Ras Al Khaimah into other emirates as well.

In 2013, the Bank worked with the likes of RAK Autism Centre, Awladouna Center, Ajman Club for Disabled, Manzil School for Special Needs, Rashed Paediatric Centre, Emirates Association for the Visually Impaired, Smile Train, and others. In addition, RAK Islamic Finance donated a quarterly sum on behalf of its cardholders to three local charities as part of Zakat, namely to Al Rahmah Charity, Human Appeal International, and Sheikh Saqr Bin Mohammed Al Qassimi Charity.

EMIRATIZATION

RAKBANK places great emphasis on learning and skill development, and runs a dedicated training centre - RAK Academy - which offers a wide range of professional training programs for the Bank's employees. The Bank also provides exceptional career opportunities to young Nationals, investing in the development of their knowledge and skills and preparing them for future positions where they can play influential roles in the UAE banking industry.

Over the year, the Bank continued to sponsor the education of a number of national students annually at Higher Colleges of Technology (HCT) and the American University of Ras al Khaimah. RAKBANK was one of the first banks to achieve the 40% Nationalisation standard set by the UAE Central Bank in 2002. It worked closely with many national development organizations in 2013 including Tanmia and Emirates Nationals Development Programme (ENDP) to successfully reach 41.6% at year end.

CORPORATE GOVERNANCE

THE BOARD

The Board's Agenda in 2013

The Board of Directors adopts a rolling agenda to ensure that each of its responsibilities is addressed on a periodic basis. In 2013 the Board regularly reviewed the Bank's financial performance, as well as the performance of individual business areas. The Bank focused on Board engagement and effectiveness by improving the information flow to and from the Board. The Board's agenda in 2013 included the following topics:

- Strategy and risk management, market trends and developments, and new business opportunities
- Implications of developments in international sanctions, compliance, and Central Bank regulations
- Enhancements in governance structures and processes

Board meetings are held at the Bank's headquarters in the emirate of Ras Al Khaimah.

New Member

The Bank appointed Mr. John Graham Honeybill, former RAKBANK CEO, as a new member of the Board effective December 30 2013. Mr. Honeybill brings over 40 years of banking experience, 18 years of which were spent at RAKBANK. The appointment aims to further enhance the Board's effectiveness.

Meetings

In 2013 the Board of Directors met regularly and the Directors received information between meetings about the activities of Board and Management Committees and developments in the Bank's business. A total of six Board meetings and were held throughout the year in addition to 46 sub-Committee meetings.

Board sub-committees

Additional Board Committees were introduced in 2013 to enhance information flow and transparency. The members of the Board's committees are reviewed on a regular basis to ensure suitability and compliance with other requirements and rotated as needed. The functions of the different Board Committees are as below:

Executive Committee

- Review and approve the Bank's strategy.
- Support proposals relating to opening of new branches, relocation of existing branches and closure of branches.
- Review the annual cost and revenue budget of the Bank.
- Administer the overall governance of the Bank including receiving reports from the different committees set up for oversight and management.

Audit Committee

- Monitor the appropriateness and integrity of the published financial statements and Annual Report of the bank and its subsidiaries including significant financial reporting judgments contained in them.
- Have an oversight over the Bank's Internal Audit department including the approval of annual audit plans and various reports and the appointment of Head of Internal Audit, in addition to ensuring that the audit function is adequately resourced.
- Approve the terms of engagement of External Auditors, receive the auditor's reports, agree on scope of External Audit, and insure the effectiveness of the audit process.
- Receive and review regulatory inspection reports from UAE Central Bank and other such regulators.

Credit Committee

- Provide oversight of the risk management framework for controlling credit risk arising from the businesses undertaken by the Bank's Personal Banking, Small and Medium Enterprises and Commercial Banking units.
- Review and approve credit facilities in respect to Individual and Group Credits. Typically the credits referred are those that are beyond the credit authorities delegated to senior officers of the Bank.
- Receive and review the periodic Credit MIS of all the Credit portfolios of the Bank and particularly monitor the level of delinquent and Non-performing assets.
- Approve the terms of engagement, nature and scope of consultants/professionals appointed to assist in managing Credit portfolios of the Bank.
- Review and approve Credit grading methodology for the Bank.

Risk Committee

- Review and approve the Bank's key risk policies on the establishment of risk limits relating to Operational and Information Security risks and receives reports on adherence to significant limits.
- Review the Bank's Regulatory Risk Capital (credit, market, liquidity and operational risks), including significant inputs and assumptions.
- Provide oversight over matters relating to Anti-Money Laundering (AML), Internal Controls and procedures, and other legal matters.
- Review the periodic reports submitted by Service Quality and Training department on matters relating to customer complaints and possible procedural inefficiencies.

Human Resources Committee

- Determine the executive remuneration policy and make recommendations to the Board on the structure for all remuneration of executives, senior management and key personnel of the Bank and its subsidiaries.
- Approve the share scheme structure, arrangements and payments in relation to any eligible executive, senior manager or key personnel of the Bank and its subsidiaries.
- Ensure that executive remuneration arrangements are consistent with and promote effective risk management.

Asset Liability Committee

- Review the financial risk management policies/controls on a monthly basis.
- Set guidelines for the management of market value risk and earnings risk within the balance sheet in relation to the agreed interest rate and FX view.
- Assess, authorize, and review the Asset-Liability tenor gaps that must be maintained.
- Evaluate and review all inter-bank counterparties and their relevant limits including FX, MM Nostro, and Trade limits.
- Assess the Bank's appetite/requirement for investment instruments and recommends purchasing, repurchasing, holding, or selling investment instruments based on ROI, tenor, credit risk, etc.



COMPLIANCE

RAKBANK is regulated by the UAE Central Bank. The Bank is fully compliant with the UAE Central Bank's banking regulation and governing policies and it operates within the legal structures of the UAE jurisdiction as set out by the UAE Central Bank.

The Board has delegated responsibility for ensuring compliance to the Bank's management which is monitored and controlled via the Bank's Compliance department. The Compliance department is responsible for AML Compliance and the Legal and Internal Control framework of the Bank. It takes pride in managing and mitigating risks to protect the Bank from legal risk, regulatory sanctions risk, material financial loss, and damage to its reputation.

The Bank strongly supports the fight against money laundering and terrorist financing and is fully compliant with the UAE Central Bank regulations with regards to Anti Money Laundering (AML). The Bank adheres to the global standards and best practices for AML pertaining to financial institutions, such as: Financial Action Task Force (FATF), Wolfsberg Group Principles, and Basel Committee guidelines. It also ensures that the International Sanctions lists such as Office of Foreign Assets Control (OFAC) and UN Sanctions are adopted and embedded in the day-to-day monitoring of transactions.

EXTERNAL AUDITOR'S
REPORT



Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C.)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of The National Bank of Ras Al-Khaimah (P.S.C.) ("the Bank") and its subsidiaries (together referred to as "Group"), which comprise the consolidated statements of financial position as of 31 December 2013 and the consolidated statement of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.



Independent auditors' report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C.) (continued)

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013 and its financial performance and its 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 report that:

- (i) we have obtained all the information we considered necessary for the purpose of our audit;
- (ii) the consolidated financial statements of the Bank comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended and the Articles of Association of the Bank;
- (iii) the Bank has maintained proper books of account and the consolidated financial statements are in agreement therewith;
- (iv) the financial information included in the Directors' report is consistent with the books of account of the Bank; and
- (v) nothing has come to our attention, which causes us to believe that the bank has breached any of the applicable provisions of the UAE Federal Law No (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2013.

Further, as required by the UAE Union Law No (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

PricewaterhouseCoopers
29 January 2014

A handwritten signature in black ink, appearing to read 'Amin H Nasser', written over a light blue circular stamp.

Amin H Nasser
Registered Auditor Number 307
Dubai, United Arab Emirates

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Consolidated statement of financial position

		At 31 December	
	Note	2013 AED'000	2012 AED'000
ASSETS			
Cash and balances with the UAE			
Central Bank	5	3,622,262	2,904,054
Due from other banks	6	543,899	1,195,831
Loans and advances	7,8	21,959,245	20,283,427
Investment securities	9	2,695,952	1,586,878
Property and equipment	10	1,028,873	1,035,773
Other assets	11	276,538	244,174
Total assets		30,126,769	27,250,137
LIABILITIES			
Due to other banks	12	3,357	233,841
Due to customers	13,14	23,069,147	20,719,725
Other liabilities	15	472,745	539,914
Provision for employees' end of service benefits	16	65,450	61,442
Total liabilities		23,610,699	21,554,922
SHAREHOLDERS' EQUITY			
Share capital	17	1,676,245	1,523,859
Share premium	18	110,350	110,350
Retained earnings		1,452,439	1,183,109
Other reserves	19	3,277,036	2,877,897
Equity attributable to equity holders of the Bank		6,516,070	5,695,215
Non-controlling interests		-	-
Total shareholders' equity		6,516,070	5,695,215
Total liabilities and shareholders' equity		30,126,769	27,250,137

These consolidated financial statements were authorised for issue by the Board of Directors on 29 January 2014 and were signed on its behalf by:



.....
H.E. Sheikh Omar Bin Saqr Al-Qasimi
Chairman



.....
Peter William England
Chief Executive Officer

Consolidated income statement

	Note	Year ended 31 December	
		2013 AED'000	2012 AED'000
Interest income	22	2,570,422	2,583,850
Interest expense	22	(247,505)	(350,562)
Net interest income		2,322,917	2,233,288
Income from Islamic financing	23	45,639	-
Islamic profit distribution	23	(11,584)	-
Net income from Islamic financing		34,055	-
Net interest income and income from Islamic financing		2,356,972	2,233,288
Net fee and commission income	24	528,863	488,174
Foreign exchange income		74,800	67,634
Income from investment securities	9(c)	149,843	71,541
Other operating income		39,849	32,527
Operating income		3,150,327	2,893,164
Operating expenses	25	(1,378,886)	(1,281,250)
Provision for impairment of loans and advances net of write backs	7(d)	(340,623)	(209,115)
Net profit for the year		1,430,818	1,402,799
Attributed to:			
Equity holders of the Bank		1,430,818	1,402,799
Non-controlling interests		-	-
Net profit for the year		1,430,818	1,402,799
Earnings per share			
Basic and Diluted	27	AED 0.85	AED 0.84

Consolidated statement of comprehensive income

	Note	Year ended 31 December	
		2013 AED'000	2012 AED'000
Net profit for the year		1,430,818	1,402,799
Items that may be re-classified subsequently to the income statement			
Changes in fair value of available-for-sale investment securities	9(b)	(26,996)	9,627
Release of fair value to income statement on disposal of available-for-sale investment securities	9(c)	26,576	1,515
Total other comprehensive income		(420)	11,142
Total comprehensive income for the year		<u>1,430,398</u>	<u>1,413,941</u>
Attributed to:			
Equity holders of the Bank		1,430,398	1,413,941
Non-controlling interests		-	-
Total comprehensive income for the year		<u>1,430,398</u>	<u>1,413,941</u>

Consolidated statement of changes in equity

	Note	Share capital	Share premium	Retained earnings	Other reserves (see note 19)	Equity attributable to equity holders of the Bank	Non-controlling interests	Total
		AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At 1 January 2012		1,385,327	110,350	1,157,426	2,043,769	4,696,872	-	4,696,872
Total comprehensive income for the year		-	-	1,402,799	11,142	1,413,941	-	1,413,941
Transfer to regulatory credit risk reserve		-	-	(255,000)	255,000	-	-	-
Transfer to legal reserve	19	-	-	(140,280)	140,280	-	-	-
Transfer to voluntary reserve	19	-	-	(27,706)	27,706	-	-	-
Transfer to credit risk reserve	19	-	-	(200,000)	200,000	-	-	-
Transfer to general banking reserve	19	-	-	(200,000)	200,000	-	-	-
Issue of bonus shares	17	138,532	-	(138,532)	-	-	-	-
Dividend paid to equity holders of the Bank		-	-	(415,598)	-	(415,598)	-	(415,598)
Dividend paid to non-controlling interests	17	-	-	-	-	-	-	-
At 31 December 2012		1,523,859	110,350	1,183,109	2,877,897	5,695,215	-	5,695,215
Total comprehensive income for the year		-	-	1,430,818	(420)	1,430,398	-	1,430,398
Transfer to regulatory credit risk reserve		-	-	(26,000)	26,000	-	-	-
Transfer to legal reserve	19	-	-	(143,082)	143,082	-	-	-
Transfer to voluntary reserve	19	-	-	(30,477)	30,477	-	-	-
Transfer to credit risk reserve	19	-	-	(100,000)	100,000	-	-	-
Transfer to general banking reserve	19	-	-	(100,000)	100,000	-	-	-
Issue of bonus shares	17	152,386	-	(152,386)	-	-	-	-
Dividend paid to equity holders of the Bank		-	-	(609,543)	-	(609,543)	-	(609,543)
Dividend paid to non-controlling interests	28	-	-	-	-	-	-	-
At 31 December 2013		1,676,245	110,350	1,452,439	3,277,036	6,516,070	-	6,516,070

Consolidated statement of cash flows

	Note	Year ended 31 December	
		2013 AED'000	2012 AED'000
Operating activities			
Net profit for the year		1,430,818	1,402,799
Adjustments:			
Provision for impairment of loans and advances net of write backs	7(d)	340,623	209,115
Depreciation	10,25	126,908	99,860
Provision for employees' end of service benefits	16	13,776	15,797
Gain on disposal of property and equipment		(465)	(502)
Amortisation of premium / (discount) relating to securities held to maturity	9(b)	13,399	(1,334)
(Gain) / loss on sale investment securities	9(c)	(34,986)	-
Release of fair value loss to income statement on redemption of available-for-sale investment securities	9(c)	-	1,515
Operating cash flows before payment of employees' end of service benefits and changes in assets and liabilities		1,890,073	1,727,250
Payment of employees' end of service benefits	16	(9,768)	(7,422)
Changes in assets and liabilities:			
Statutory deposits with the UAE Central Bank	5	(460,456)	(260,131)
Certificate of deposits with the UAE Central Bank with original maturities of over 3 months	5	-	(650,000)
Due from other banks with original maturities of three months or over	30	206,952	(206,952)
Loans and advances (net of charge for impairment and amortization and amount written off / back)	7	(2,016,441)	(2,124,072)
Other assets	11	(32,364)	(42,531)
Due to other banks (net of amounts due to Central Bank)	12	(97,108)	(136,607)
Due to customers	13	2,349,422	2,429,560
Other liabilities	15	(67,169)	96,419
Net cash generated from operating activities		1,763,141	825,514
Investing activities			
Purchase of investment securities	9(b)	(1,935,575)	(641,074)
Purchase of property and equipment	10	(120,343)	(184,161)
Proceeds from maturity / disposal of investment securities	9(b,c)	847,668	228,970
Proceeds from disposal of property and equipment		800	1,197
Net cash used in investing activities		(1,207,450)	(595,068)
Financing activities			
Subordinated debt repayment	34	-	(684,467)
Dividend paid to equity holders of the Bank	28	(609,543)	(415,598)
Dividend paid to non- controlling interests	28	-	-
Net cash used in financing activities		(609,543)	(1,100,065)
Net decrease in cash and cash equivalents		(53,852)	(869,619)
Cash and cash equivalents at the beginning of the year		1,364,199	2,233,818
Cash and cash equivalents at the end of the year	30	1,310,347	1,364,199

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

1 Incorporation and principal activities

The National Bank of Ras Al-Khaimah ("the Bank") is a public shareholding company incorporated in the Emirate of Ras Al-Khaimah in the United Arab Emirates ("UAE") in accordance with the UAE Federal law No. 8 of 1984 (as amended). The head office of the Bank is located at the National Bank of Ras Al-Khaimah building, Al Rifa area, Exit No. 129, Sheikh Mohammed Bin Zayed road, Ras Al-Khaimah.

The Bank is engaged in providing retail banking, commercial banking, Islamic financing and provision of other banking services through a network of thirty four branches in the UAE.

The National Bank of Ras Al-Khaimah (P.S.C) comprises the Bank and three subsidiaries (together the "Group"). These subsidiaries are RAK Islamic Finance Pvt. J.S.C in which the Bank owns 99.9% , BOSS FZCO and RAK Technologies FZCO in which the Bank owns 80%. RAK Islamic Finance Pvt. J.S.C has an authorised and issued capital of AED 100 million, and was incorporated to enable the Bank to sell Shari'ah compliant financial products. BOSS FZCO and RAK Technologies FZCO have been incorporated to provide back office support services to the Bank. Both BOSS FZCO and RAK Technologies FZCO have an authorised and issued share capital of AED 500,000 each and were formed under the Dubai Silicon Oasis Authority guidelines.

The consolidated financial statements comprises the Bank and its subsidiaries (together referred to as "the Group")

2 Significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements are prepared under the historical cost convention except for available-for-sale financial assets and derivative financial instruments which have been measured at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

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

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Standards and amendments to published standards effective for the Group's accounting period beginning on 1 January 2013

IFRS 10 'Consolidated Financial Statements' outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities it controls. Control requires exposure or rights to variable returns and the ability to affect those returns through power over an investee. IFRS 12, 'Disclosures of interests in other entities' is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. Disclosures are presented as a series of objectives, with detailed guidance on satisfying those objectives, and other related Standards and amendments effective from January 1, 2013.

With effect from January 1, 2013, the Bank has adopted IFRS 13, 'Fair value Measurement' which aims to improve consistency and reduce complexity by providing a precise definition of fair value and improving disclosure requirements for use across IFRSs. It applies to both financial and non-financial instruments carried at fair value and requires additional disclosures in the financial statements. The disclosure note requirements are set out in Note 3.7.

Other than the above, there are no other IFRSs or IFRIC interpretations that were effective for the first time for the financial year beginning January 1, 2013 that have had a material impact on the Bank's consolidated financial statements.

Standards and amendments to published standards effective for the Group's accounting period beginning from 1 January 2014 and subsequently

The following applicable new standards and amendments have been issued but are not effective for the Group's accounting period beginning 1 January 2013 and have not been early adopted by the Group:

- Amendments to IAS 32 'Financial Instruments' (effective 1 January 2014) require presentation to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:
 - the meaning of 'currently has a legally enforceable right of set-off'
 - the application of simultaneous realisation and settlement
 - the offsetting of collateral amounts
 - the unit of account for applying the offsetting requirements
- Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 27 'Separate Financial Statements' (effective 1 January, 2014) relate only to investment entities, therefore will not apply to the Bank.

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

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

- Amendment to IAS 36 'Impairment of Assets' (effective 1 January 2014) to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.
- Amendment to IAS 19, 'Employee benefits' (effective 1 July 2014) clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service.
- IFRS 9 - Financial Instruments: Classification and Measurement (intended as complete replacement for IAS 39).

Key requirements of IFRS 9 are described as follows:

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

An effective date for IFRS 9 will be announced once the standard is complete with a new impairment model and finalisation of any limited amendments to classification and measurement. The Bank is yet to assess IFRS 9's full impact, particularly to the hedging and impairment aspects of IFRS 9.

Except for IFRS 9, the Management anticipates that these amendments are not expected to have a material impact on the Bank's consolidated financial statements and will be adopted in the consolidated financial statements in the initial period when they become mandatorily effective.

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

2 Significant accounting policies (continued)

(b) Basis of consolidation

The consolidated financial statements incorporate the consolidated financial statements of National Bank of Ras Al-Khaimah (P.S.C.) and its subsidiaries (collectively referred to as "Group") as set in Note 33 below.

Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Transactions eliminated on consolidation

Intra-group balances and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Loans and advances and provision for impairment

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are initially recognized at fair value, which is the cash consideration to originate or purchase a loan including any transaction costs, and measured subsequently at amortised cost using the effective interest method.

The Group assesses at each financial position date whether there is objective evidence that loans and advances are impaired. Loans and advances are impaired and impairment losses are incurred only if there is objective evidence that the Group will not be able to collect all amounts due.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio; and
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

2 Significant accounting policies (continued)

(c) Loans and advances and provision for impairment (continued)

The Group first assesses whether objective evidence of impairment exists either individually for financial assets that are individually significant and individually 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, whether significant or not, 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.

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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. 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 income statement. If the amount of impairment subsequently decreases due to an event occurring after the write down, the release of the provision is credited to the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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 purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets reflect and are directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectable, it is written off against the related provision for impairment. This is normally done within six to twelve month of the loan becoming past due, depending on type of the loan. Non performing mortgage loans, however, are written off after considering each individual case. If no related provision exists, it is written off to the consolidated income statement. Subsequent recoveries are credited to the consolidated income statement.

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

2 Significant accounting policies (continued)

(c) Loans and advances and provision for impairment (continued)

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

(d) Islamic financing

The Group engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Murabaha, Salam, Mudaraba, and Wakala. The accounting policy for initial recognition, subsequent measurement and derecognition of Islamic financial assets and liabilities are as per Note 2(c).

Murabaha financing

A sale contract whereby the Group sells to a customer commodities and other assets at an agreed upon profit mark up on cost. The Group purchases the assets based on a promise received from customer to buy the item purchased according to specific terms and conditions. Profit from Murabaha is quantifiable at the commencement of the transaction. Such income is recognised as it accrues over the period of the contract on effective profit rate method on the balance outstanding.

Salam

Bai Al Salam is a Sale contract where the Customer (Seller) undertakes to deliver/supply a specified tangible asset to the Group (Buyer) at mutually agreed future date(s) in exchange for an advance price fully paid on the spot by the buyer.

Revenue on Salam financing is recognised on the effective profit rate basis over the period of the contract, based on the Salam capital outstanding.

Mudaraba

A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal- customer) and the other party (the Mudarib- the Group) invests the funds in a project or a particular activity and any profits generated are distributed between the parties according to the profit shares that were pre-agreed in the contract. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba, otherwise, losses are borne by the Rab Al Mal.

Wakala

An agreement between the Group and customer whereby one party (Rab Al Mal-principal) provides a certain sum of money to an agent (Wakil), who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Group may be Wakil or Rab Al Mal depending on the nature of the transaction.

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

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

2 Significant accounting policies (continued)

(e) Investment securities

The Group classifies its investment securities in the following categories: Held-to-maturity and available-for-sale. Management determines the classification of its investments at initial recognition.

Held-to-maturity: Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale except if sale is due to significant deterioration of the issuer.

Available-for-sale: Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and advances, (b) held-to-maturity investments.

Regular purchases and sales of financial assets at held to maturity and available for sale are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Available-for-sale financial assets are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in consolidated statement of comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised through the consolidated statement of comprehensive income is recognised in the income statement.

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

The fair values of quoted investments in active markets are based on current bid prices, as the Group considers the bid to be most representative of fair value, if the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques.

Interest earned whilst holding investment securities is reported as income from investment securities in the consolidated income statement.

Dividends on available-for-sale equity instruments are recognised in the consolidated income statement when the Group's right to receive payment is established.

The Group assesses at each financial position date whether there is objective evidence that a financial asset is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on available-for-sale equity instruments are not reversed through the income statement. Impairment on debt securities classified as available-for-sale and those held to maturity is assessed as outlined in the accounting policy for impairment of loans and advances (Note 2(c)).

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

2 Significant accounting policies (continued)

(f) Due from banks

Amounts due from banks are initially recognized at fair value and measured subsequently at amortised cost using the effective interest method. Impairment of amount due from banks is assessed as outlined in the accounting policy for loans and advances (Note 2(c))

(g) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of less than three months excluding the statutory deposit required to be maintained with the UAE Central Bank.

(h) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

(i) Property and equipment

Land and buildings comprise branches, offices and certain residential premises purchased for occupation of management and staff. Property and equipment is stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated as it is deemed to have an infinite life. Depreciation on other assets is calculated using the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	15 - 30
Computer equipment and software	4-15
Furniture, fixtures and equipment	4 - 6
Leasehold improvements	2- 6
Motor vehicles	2- 4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

2 Significant accounting policies (continued)

(i) Property and equipment (continued)

Capital work in progress is stated at cost and is transferred to the appropriate asset category when it is brought into use and is depreciated in accordance with the Group's accounting policy.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing the sales proceeds to the carrying value of the asset disposed and are taken into account in determining operating income.

(j) Fiduciary assets

Assets and the income arising on the Bank's fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these consolidated financial statements. Income earned by the Group from its fiduciary services is recognised in accordance with the accounting policy on fees and commission income (Note 2(q)).

(k) Employee benefits

i) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated income statement in the periods during which services are rendered by employees.

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security.

ii) Defined benefit plan

The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Provision is also made for the end of service benefits due to non-UAE nationals in accordance with the UAE Labour Law for their periods of service up to the financial position date and the provision arising is disclosed as 'provision for employee's end of service benefits' in the statement of financial position.

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

2 Significant accounting policies (continued)

(k) Employee benefits (continued)

iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

A provision is made for the estimated liability for employees' entitlements to annual leave and leave passage as a result of services rendered by the employees up to financial position date. This provision is included in other liabilities.

(l) Share capital

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

(m) Provisions and contingent liabilities

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset only if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities, which include certain guarantees and letters of credit, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

(n) Due to customers

Deposits are recognised initially at fair value, net of transaction costs incurred. Deposits are subsequently carried at amortised cost using the effective interest method.

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

2 Significant accounting policies (continued)

(o) Foreign currencies

Items included in the consolidated financial statements of the Group are measured using UAE Dirham's which is the currency of the primary economic environment in which the Group operates ('functional currency'). The consolidated financial statements are presented in UAE Dirham's. Foreign currency transactions are translated into the UAE Dirham at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into UAE Dirham's at the rates ruling at the consolidated statement of financial position date. Any resultant gains or losses are accounted for in the income statement other than for items presented in other comprehensive income.

(p) Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method. Interest earned whilst holding investment securities is reported as income from investment securities in the income statement. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

(q) Fee and commission income

Fees and commissions, other than loan arrangement fees, are generally recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognised as an adjustment to the effective interest rate on the loan. Portfolio and other management advisory and service fees are recognised based on the, applicable service contracts, usually on a time-proportionate basis. Fees earned on the Bank's fiduciary activities are recognised over the period in which the service is provided. The same principle is applied to custody services that are continuously provided over an extended period of time.

(r) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(s) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance. In accordance with IFRS 8, the Bank has the following business segments: retail banking, corporate banking and treasury.

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

3 Financial risk management

3.1 Risk management review

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

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

3.2 Credit risk

Credit risk is defined as the risk that the Group's customers, clients or counter parties fail to perform or are unwilling to pay interest, repay the principal or otherwise to fulfil their contractual obligations under loan agreements or other credit facilities, thus causing the Group to suffer a financial loss.

Credit risk also arises through the downgrading of counter parties, whose credit instruments are held by the Bank, thereby resulting in the value of the assets to fall. As credit risk is the Group's most significant risk, considerable resources, expertise and controls are devoted to managing this risk within the core departments of the Bank.

The Bank's credit policy provides for the development of a systematic and consistent approach to identifying and managing borrower and counter party risks contained in all retail, corporate and SME assets.

The Head of Credit and his team including Collections are responsible for recognition and management of credit risk both at transaction and portfolio levels and to ensure that risk procedures are adhered to in a manner consistent with the framework set out in the Policy, Product Programs, Credit circulars and comply with regulatory norms.

The Bank manages, limits and controls concentration of credit risk wherever it is identified – in particular, to individual counterparties and groups, and to industries and countries. The Group has a Product Program Guide that sets limits of exposure and lending criteria. The Bank also has credit limits that set out the lending and borrowing limits to/from other banks.

The Bank stratifies the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on an ongoing basis. Limits on the level of credit risk by product, industry sector and by country are approved by the Executive Committee and the Board of Directors.

The exposure to any one borrower, including banks, is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored on an ongoing basis.

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

3 Financial risk management (continued)

3.2 Credit risk (continued)

The Group has in place policies which govern the determination of eligibility of various collaterals including credit protection, to be considered for credit risk mitigation which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigants. The Group's majority collaterals are mortgaged properties.

The collateral is valued periodically ranging from quarterly to annually, depending on the type of collateral. Specifically for mortgaged property, a framework for valuation of mortgaged properties is established to ensure adequate policies and procedures are in place for efficient and proper conduct of valuation of mortgaged properties and other related activities in relation to the interpretation, monitoring and management of valuation of mortgaged properties.

3.2.1 Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure	
	31 December 2013	31 December 2012
	AED'000	AED'000
<i>Credit risk exposures relating to on-balance sheet assets are as follows:</i>		
Due from banks	543,899	1,195,831
Loans and advances:		
Loans to retail customers	21,035,608	19,790,501
Loans to corporate customers	923,637	492,926
Investment securities	2,695,952	1,586,878
Other assets	195,120	187,372
<i>Credit risk exposures relating to off-balance sheet items are as follows:</i>		
Loan commitments and other off balance sheet items	7,311,091	6,615,636
	<u>32,705,307</u>	<u>29,869,144</u>

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2013 and 2012 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

As can be seen above, the most significant exposures arise from loans and advances to customers (including commitments) and amounts due from banks.

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

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.1 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

Management is confident in its ability to continue to control and minimise the loss arising from its exposure to credit risk resulting from its loans and advances portfolio, investment securities portfolio and amounts due from banks based on the following:

- 92% (2012: 92%) of the loans and advances are categorised in the top grades of the bank's internal grading system.
- Mortgage loans and auto loans, which together represent a significant portion (2013: 26% 2012: 24 %) of loans and advances, of which 67% are backed by collateral.
- 11% (2012: 10%) of the loans comprise of renegotiated loans, where the Bank has mainly aligned its lending rates to current prevailing market lending rates to manage credit risk.
- The Bank continuously reviews its credit and credit underwriting policies and changes are made based on the Management Information System (MIS) reports and the patterns that emerge from these reports.
- A significant portion of investments securities comprise debt instruments that are issued by government and reputable quasi-government organisation (Note 3.2.6).

3.2.2 Loans and advances to customers and amounts due from banks

Loans and advances to customers and amounts due from banks are summarised as follows:

	31 December 2013		31 December 2012	
	Loans and advances to customers	Amounts due from banks	Loans and advances to customers	Amounts due from banks
	AED'000	AED'000	AED'000	AED'000
Neither past due nor impaired	20,632,958	543,899	18,878,453	1,195,831
Past due but not impaired	1,182,060		1,212,575	
Individually Impaired	539,840		516,509	
Gross	22,354,858	543,899	20,607,537	1,195,831
Less: allowance for impairment	(395,613)	-	(324,110)	-
Net	21,959,245	543,899	20,283,427	1,195,831

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

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.2 Loans and advances to customers and amounts due from banks (continued)

Neither past due nor impaired

	31 December 2013		31 December 2012	
	Loans and advances to customers	Amounts due from banks	Loans and advances to customers	Amounts due from banks
	AED'000	AED'000	AED'000	AED'000
Loans and advances				
- Retail loans	19,721,434	-	18,398,325	-
- Corporate loans	911,524	-	480,128	-
Due from banks	-	543,899	-	1,195,831
Gross	20,632,958	543,899	18,878,453	1,195,831

Loans and advances

The Group uses the grading of loans into different buckets in assessing the impairment loss in the Group's loan portfolio. The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group.

Retail banking loans are graded into buckets according to the number of installments past due. All loans that are not in default of interest payment and installment are graded as bucket 0, while loans and advances that are in default of interest payment and installments are graded upwards from bucket 1 onwards, depending on the number of days past due. The corporate banking and SME credit matrix is used to rate corporate and SME loans under various characteristics. There are six categories of performing loans and three categories of non-performing loans. These ratings are reviewed at least once a year, or more frequently as required. Loans and advances are classified as delinquent after 90 days of non-payment of interest and installments. The credit policy has set internal lending limits for various industry exposures. The corporate loan portfolio is reviewed on a quarterly basis.

Amounts due from banks

The Group held amounts due from banks of AED 544 million (2012: 1196 million) which represents its maximum credit exposure on these assets. The balance due from banks includes AED275 million (2012: AED 665 million) placements with banks which enjoy a credit rating of at least BBB+. Remaining balances due from banks and other financial institutions are held with reputable organisations within and outside UAE, where the risk of default is considered low.

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

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.2 Loans and advances to customers and amounts due from banks (continued)

Past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, however considered in a collective assessment. Gross amount of loans and advances by class of customers that were past due but not impaired are as follows:

	31 December 2013			31 December 2012		
	Retail loans	Corporate loans	Total	Retail loans	Corporate loans	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Past due up to 30 days	689,873	-	689,873	731,915	-	731,915
Past due 30 - 60 days	270,317	-	270,317	329,986	-	329,986
Past due 60-90 days	221,870	-	221,870	150,674	-	150,674
Total	1,182,060		1,182,060	1,212,575	-	1,212,575
Fair value of collateral	332,984	-	332,984	465,461	-	465,461

Individually Impaired

The breakdown of the gross amount of individually impaired loans and advances, Islamic financing assets along with the fair value of related collateral held by the bank as security, are as follows:

	31 December 2013			31 December 2012		
	Retail loans	Corporate loans	Total	Retail loans	Corporate loans	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Individually impaired loans	497,147	42,693	539,840	471,804	44,705	516,509
Fair value of collateral	(246,298)	(9,570)	(255,868)	(259,839)	(9,570)	(269,409)
Net	250,849	33,123	283,972	211,965	35,135	247,100

The total impairment provision for loans and advances is AED 395.61 million (2012: AED 324.11 million) of which AED 329.61 million (2012: AED 271.94 million) represents provision in respect of the individually impaired loans and advances and the remaining AED 66.00 million (2012: AED 52.17 million) represents the portfolio provision to reflect the risk inherent in the Bank's loan portfolio.

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

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.2 Loans and advances to customers and amounts due from banks (continued)

Loans and advances renegotiated

Restructuring activities include interest rate adjustments, extended payment arrangements and modification of payments. The majority of restructuring activity is undertaken to improve cash flow and is within the terms and conditions of the Group's product programme guideline. These policies are kept under continuous review. The table below presents the loans restructured during the year 2013 and 2012.

Restructured Loans

Product	<u>2013</u>		<u>2012</u>	
	No of Accounts	Loan Amount AED'000	No of Accounts	Loan Amount AED'000
Retail Loans	1,181	738,525	776	556,478
Small Commercial Loans	687	450,928	417	317,717
Mortgage Loans	59	120,048	28	60,445
Total	<u>1,927</u>	<u>1,309,501</u>	<u>1,221</u>	<u>934,640</u>

During the year AED 1,310 million (2012: AED 934.6 million) of loans to customers, mostly to UAE Nationals, were restructured. The aggregate amount of restructured loans at 31 December 2013 is AED 2,491 million (2012: AED 1,962 million). The majority of these restructured loans have performed satisfactorily after restructuring and are neither past due nor impaired.

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

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.3 Investment securities

Investment securities comprise debt securities issued by the Government, organisations which are quasi-governmental and local and foreign reputable organisations.

The table below presents an analysis of debt securities by rating agency designation at 31 December 2013 and 31 December 2012, based on Moody's and Fitch ratings or their equivalent.

	31 December 2013	31 December 2012
	AED'000	AED'000
A+ to A-	781,681	778,470
Ba1 to Baa3	1,231,843	412,008
Unrated	682,428	396,400
Total	2,695,952	1,586,878

The unrated securities include bonds/ Sukuk of Dubai Department of Finance Sukuk Limited AED 535.5 million and Emirates Airlines AED 146.8 million. Considering the names of the issuers, the management is comfortable with the instruments being unrated.

3.2.4 Repossessed collateral

The bank occasionally takes possession of mortgaged property which was held as collateral for loan, as there is no significant possession of collateral during the year no disclosures. In the case of retail auto loans where the underlying asset is repossessed as a part of recovery process, these are disposed of in an auction by authorised third parties and the bank does not carry any such assets in its books.

3.2.5 Concentration of risks of financial assets with credit risk exposure

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 bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to limit concentrations of exposures to counterparties, geographies and industries. Identified concentration of credit risk is controlled and managed accordingly.

Geographical risk concentration

The following table breaks down the bank's credit exposures at their carrying amounts, categorised by geographical region as of 31 December 2013 and 31 December 2012. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties:

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

3 Financial risk management (continued)

3.2 Credit risk (continued)

On balance sheet items

	UAE	OECD	Others	Total
31 December 2013	AED'000	AED'000	AED'000	AED'000
Due from banks	373,257	165,230	5,412	543,899
Loans and advances				
- Retail loans	20,852,955	66,476	116,177	21,035,608
- Corporate loans	919,701	1,139	2,797	923,637
Investment securities				
- Held-to-maturity	1,957,901	18,494	677,289	2,653,684
- Available-for-sale	42,268	-	-	42,268
Other assets	195,120	-	-	195,120
Total	24,341,202	251,339	801,675	25,394,216
31 December 2012	AED'000	AED'000	AED'000	AED'000
Due from banks	782,095	405,975	7,761	1,195,831
Loans and advances:				
- Retail loans	19,652,388	41,112	97,001	19,790,501
- Corporate loans	491,549	-	1,377	492,926
Investment securities				
- Held-to-maturity	1,429,407	18,538	96,245	1,544,190
- Available-for-sale	42,688	-	-	42,688
Other assets	187,372	-	-	187,372
Total	22,585,499	465,625	202,384	23,253,508

Off balance sheet items

	UAE	OECD	Others	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2013				
Credit commitments	6,646,409	479	1,961	6,648,849
Guarantees, acceptances and other exposures	653,579	3,153	5,510	662,242
	7,299,988	3,632	7,471	7,311,091
31 December 2012				
Credit commitments	5,979,668	268	436	5,980,372
Guarantees, acceptances and other exposures	619,359	6,355	9,550	635,264
	6,599,027	6,623	9,986	6,615,636

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

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 Concentration of credit risk by industry

The following table breaks down the bank's credit exposures on loans and advances, debt securities and off balance sheet items categorised by industry as of 31 December 2013 and 31 December 2012.

	On balance sheet items				Off	Total
	Loans and advances AED'000	Debt securities AED'000	Due from banks AED'000	Total funded AED'000	balance sheet items AED'000	
31 December 2013						
Agriculture, fishing & related activities	7,938	-	-	7,938	154	8,092
Crude oil , gas, mining & quarrying	26,348	178,981	-	205,329	89,022	294,351
Manufacturing	288,326	-	-	288,326	191,901	480,227
Electricity & water	15,087	59,533	-	74,620	1,518	76,138
Construction	922,989	-	-	922,989	127,738	1,050,727
Trading	3,766,355	-	-	3,766,355	722,469	4,488,824
Transport, storage & communication	1,131,076	146,883	-	1,277,959	56,288	1,334,247
Financial Institutions	42,194	992,105	543,899	1,578,198	201,908	1,780,106
Services	1,012,269	-	-	1,012,269	263,750	1,276,019
Government	-	1,318,450	-	1,318,450	97,343	1,415,793
Retail and consumer banking	15,081,567	-	-	15,081,567	5,557,438	20,639,005
Others	60,709	-	-	60,709	1,562	62,271
Total exposures	22,354,858	2,695,952	543,899	25,594,709	7,311,091	32,905,800

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

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 Concentration of credit risk by industry (continued)

	On balance sheet items				Off balance sheet items	
	Loans and advances	Debt Securities	Due from banks	Total funded		Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2012						
Agriculture, fishing & related activities	18,296	-	-	18,296	629	18,925
Crude oil , gas, mining & quarrying	390	-	-	390	112,720	113,110
Manufacturing	205,043	-	-	205,043	173,003	378,046
Electricity & water	15,131	-	-	15,131	735	15,866
Construction	733,114	-	-	733,114	104,464	837,578
Trading	2,711,962	-	-	2,711,962	500,882	3,212,844
Transport, storage & communication	777,752	73,460	-	851,212	43,079	894,291
Financial Institution	27,279	888,510	1,195,831	2,111,620	166,722	2,278,342
Services	760,366	-	-	760,366	195,234	955,600
Government	-	624,908	-	624,908	118,685	743,593
Retail and consumer banking	15,296,538	-	-	15,296,538	5,197,846	20,494,384
Others	61,666	-	-	61,666	1,637	63,303
Total exposures	20,607,537	1,586,878	1,195,831	23,390,246	6,615,636	30,005,882

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

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Individually impaired loans by industry

The breakdown of the gross amount of individually impaired loans and advances by industry are as follows:

	Less than 90 days AED'000	Overdue above 90 Days AED'000	Total AED'000	Specific Provision AED'000
31 December 2013				
Agriculture, fishing & related activities	-	72	72	72
Crude oil, gas, mining & quarrying	-	-	-	-
Manufacturing	-	1,379	1,379	1,379
Electricity & water	-	-	-	-
Construction	83	46,558	46,641	38,998
Trading	319	38,346	38,665	34,662
Transport, storage & communication	2	5,093	5,095	5,095
Financial institution	-	2	2	1
Services	75	7,198	7,273	7,273
Government	-	-	-	-
Retail and consumer banking	5,147	435,133	440,280	241,700
Others	-	433	433	433
Total impaired loans	<u>5,626</u>	<u>534,214</u>	<u>539,840</u>	<u>329,613</u>

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

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Individually impaired loans by industry (continued)

	less than 90 days AED'000	Overdue above 90 Days AED'000	Total AED'000	Specific Provision AED'000
31 December 2012				
Agriculture, fishing & related activities	-	-	-	-
Crude oil, gas, mining & quarrying	-	-	-	-
Manufacturing	9	2,185	2,194	2,223
Electricity & water	-	-	-	-
Construction	1	45,284	45,285	37,494
Trading	164	29,226	29,390	23,462
Transport, storage & communication	1,658	7,093	8,751	8,751
Financial institution	-	-	-	-
Services	10	4,099	4,109	4,109
Government	-	-	-	-
Retail and consumer banking	11,377	414,869	426,246	195,369
Others	-	534	534	534
Total impaired loans	<u>13,219</u>	<u>503,290</u>	<u>516,509</u>	<u>271,942</u>

3.2.8 Offsetting financial instruments

The Group has not entered in significant master netting arrangement with counterparties which enable them to settle transactions on net basis. In absence of such agreements the financial asset and liabilities are settled on gross basis.

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

3.3 Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Asset and Liability Committee (ALCO) is chaired by the Chief Executive Officer and comprises of the Heads of Finance, Treasury, Corporate Banking and Personal Banking. It meets on a regular basis to monitor and manage market risk.

ALCO is responsible for formalising the Bank's key financial indicators and ratios, set the thresholds to manage and monitor the market risk and also analyse the sensitivity of the Bank's interest rate and maturity mis-matches. ALCO also guides the Bank's investment decisions and provides guidance in terms of interest rate and currency movements.

Further the Bank does not enter in to derivative trades for speculative or hedging purposes. The only exposure to derivatives is in respect of forward exchange contracts which are entered, to meet customer needs (Note 21).

3.3.1 Price risk

The Bank is exposed to price risk as a result of its holdings in debt securities classified as available-for-sale investment securities. The fair values of investments quoted in active markets are based on current bid prices. Senior management meets regularly to discuss the return on investment and concentration across the Bank's investment portfolio.

The sensitivity analysis for price risk illustrates how changes in the fair value of securities held by the Bank will fluctuate because of changes to market prices whether those changes are caused by factors specific to the individual issuer, or factors affecting all similar securities traded in the market. At 31 December 2013, if market prices had increased/decreased by 5%, with all other variables held constant, the fair value reserve in equity would have increased/decreased by AED 2.1 million (2012: AED 2.1 million).

3.3.2 Interest rate risk

Cash flow interest risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Bank monitors interest rate risk through the use of a detailed gap report and stress tests to analyse the impact of anticipated movements in interest rates.

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

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Interest rate risk (continued)

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

At 31 December 2013	Less than 3 months AED'000	From 3 months to 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Non- interest bearing AED'000	Total AED'000	Yield %
Assets							
Cash and balances with the UAE Central Bank	-	750,000	-	-	2,872,262	3,622,262	0.45
Due from other banks	275,475	-	-	-	268,424	543,899	0.08
Loans and advances	3,166,779	479,725	18,312,741	-	-	21,959,245	12.01
Investment securities	50,000	-	949,709	1,696,243	-	2,695,952	4.33
Property and equipment and other assets	-	-	-	-	1,305,411	1,305,411	
Total	3,492,254	1,229,725	19,262,450	1,696,243	4,446,097	30,126,769	
Liabilities and shareholders' equity							
Due to other banks	-	-	-	-	3,357	3,357	-
Due to customers	13,869,433	4,199,338	-	-	5,000,376	23,069,147	1.05
Other liabilities and provision for employees' end of service benefits	-	-	-	-	538,195	538,195	
Shareholders' equity	-	-	-	-	6,516,070	6,516,070	
Total	13,869,433	4,199,338	-	-	12,057,998	30,126,769	
Interest rate sensitivity gap	(10,377,179)	(2,969,613)	19,262,450	1,696,243			

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

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Interest rate risk (continued)

At 31 December 2012

Assets

Cash and balances with the UAE Central Bank
Due from other banks
Loans and advances
Investment securities
Property and equipment and other assets

Total

Liabilities and shareholders' equity

Due to other banks
Due to customers
Subordinated debt
Other liabilities and provision for employees' end of service benefits
Shareholders' equity

Total

Interest rate sensitivity gap

	Less than 3 months AED'000	From 3 months to 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Non- interest bearing AED'000	Total AED'000	Yield %
	-	750,000	-	-	2,154,054	2,904,054	0.50
	664,580	-	-	-	531,251	1,195,831	0.30
	2,834,064	321,830	17,127,533	-	-	20,283,427	12.86
	248,764	344,333	956,452	37,329	-	1,586,878	4.46
	-	-	-	-	1,279,947	1,279,947	
	3,747,408	1,416,163	18,083,985	37,329	3,965,252	27,250,137	
	100,000	-	-	-	133,841	233,841	0.10
	13,692,665	3,138,143	23	-	3,888,894	20,719,725	1.64
	-	-	-	-	601,356	601,356	
	-	-	-	-	5,695,215	5,695,215	
	13,792,665	3,138,143	23	-	10,319,306	27,250,137	
	(10,045,257)	(1,721,980)	18,083,962	37,329			

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

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Interest rate risk (continued)

Interest rate risk is assessed by measuring the impact of reasonable possible change in interest rate movements. The bank assumes a fluctuation in interest rates of 25 basis points (bps) and estimates the following impact on the net profit for the year and net assets at that date:

	2013 AED'000	2012 AED'000
Fluctuation in interest rates by 25 bps	33,367	29,418

The interest rate sensitivities set out above are worst case scenarios and employ simplified calculations. They are based on the gap between AED 4,722 million (2012: AED 5,164 million) of interest bearing assets with maturities within one year and AED 18,069 million (2012: AED 16,931 million) of interest bearing liabilities with maturities within one year. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

3.3.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. Positions are closely monitored and strategies are used to ensure positions are maintained within established limits.

The Bank's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, the Bank does maintain a US dollar open position within limits approved by the Bank's ALCO.

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

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Currency risk (continued)

At 31 December 2013, the Bank had the following net exposures denominated in foreign currencies:

On balance sheet items

At 31 December 2013	AED AED'000	USD AED'000	Others AED'000	Total AED'000
Assets				
Cash and balances with the UAE				
Central Bank	3,308,160	314,102	-	3,622,262
Due from other banks	97,785	404,380	41,734	543,899
Loans and advances	21,103,712	839,527	16,006	21,959,245
Investment securities	50,000	2,645,952	-	2,695,952
Other assets	152,284	42,832	4	195,120
Total assets	24,711,941	4,246,793	57,744	29,016,478
Liabilities				
Due to other banks	67	-	3,290	3,357
Due to customers	20,833,859	1,872,370	362,918	23,069,147
Other liabilities	470,123	1,807	815	472,745
Total liabilities	21,304,049	1,874,177	367,023	23,545,249
Net position of financial instruments	3,407,892	2,372,616	(309,279)	5,471,229
At 31 December 2012	AED AED'000	USD AED'000	Others AED'000	Total AED'000
Total assets	23,644,604	2,144,392	368,566	26,157,562
Total liabilities	19,393,635	1,678,025	421,820	21,493,480
Net position of financial instruments	4,250,969	466,367	(53,254)	4,664,082

The Bank has no significant exposure to foreign currency risk as its functional currency is pegged to the USD, the currency in which the Bank has the largest net open position at 31 December 2013 and 31 December 2012. All currency positions are within limits laid down by ALCO.

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

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Currency risk (continued)

Off-balance sheet items

At 31 December 2013	AED AED'000	USD AED'000	Others AED'000	Total AED'000
Credit commitments	6,635,974	12,875	-	6,648,849
Guarantees, acceptances and other exposures	463,090	152,504	46,648	662,242
Total	7,099,064	165,379	46,648	7,311,091
At 31 December 2012				
Credit commitments	5,956,983	23,389	-	5,980,372
Guarantees, acceptances and other exposures	396,016	122,940	116,308	635,264
	6,352,999	146,329	116,308	6,615,636

3.4 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for customer lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, systemic shocks and natural disasters.

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

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.1 Liquidity risk management process

The Bank manages its liquidity in accordance with Central Bank of the U.A.E. requirements and the bank's internal guidelines mandated by ALCO. Based on the directives of the ALCO, the Treasury manages the liquidity of the Bank.

On the funding side, the bank has a large proportion of its assets in the form of own funds which reduces the requirement for external funds. The bank relies on deposits from its relationship based retail and corporate customers as its primary source of funding and only on a short term basis relies on interbank borrowings to fund its assets. Deposits from customers generally have shorter maturities and a large portion of them are repayable on demand as is endemic to these markets. The short term nature of these deposits increases the Bank's liquidity risk and the bank manages this risk through maintaining competitive pricing and constant monitoring of market trends. Also, a most of the deposit customers of the bank are relationship based and based on past trends these deposits that they maintain are sticky in nature, thus reducing the liquidity risk to a large extent. The bank does not rely on large ticket deposits and its depositor profile is very diverse leading to a more stable deposit funding.

On the deployment side, the Bank maintains a portfolio of highly liquid assets largely made up of balances with the UAE Central Bank, certificates of deposits issued by the the Central Bank, inter-bank facilities and investment securities including investments in local government bonds which can be repoed to meet short term liquidity mismatches and be offloaded to meet longer term mismatches. The Central Bank of the U.A.E. has prescribed reserve requirements on deposits ranging between 1% and 14% on time and demand deposits. As a contingency funding plan, the bank evaluates and keeps ready debt financing plans which can be quickly executed if required.

The table below analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining years from the reporting date to the contractual maturity date.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the bank and its exposure to changes in interest rates and exchange rates.

The Central Bank of the U.A.E. also imposes mandatory 1:1 advances to stable resources ratio(ASRR) whereby loans and advances (combined with inter-bank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the Central Bank of the U.A.E. ALCO monitors advances to deposits ratios on a daily basis. The bank on a daily basis also monitors the liquid assets to total assets ratio and the Liquid Asset Ratio and has set up internal Management Action Triggers to take suitable corrective actions once the internal thresholds have been reached.

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

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.1 Liquidity risk management process (continued)

At 31 December 2013, 22.7%(31 December 2012 – 20 %) of the Bank's total assets was in liquid assets. The ASRR as at 31 December, 2013 stood at 88.1% which is way above the minimum requirement of 100%. Similarly the Liquid Assets Ratio of the Bank stood at 20% as at 31 December, 2013 which also reflecting a healthy liquidity position.

	Up to 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
At 31 December 2013	AED'000	AED'000	AED'000	AED'000	AED'000
Assets					
Cash and balances with the UAE Central Bank	2,872,262	750,000	-	-	3,622,262
Due from other banks	543,899	-	-	-	543,899
Loans and advances	3,166,779	479,725	8,458,382	9,854,359	21,959,245
Investment securities	42,268	50,000	907,441	1,696,243	2,695,952
Property and equipment, and other assets	230,818	36,412	9,308	1,028,873	1,305,411
Total	<u>6,856,026</u>	<u>1,316,137</u>	<u>9,375,131</u>	<u>12,579,475</u>	<u>30,126,769</u>
Liabilities and shareholders' equity					
Due to other banks	3,357	-	-	-	3,357
Due to customers	18,869,809	4,199,338	-	-	23,069,147
Other liabilities and provision for employees' end of service benefits	472,745	-	-	65,450	538,195
Shareholders' equity	-	-	-	6,516,070	6,516,070
Total	<u>19,345,911</u>	<u>4,199,338</u>	<u>-</u>	<u>6,581,520</u>	<u>30,126,769</u>
Net liquidity gap	<u>(12,489,885)</u>	<u>(2,883,201)</u>	<u>9,375,131</u>	<u>5,997,955</u>	<u>-</u>
At 31 December 2012					
Total assets	<u>6,425,433</u>	<u>1,648,568</u>	<u>7,450,995</u>	<u>11,725,141</u>	<u>27,250,137</u>
Total liabilities and equity	<u>18,355,314</u>	<u>3,138,143</u>	<u>23</u>	<u>5,756,657</u>	<u>27,250,137</u>
Net liquidity gap	<u>(11,929,881)</u>	<u>(1,489,575)</u>	<u>7,450,972</u>	<u>5,968,484</u>	<u>-</u>

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

Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.2 Derivative cash flows

The Bank's derivatives that will be settled on a gross basis comprise foreign exchange contracts.

The table below analyses the Bank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month AED'000	1 -3 months AED'000	3 -12 months AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2013						
Foreign exchange contracts						
– Outflow	471,224	-	-	-	-	471,224
– Inflow	481,291	-	-	-	-	481,291
	=====	=====	=====	=====	=====	=====
At 31 December 2012						
Foreign exchange contracts:						
– Outflow	51,017	-	-	-	-	51,017
– Inflow	50,371	-	-	-	-	50,371
	=====	=====	=====	=====	=====	=====

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

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.3 Off-balance sheet items

At 31 December 2013	No later than 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
Credit commitments	6,648,849	-	-	6,648,849
Guarantees, acceptances and other financial facilities	662,208	34	-	662,242
Total	7,311,057	34	-	7,311,091
At 31 December 2012				
Credit commitments	5,980,372	-	-	5,980,372
Guarantees, acceptances and other financial facilities	634,219	1,045	-	635,264
Total	6,614,591	1,045	-	6,615,636

3.5 Fair values of financial assets and liabilities

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. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. At 31 December 2013, the carrying value of the Bank's financial assets and liabilities measured at amortised approximate their fair values, except for the below mentioned financial asset:

	Fair value		Carrying value	
	2013 AED'000	2012 AED'000	2013 AED'000	2012 AED'000
Financial assets				
Investment securities	2,631,967	1,617,175	2,653,264	1,544,190

Investment securities

Investment securities comprise interest-bearing debt instruments that are held-to-maturity or classified as available-for-sale financial assets and measured at fair value. The fair value of the debt instruments is based on quoted market prices.

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

3 Financial risk management (continued)

3.6 Financial instruments

Categories of financial instruments

The following tables analyse the Bank's financial assets and financial liabilities in accordance with categories of financial instruments under IAS 39.

	Loans and receivables	Available For sale	Fair value through profit or loss	Total
December 31, 2013	AED'000	AED'000	AED'000	AED'000
Assets				
Investment securities	2,653,684	42,268	-	2,695,952
Derivative financial instruments	-	-	375	375
Cash and balances with the UAE central Bank	3,622,262	-	-	3,622,262
Due from other Banks	543,899	-	-	543,899
Loans and advances	21,959,245	-	-	21,959,245
Other assets	195,120	-	-	195,120
Total financial assets	28,974,210	42,268	375	29,016,853
Liabilities				
	financial liabilities at amortised cost			
Due to banks	3,357	-	-	3,357
Due to customer	23,069,147	-	-	23,069,147
Other liabilities	48,844	-	-	48,844
Total financial liabilities	23,121,348	-	-	23,121,348
	Loans and receivables	Available For sale	Fair value through profit or loss	Total
December 31, 2012				
Assets				
Investment securities	1,544,190	42,688	-	1,586,878
Derivative financial instruments	-	-	35	35
Cash and balances with the UAE central Bank	2,904,054	-	-	2,904,054
Due from other Banks	1,195,831	-	-	1,195,831
Loans and advances	20,283,427	-	-	20,283,427
Other assets	187,372	-	-	187,372
Total financial assets	26,114,874	42,688	35	26,157,597
Liabilities				
	financial liabilities at amortised cost			
Due to banks	233,841	-	-	233,841
Due to customer	20,719,725	-	-	20,719,725
Other liabilities	94,931	-	-	94,931
Total financial liabilities	21,048,497	-	-	21,048,497

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

3 Financial risk management (continued)

3.7 Fair value hierarchy

The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions.

Valuation techniques using observable inputs – Level 2

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs include financial instruments such as forwards foreign exchange contracts which are valued using market standard pricing techniques.

Valuation techniques using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from a transaction in an active market.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. The table below analyses recurring fair value measurements for assets and liabilities.

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

3 Financial risk management (continued)

3.7 Fair value hierarchy (continued)

The assets measured at fair value as per the hierarchy are disclosed in the table below:

31 December 2013	Quoted market prices Level 1 AED '000	Observable inputs Level 2 AED '000	Significant unobservable inputs Level 3 AED '000	Total AED '000
Asset at fair value				
Available for sale financial assets	-	-	-	-
- Investment securities – debt	42,268	-	-	42,268
Foreign currency forwards	-	375	-	375
Asset at amortised cost				
Investment securities	2,631,967	-	-	2,631,967
	<u>2,674,235</u>	<u>375</u>	<u>-</u>	<u>2,674,610</u>
31 December 2012				
Available for sale financial assets				
- Investment securities – debt	42,688	-	-	42,688
Foreign currency forwards	-	35	-	35
Asset at amortised cost				
Investment securities	1,617,175	-	-	1,617,175
	<u>1,659,863</u>	<u>35</u>	<u>-</u>	<u>1,659,898</u>

All the investments are quoted except foreign currency forwards. There are no transfers between levels during the period hence no Level 3 reconciliation is presented.

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

3 Financial risk management (continued)

3.8.1 Capital structure and capital adequacy as per Basel II requirement as at 31 December 2013

The Bank is required to report capital resources and risk-weighted assets under the Basel II Pillar 1 framework, as shown in the following table. The Bank has adopted standardised approach for calculation of credit risk and market risk capital charge. On operational risk, alternative standardized approach is followed for capital charge calculation under Pillar1.

	2013 AED'000	2012 AED'000
Tier 1 capital		
Ordinary share capital	1,676,245	1,523,859
Share premium	110,350	110,350
Statutory and other reserves	2,877,477	2,294,911
Retained earnings	421,180	363,296
Total	5,085,252	4,292,416
Tier 2 capital	-	-
Total regulatory capital	5,085,252	4,292,416
Risk weighted assets		
Credit risk	18,720,220	16,951,305
Market risk	4,618	3,633
Operational risk	849,176	714,989
Total risk weighted assets	19,574,014	17,669,927
Capital adequacy ratio on regulatory capital	25.98%	24.29%
Capital adequacy ratio on Tier 1 capital	25.98%	24.29%

The above ratios are computed without considering the current year profits and proposed cash dividends. On approval of the Consolidated Financial statements by Central Bank of UAE and thereafter by the shareholders, the capital position and risk assets ratio will be as follows :

Total Tier 1 capital	5,677,947	5,085,671
Total Tier 2 capital	-	-
Total capital base	5,677,947	5,085,671
Risk asset ratio on total capital base (%)	29.01%	28.78%
Risk asset ratio on tier 1 capital base (%)	29.01%	28.78%

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

3 Financial risk management (continued)

3.8 Capital management

3.8.2 Analysis of the Bank's exposure based on Basel II standardised approach

	On balance sheet net outstanding AED '000	Off balance sheet net exposure after credit conversion AED '000	Credit Risk Mitigation (CRM)			Risk weighted Assets AED '000
			Exposure before CRM AED '000	CRM AED '000	After CRM AED '000	
31 December 2013						
Claims on sovereigns	3,683,882	-	3,683,882	-	3,683,882	-
Claims on PSE's	560,438	-	560,438	-	560,438	-
Claims on banks	1,438,522	97	1,438,619	-	1,438,619	556,692
Claims on corporates	1,515,044	308,768	1,823,812	135,630	1,688,182	1,585,632
Claims included in the regulatory retail portfolio	17,355,802	230,816	17,586,618	68,156	17,518,462	13,410,836
Claims secured by residential property	3,383,181	-	3,383,181	-	3,383,181	1,459,004
Claims secured by commercial real estate	58,485	-	58,485	-	58,485	58,485
Past due loans	226,820	-	226,820	-	226,820	324,664
Other assets	1,970,102	-	1,970,102	-	1,970,102	1,324,907
Total claims	30,192,276	539,681	30,731,957	203,786	30,528,171	18,720,220
Of which :						
Rated exposure			2,995,486			
Unrated exposure			27,736,471			
Total exposure			30,731,957			

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

3 Financial risk management (continued)

3.8 Capital management (continued)

3.8.2 Analysis of the bank's exposure based on Basel II standardised approach (continued)

	On balance sheet net outstanding AED '000	Off balance sheet net exposure after credit conversion AED '000	Credit Risk Mitigation (CRM)			Risk weighted Assets AED '000
			Exposure before CRM AED '000	CRM AED '000	After CRM AED '000	
31 December 2012						
Claims on sovereigns	2,755,627	-	2,755,627	-	2,755,627	-
Claims on PSE's	264,639	-	264,639	-	264,639	-
Claims on banks	1,966,876	-	1,966,876	-	1,966,876	651,759
Claims on corporates	604,689	466,000	1,070,689	161,029	909,660	909,660
Claims included in the regulatory retail portfolio	16,135,758	29,988	16,165,746	89,693	16,076,053	12,163,873
Claims secured by residential property	3,377,069	-	3,377,069	-	3,377,069	1,518,297
Claims secured by commercial real estate	27,750	-	27,750	-	27,750	27,750
Past due loans	263,788	-	263,788	-	263,788	376,527
Other assets	1,906,108	-	1,906,108	-	1,906,108	1,303,439
Total claims	27,302,304	495,988	27,798,292	250,722	27,547,570	16,951,305
Of which :						
Rated exposure			2,231,515			
Unrated exposure			25,566,777			
Total exposure			27,798,292			

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

3 Financial risk management (continued)

3.8 Capital management (continued)

3.8.3 Capital requirement for market risk under standardised approach as at 31 December

Market Risk

	Risk Weighted Assets		Capital Charge	
	2013 AED '000	2012 AED '000	2013 AED '000	2012 AED '000
Foreign exchange risk	4,618	3,633	554	436

Capital charge for year ended 31 December 2013 has been calculated at 12% (2012: 12%)

3.8.4 Gross exposures and credit risk mitigation

	Exposures		Risk Weighted Assets	
	2013 AED '000	2012 AED '000	2013 AED '000	2012 AED '000
Gross exposure prior to Credit Risk Mitigation	30,731,957	27,798,292	18,918,254	17,192,835
Less: Exposures covered by eligible financial collateral	(203,786)	(250,722)	(198,034)	(241,530)
Net Exposures after Credit Risk Mitigation	30,528,171	27,547,570	18,720,220	16,951,305

For the credit risk mitigation and credit risk management refer note 3.2.

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

4 Critical accounting estimates, and judgements in applying accounting policies

The Group's consolidated financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the consolidated financial statements. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with applicable standards. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting policies and management judgement for certain items are especially critical for the Group's results and financial situation due to their materiality.

(a) *Impairment losses on loans and advances*

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management takes into account the historical loss experience in estimating future cash flows in assessing the loan portfolio for impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A +/-5% change in the provision would increase/decrease the profit by AED 19.8 million (2012: AED 16 million).

(b) *Held-to-maturity investments*

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

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

5 Cash and balances with the UAE Central Bank

	2013 AED'000	2012 AED'000
Cash in hand (Note 30)	568,206	508,696
Balances with UAE Central Bank	198,242	-
Statutory deposit with the UAE Central Bank	2,105,814	1,645,358
Certificates of deposit with the UAE Central Bank	750,000	750,000
	<u>3,622,262</u>	<u>2,904,054</u>

The statutory deposit with the UAE Central Bank is not available to finance the day to day operations of the bank. Cash in hand, balances and statutory deposit with the UAE Central Bank are non-interest bearing. Certificates of deposit carry an interest rate 0.45% (2012: 0.50 %) per annum.

6 Due from other banks

	2013 AED'000	2012 AED'000
Placements with other banks	275,475	664,580
Demand deposits	170,942	413,786
Clearing account balances	97,482	117,465
	<u>543,899</u>	<u>1,195,831</u>

Placements with other banks carry an interest rate of 0.08% (2012: 0.12% to 0.53%) per annum.

The above represents deposits and balances due from:

Banks in UAE	373,257	782,095
Banks outside UAE	170,642	413,736
	<u>543,899</u>	<u>1,195,831</u>

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

7 Loans and advances

		2013 AED'000	2012 AED'000
7(a) Loans and advances			
Retail loans		21,400,640	20,082,704
Corporate loans		954,218	524,833
Total loans and advances	7 (b)	22,354,858	20,607,537
Provision for impairment	7 (c)	(395,613)	(324,110)
Net loans and advances		<u>21,959,245</u>	<u>20,283,427</u>
7(b) Analysis of loans and advances			
Commercial loans and overdrafts		9,778,256	9,600,684
Retail Loans		6,848,808	7,051,179
Credit Cards		2,864,215	2,713,784
Auto loans		1,685,885	1,241,890
Islamic financing assets (Note 8)		1,177,694	-
Total loans and advances		<u>22,354,858</u>	<u>20,607,537</u>

7(c) Provision for impairment

	Retail loans AED'000	Corporate loans AED'000	Total AED'000
31 December 2013			
Balance brought forward	292,203	31,907	324,110
Impairment charge/ (release) (Note 7(d))	393,145	(1,050)	392,095
Written off during the year	(320,316)	(276)	(320,592)
Balance carried forward	<u>365,032</u>	<u>30,581</u>	<u>395,613</u>
31 December 2012			
Balance brought forward	305,351	32,627	337,978
Impairment charge/ (release) (Note 7(d))	250,751	(302)	250,449
Written off during the year	(263,899)	(418)	(264,317)
Balance carried forward	<u>292,203</u>	<u>31,907</u>	<u>324,110</u>

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

7 Loans and advances (continued)

7(d) Impairment charge/ (release) on loans and advances net of write (back)/off

	Retail loans AED'000	Corporate loans AED'000	Total AED'000
31 December 2013			
Impairment charge / (release)	393,145	(1,050)	392,095
Net recovery during the year	(51,472)	-	(51,472)
	<u>341,673</u>	<u>(1,050)</u>	<u>340,623</u>
31 December 2012			
Impairment charge	250,751	(302)	250,449
Net recovery during the year	(41,334)	-	(41,334)
	<u>209,417</u>	<u>(302)</u>	<u>209,115</u>

Net recovery mainly represents amounts subsequently recovered from fully written off loans.

7(e) Impaired loans and provision coverage

	2013 AED'000	2012 AED'000
Aggregate impaired loans	539,840	516,509
Provision held	395,613	324,110
Coverage ratio	73.28%	62.75%

The ratio of provisions held to aggregate impaired loans ("coverage ratio") is an indicator of the Bank's achievements in managing lower default rates and improving recovery rates. For computation of above ratio, the bank has considered total impairment provision including the portfolio provision for risk inherent in the bank's portfolio (Note 3.2.2).

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

8 Islamic financing assets

	2013 AED'000	2012 AED'000
Analysis of Islamic financing assets		
Islamic Salam personal finance	730,088	-
Islamic Auto Murabaha	370,079	-
Islamic business finance	34,938	-
Islamic credit cads	42,589	-
	<hr/>	<hr/>
Total Islamic financing assets	1,177,694	-
Provision for impairment	(5,312)	-
	<hr/>	<hr/>
	<u>1,172,382</u>	<u>-</u>

The Islamic operations were launched in January 2013 and hence there are no comparatives to report.

9 Investment securities

9(a) Total investment securities

	2013 AED'000	2012 AED'000
Available-for-sale securities		
Quoted debt securities	42,268	42,688
	<hr/>	<hr/>
Held-to-maturity securities		
Quoted debt securities	2,653,684	1,544,190
	<hr/>	<hr/>
Total	<u>2,695,952</u>	<u>1,586,878</u>

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

9 Investment securities (continued)

9(b) Movement in investment securities

	Available -for- sale securities AED'000	Held – to – maturity securities AED'000	Total AED'000
At 1 January 2012	151,426	1,012,387	1,163,813
Purchases	-	641,074	641,074
Disposals / Maturity	(118,365)	(110,605)	(228,970)
Net changes in fair value (Note 19)	9,627	-	9,627
Amortisation of discount/(premium)	-	1,334	1,334
At 31 December 2012	42,688	1,544,190	1,586,878
Purchases	106,483	1,829,092	1,935,575
Disposal* /Maturity	(106,483)	(706,199)	(812,682)
Net changes in fair value (Note 19)	(420)	-	(420)
Amortisation of discount/(Premium)	-	(13,399)	(13,399)
At 31 December 2013	42,268	2,653,684	2,695,952

* Management undertook a review of the held to maturity bonds portfolio in April 2013 and a decision was taken to exit two bonds with carrying value of AED 165.2 million. This was an exceptional event arising due to credit concerns and is not expected to recur. All other reductions are due to redemptions at normal maturity date.

9(c) Income from investment securities

	2013 AED'000	2012 AED'000
Net Interest income on debt securities	108,535	73,056
Release of fair value to income statement on maturity/ disposal of available-for-sale investment securities (Note 19)	26,576	(1,515)
Profit on sale of HTM securities	8,410	-
Dividend and other income	6,322	-
	<u>149,843</u>	<u>71,541</u>

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

10 Property and equipment

	Land and Buildings AED'000	Leasehold Improvements AED'000	Other fixed assets AED'000	Capital work in progress AED'000	Total AED'000
Cost					
1 January 2012	503,297	94,339	368,612	271,677	1,237,925
Additions	9,363	463	14,126	160,209	184,161
Transfers	6,813	11,490	292,043	(310,346)	-
Disposals/write off	-	(1,064)	(1,791)	-	(2,855)
31 December 2012	519,473	105,228	672,990	121,540	1,419,231
Additions	38,429	804	19,251	61,859	120,343
Transfers	51,485	15,216	74,716	(141,417)	-
Disposals/write off	(225)	(1,870)	(2,875)	-	(4,970)
31 December 2013	609,162	119,378	764,082	41,982	1,534,604
Depreciation					
1 January 2012	32,065	47,108	206,585	-	285,758
Charge for the year	16,009	13,130	70,721	-	99,860
Disposals/write off	-	(813)	(1,347)	-	(2,160)
31 December 2012	48,074	59,425	275,959	-	383,458
Charge for the year	18,342	15,046	93,520	-	126,908
Disposals/write off	(161)	(1,869)	(2,605)	-	(4,635)
31 December 2013	66,255	72,602	366,874	-	505,731
Net book amounts					
31 December 2013	542,907	46,776	397,208	41,982	1,028,873
31 December 2012	471,399	45,803	397,031	121,540	1,035,773

Other assets include computer equipment, furniture and fixtures, office equipment and motor vehicles. The balance of capital work in progress mainly comprises of the costs pertaining to office building, staff accommodation and set up costs for branches.

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

	2013 AED'000	2012 AED'000
11 Other assets		
Interest receivable	175,973	164,794
Profit receivable on Islamic financing assets	11,941	-
Prepayments and deposits	54,229	61,324
Others	34,395	18,056
	<u>276,538</u>	<u>244,174</u>

12 Due to other banks

Term deposits	-	100,000
Current account balance with UAE Central Bank (Note 30)	-	133,376
Demand deposits	3,357	465
	<u>3,357</u>	<u>233,841</u>

13 Due to customers

Time deposits	7,104,006	9,249,064
Current accounts	9,573,066	7,817,296
Savings deposits	3,416,942	2,749,198
Call deposits	1,010,673	904,167
Islamic customer deposits (As per Note 14)	1,964,460	-
	<u>23,069,147</u>	<u>20,719,725</u>

Time deposits include AED255 million (2012: AED 280 million) held by the bank as cash collateral for loans and advances granted to customers.

14 Islamic customer deposits

Wakala investment deposits	1,017,385	-
Mudaraba term investment deposits	55,673	-
Qard-E-Hasan -current accounts	145,001	-
Mudaraba -current accounts	618,427	-
Mudaraba -savings deposits	125,376	-
Mudaraba-call deposits	2,598	-
	<u>1,964,460</u>	<u>-</u>

The Islamic operations were launched in January 2013 and hence there are no comparatives to report.

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

15 Other liabilities

	2013 AED'000	2012 AED'000
Interest payable	39,738	94,931
Profit distributable in Islamic customer deposits	9,106	-
Accrued expenses	155,364	175,797
Managers cheques issued	150,123	151,215
Others	118,414	117,971
	<u>472,745</u>	<u>539,914</u>

16 Provision for employees' end of service benefits

	2013 AED'000	2012 AED'000
At 1 January	61,442	53,067
Charge for the year (Note 26)	13,776	15,797
Payment during the year	(9,768)	(7,422)
At 31 December	<u>65,450</u>	<u>61,442</u>

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2013, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using a discount rate of 4.48% (2012: 3 %). Under this method an assessment has been made of an employee's expected service life with the Group and the expected basic salary at the date of leaving the service. Management has assumed average annual increment/promotion costs of 3% (2012: 5%).

17 Share capital

The authorised, issued and fully paid share capital comprises 1,676.25 million shares of AED 1 each (2012: 1,523.86 million shares of AED 1 each).

At the meeting of the shareholders held on 24 March 2013, the shareholders of the Bank approved a stock dividend (issue of bonus shares) in respect of year 2012 at 10% of the issued and paid up capital amounting to AED 152.39 million (2011: AED 138.53 million) and cash dividend at 40% of issued and paid up capital amounting to AED 609.54 million (2011: AED 415.6 million). Accordingly, the authorised and issued share capital was increased by the amount of stock dividend.

18 Share premium

Share premium represents amounts received from shareholders in excess of the nominal value of the shares allotted to them. In accordance with the Articles of Association of the Bank, share premium is not available for distribution.

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

19 Other reserves

	Legal reserve	Voluntary reserve	General banking risk reserve	Credit risk reserve	Regulatory credit risk reserve	Fair value reserve	Total
	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000
At 1 January 2012	525,842	277,067	500,000	750,000	-	(9,140)	2,043,769
Release of fair value loss to income statement on disposal of available-for-sale investment securities (Note 9(c))							
Changes during the year	140,280	27,706	200,000	200,000	255,000	1,515	1,515
At 31 December 2012	666,122	304,773	700,000	950,000	255,000	9,627	832,613
Changes during the year	143,082	30,477	100,000	100,000	26,000	(420)	399,139
At 31 December 2013	809,204	335,250	800,000	1,050,000	281,000	1,582	3,277,036

In accordance with the UAE Federal Law No (8) of 1984 as amended, and the UAE Union Law No. 10 of 1980, as amended, 10% of the net profit for the year is transferred to a legal reserve, until such time as the balance in the reserve equals 50% of the issued share capital. This reserve is not available for distribution.

In accordance with the Articles of Association of the bank, 10% of the net profit for the year is transferred to a voluntary reserve until such time as the balance in the reserve equals 20% of the issued share capital. This reserve is available for distribution.

The Bank maintains a general banking risk reserve to address the risks inherent in the bank's operating environment. Contributions to this reserve are made at the discretion of the Directors. This reserve is available for distribution.

The Bank has also established a special reserve for credit risk. Contributions to this reserve are voluntary and made at the discretion of the Directors. This reserve is available for distribution.

The Bank has created a non-distributable special reserve titled as 'Regulatory Credit risk reserve' and this reserve is maintained at least at a level of 1.5% of the credit risk weighted assets at the end of each financial year, as instructed by the Central Bank of UAE.

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

20 Contingencies and commitments

	2013 AED'000	2012 AED'000
Commitments to extend credit	6,648,849	5,980,372
Guarantees	570,353	492,854
Letters of credit	62,951	111,708
Acceptances	28,938	30,702
Capital commitments	11,937	37,324
	<u>7,323,028</u>	<u>6,652,960</u>

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

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some risk associated with the remainder of commitments, the risk is viewed as modest, since it results firstly from the possibility of the unused portion of loan authorisations being drawn by the customer, and second, from these drawings subsequently not being repaid as due. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Commitments to extend credit amounting to AED 6,571 million (31 December 2012 AED 5,855 million) are revocable at the option of the Bank.

21 Forward foreign exchange contracts

Forward foreign exchange contracts comprise commitments to purchase foreign and domestic currencies on behalf of customers and in respect of the Bank's undelivered spot transactions.

The Bank had the following forward exchange transactions outstanding.

	Contract amount AED'000	Fair value AED'000
31 December 2013	<u>481,291</u>	<u>375</u>
31 December 2012	<u>51,017</u>	<u>35</u>

The positive fair values of the outstanding foreign exchange forward contracts are recorded in other assets.

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

22 Interest income and expense

	2013 AED'000	2012 AED'000
Interest income		
Commercial loans and overdrafts	1,318,959	1,310,697
Retail loans	510,512	562,103
Credit cards	613,028	617,069
Auto loans	121,708	88,034
Other banks	3,235	4,099
Deposits with the UAE Central Bank	2,980	1,848
	<u>2,570,422</u>	<u>2,583,850</u>
Interest expense		
Due to customers	246,703	330,477
Subordinated debt	-	19,993
Borrowings from other banks	802	92
	<u>247,505</u>	<u>350,562</u>

23 Income from Islamic financing and distribution to depositors

	2013 AED'000	2012 AED'000
Islamic Salam personal finance	33,623	-
Islamic Auto Murabaha	11,358	-
Islamic business finance	658	-
	<u>45,639</u>	<u>-</u>
Distribution of profit on Islamic term investment deposits	8,421	-
Distribution of profit on Islamic demand deposits	3,163	-
	<u>11,584</u>	<u>-</u>

24 Fee and commission income

	2013 AED'000	2012 AED'000
Credit Cards	176,159	187,870
Commercial loans	81,852	70,612
Retail loans	17,970	13,074
Mortgage Loans	29,704	24,174
Auto Loans	30,981	18,123
Trade Finance	15,572	13,191
Fiduciary income	75,035	72,847
Others	101,590	88,283
	<u>528,863</u>	<u>488,174</u>

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

25 Operating expenses

	2013 AED'000	2012 AED'000
Staff costs (Note 26)	597,280	610,342
Occupancy costs	90,567	94,968
Marketing expenses	32,514	31,600
Depreciation (Note 10)	126,908	99,860
Services	49,520	46,104
Legal and consultancy fees	53,376	45,979
Computer expenses	65,859	55,193
Outsourced staff costs	295,578	247,108
Others	67,284	50,096
	<u>1,378,886</u>	<u>1,281,250</u>

26 Staff costs

	2013 AED'000	2012 AED'000
Salaries and allowances	554,663	567,309
Pension	10,584	9,633
End of service benefits (Note 16)	13,776	15,797
Others	18,257	17,603
	<u>597,280</u>	<u>610,342</u>

27 Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period. In accordance with IAS 33 "Earnings Per Share", the impact of bonus shares issued has been considered retrospectively while computing the weighted average number of ordinary shares during all periods presented.

	2013	2012
Net profit for the year in AED	1,430,818,246	1,402,798,602
Weighted average number of shares in issue	1,676,245,428	1,676,245,428
Basic earnings per share in AED	<u>0.85</u>	<u>0.84</u>

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

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

28 Dividends

At the meeting held on 29 January 2014, the Board of Directors proposed a cash dividend of 50% amounting to AED 838.12 million of the issued and paid up capital in respect of the year ended 31 December 2013 (2012: 10% stock dividend amounting to AED152.39 million and 40% cash dividend amounting to AED 609.54 million).

Dividends are not accounted for until they have been approved at the Annual General Meeting and, accordingly, the proposed dividend will be accounted for as an appropriation of retained earnings of the year ended 31 December 2013 after it has been approved by the shareholders.

29 Related party transactions and balances

Related parties comprise shareholders, key management, businesses controlled by shareholders and directors as well as businesses over which they exercise significant influence. During the year, the Bank entered into significant transactions with related parties in the ordinary course of business. The transactions and balances arising from these transactions are as follows:

	2013 AED'000	2012 AED'000
Transactions during the year		
Interest/Profit income	955	1,333
Interest/Profit expense	11,201	19,528
Commission income	742	777
Directors' remuneration	5,216	5,212
Remuneration payable to key management personnel	39,104	40,374
	<u> </u>	<u> </u>
Balances at 31 December:		
Loans and advances:		
- Shareholders and their related companies	25,740	107
- Directors and their related companies	3,875	231
- Key management personnel	17,899	20,018
	<u> </u>	<u> </u>
	47,514	20,356
	<u> </u>	<u> </u>
Due to customers:		
- Shareholders and their related companies	1,073,772	642,582
- Directors and their related companies	78,247	42,194
- Key management personnel	9,748	22,924
	<u> </u>	<u> </u>
	1,161,767	707,700
	<u> </u>	<u> </u>
Irrevocable commitments, contingent liabilities and forward contracts		
- Shareholders and their related companies	74,262	118,752
- Directors and their related companies	6,657	445
	<u> </u>	<u> </u>
	80,919	119,197
	<u> </u>	<u> </u>

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

30 Cash and cash equivalents

	2013 AED'000	2012 AED'000
Cash in hand (Note 5)	568,206	508,696
Current account balance with UAE Central Bank (Note 5, 12)	198,242	(133,376)
Due from other banks (Note 6)	543,899	1,195,831
	<u>1,310,347</u>	<u>1,571,151</u>
Less : Due from other banks with original maturity of 3 months or more	-	(206,952)
	<u><u>1,310,347</u></u>	<u><u>1,364,199</u></u>

31 Segments analysis

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting to the management, which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Bank meet the definition of a reportable segment under IFRS 8.

The Bank has three main business segments:

- Retail banking – incorporating private customer current accounts, savings accounts, deposits, credit and debit cards, customer loans and mortgages;
- Corporate banking – incorporating transactions with corporate bodies including government and public bodies, small and medium entities; and comprising of loans, advances, deposits and trade finance transactions; and
- Treasury – incorporating activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the UAE Central Bank, none of which constitute a separately reportable segment.

The above segments include conventional and Islamic products and services of the Bank. As the Bank's segment operations are all financial with a majority of revenues deriving from interest and fees and commission income, the management relies primarily on revenue and segmental results to assess the performance of the segment.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment revenue. Interest charged for these funds is based on the Bank's funds transfer pricing policy. There are no other material items of income or expense between the business segments.

The Bank's management reporting is based on a measure of net profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses.

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

31 Segments analysis (continued)

The segment information provided to the management for the reportable segments for the year ended 31 December 2013 is as follows:

	Retail banking AED'000	Corporate banking AED'000	Treasury and others AED'000	Unallocated AED'000	Total AED'000
31 December 2013					
External interest income	2,499,488	64,719	6,215	-	2,570,422
External interest expense	(151,401)	(72,349)	(23,755)	-	(247,505)
Income from Islamic financing	45,639	-	-	-	45,639
Islamic profit distribution	(9,789)	(1,795)	-	-	(11,584)
Transfer pricing income/expense	(67,984)	46,634	21,350	-	-
Net interest income and Income from Islamic financing	2,315,953	37,209	3,810	-	2,356,972
Non interest income	539,264	67,825	186,266	-	793,355
Operating income	2,855,217	105,034	190,076	-	3,150,327
Operating expense excluding depreciation	(888,948)	(79,307)	(4,911)	(278,812)	(1,251,978)
Depreciation	(56,233)	(2,035)	(60)	(68,580)	(126,908)
Total Operating expense	(945,181)	(81,342)	(4,971)	(347,392)	(1,378,886)
Impairment charge net of write off / recovery	(341,673)	1,050	-	-	(340,623)
Net profit / (loss)	1,568,363	24,742	185,105	(347,392)	1,430,818
Segment assets	21,935,133	925,936	6,176,724	-	29,037,793
Unallocated assets	-	-	-	1,088,976	1,088,976
Total assets	21,935,133	925,936	6,176,724	1,088,976	30,126,769
Segment liabilities	13,545,444	8,314,559	1,358,217	-	23,218,220
Unallocated liabilities	-	-	-	392,479	392,479
Total liabilities	13,545,444	8,314,559	1,358,217	392,479	23,610,699

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

31 Segments analysis (continued)

	Retail banking AED'000	Corporate banking AED'000	Treasury and others AED'000	Unallocated AED'000	Total AED'000
31 December 2012					
External interest income	2,543,417	34,486	5,947	-	2,583,850
External interest expense	(215,334)	(91,381)	(43,847)	-	(350,562)
Transfer pricing income/expense	(102,136)	67,298	34,838	-	-
Net interest income	<u>2,225,947</u>	<u>10,403</u>	<u>(3,062)</u>	<u>-</u>	<u>2,233,288</u>
Non interest income	512,913	41,833	105,130	-	659,876
Operating income	<u>2,738,860</u>	<u>52,236</u>	<u>102,068</u>	<u>-</u>	<u>2,893,164</u>
Operating expense excluding depreciation	(860,082)	(69,036)	(5,414)	(246,858)	(1,181,390)
Depreciation	(50,974)	(1,994)	(77)	(46,815)	(99,860)
Total Operating expense	<u>(911,056)</u>	<u>(71,030)</u>	<u>(5,491)</u>	<u>(293,673)</u>	<u>(1,281,250)</u>
Impairment charge net of write off / recovery	(209,417)	302	-	-	(209,115)
Net profit / (loss)	<u>1,618,387</u>	<u>(18,492)</u>	<u>96,577</u>	<u>(293,673)</u>	<u>1,402,799</u>
Segment assets	20,571,820	493,955	5,078,492	-	26,144,267
Unallocated assets				1,105,870	1,105,870
Total assets	<u>20,571,820</u>	<u>493,955</u>	<u>5,078,492</u>	<u>1,105,870</u>	<u>27,250,137</u>
Segment liabilities	12,737,106	6,835,888	1,548,501	-	21,121,495
Unallocated liabilities				433,427	433,427
Total liabilities	<u>12,737,106</u>	<u>6,835,888</u>	<u>1,548,501</u>	<u>433,427</u>	<u>21,554,922</u>

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

32 Fiduciary activities

The Bank holds assets in a fiduciary capacity for its customers without recourse to itself. At 31 December 2013, such assets amounted to AED 1,666.6 million (2012: AED1,109.14 million) and are excluded from these consolidated financial statements of the bank.

33 List of subsidiaries

The following entities have been treated as subsidiaries for the purpose of consolidation as per the Bank's accounting policy as disclosed in Note 2(b). The Bank's interests, held directly or indirectly, in the subsidiaries are as follows:

Name of subsidiary	Proportion of ownership interest	Country of incorporation	Principal activities
RAK Islamic Finance company PVT. J.S.C	99.99%	UAE	Islamic financing
Back office support services (BOSS) FZCO	80%	UAE	Back office support
RAK Technology FZCO	80%	UAE	Information technology support

During the year 2013, BOSS FZCO and RAK technologies FZCO generated nil profit and have negligible net assets hence non-controlling interest deemed to be immaterial.

34 Subordinated debt

In 2009 the Bank received funds from the Ministry of Finance as per an agreement dated 31 December 2009 as part of a facility set up by the UAE Central Bank to provide liquidity support to banks operating in the UAE and for stimulating and maintaining economic activity in the Country. During year 2012 the subordinated debt of AED 684.47 million was settled in full by the Bank.

BASEL II - PILLAR 3 DISCLOSURES

Basel II – Pillar 3 Disclosures

The disclosures given below pertain to National Bank of Ras AL Khaimah P.S.C. and its three subsidiaries (group) and are in accordance with Basel 2, Pillar 3, Market discipline principles where Banks are required to disclose qualitative and quantitative information of its risk and capital management. These disclosures are also in compliance with Circular No 27/2009 dated 17th November 2009 issued by the Central Bank of UAE

1. Subsidiaries and Significant investments:

As at 31 December 2013, the Bank has three subsidiaries incorporated under UAE laws. These subsidiaries are RAK Islamic Finance Pvt. J.S.C in which the Bank owns 99.9% , BOSS FZCO and RAK Technologies FZCO in which the Bank owns 80%. RAK Islamic Finance Pvt. J.S.C has an authorised and issued capital of AED 100 million, and was incorporated to enable the Bank to sell Shari'ah compliant financial products. BOSS FZCO and RAK Technologies FZCO have been incorporated to provide back office support services to the Bank. Both BOSS FZCO and RAK Technologies FZCO have an authorised and issued share capital of AED 500,000 each and were formed under the Dubai Silicon Oasis Authority guidelines.

2. Capital Structure:

Quantitative Disclosure:

The Group's capital structure is as indicated below.

	AED'000
Tier 1 capital	
Share capital	1,676,245
Share premium account	110,350
Legal reserves	809,204
Voluntary reserves	335,250
General banking reserves	800,000
Credit risk reserves	1,050,000
Regulatory credit reserves	281,000
Fair value reserve	1,582
Retained earnings	1,452,439
	<hr/>
	6,516,070
Less: Proposed cash dividend	838,123
	<hr/>
Total eligible capital	<u><u>5,677,947</u></u>

3. Capital adequacy:

a) Qualitative Disclosure:

National Bank of Ras Al Khaimah P.S.C (The Group) has adopted the Standardized approach for calculation of credit risk and market risk. For operational risk the group has adopted the Alternative Standardized Approach (ASA)

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial services business. The group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the group's financial performance.

The Group's risk management considers a variety of risks. These typically include Credit risk, liquidity risk, concentration risk, market risk, operational risk, Information security risk, Business continuity risk, reputational risk and regulatory and compliance risk. Policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Asset and Liability Committee (ALCO), one of the key committee overseeing balance sheet risks is chaired by the Chief Executive Officer and comprises of the Heads of Finance, Treasury, Corporate Banking and Personal Banking. It meets on a regular basis to monitor and manage market risk.

ALCO is responsible for formalizing the group's key financial indicators and ratios, set the thresholds to manage and monitor these risks. ALCO also guides the group's investment decisions and provides guidance in terms of interest rate and currency movements.

The Risk Management Committee (RMC) is chaired by the Chief Executive Officer and is responsible for all other forms of risks which are operational in nature. The committee reviews adequacy and effectiveness of internal control systems, operational risk management procedures and risk assessment methodologies (viz. key risk indicators (KRI), operational risk self-assessment (ORSA) and incident management).

As per the supervisory review process (SRP) under Basel 2, pillar 2, the Group periodically submits to the central bank its internal capital adequacy assessment programme (ICAAP) where it sets out all the risks it is exposed to, how it measures, monitors and where possible how it mitigates these risks and how the alignment with capital is achieved. It takes into account any feed-back it gets from its regulator.

The various risks that attract risk assets under Basel 2 are described below:

Credit risk

Credit risk is defined as the risk that the Group's customers, clients or counter parties fail to perform or are unwilling to pay interest, repay the principal or otherwise to fulfil their contractual obligations under loan agreements or other credit facilities, thus causing the group to suffer a financial loss.

3. Capital adequacy (continued)

a) Qualitative Disclosure (continued)

Credit risk (continued)

Credit risk also arises through the downgrading of counter parties, whose credit instruments are held by the group, thereby resulting in the value of the assets to fall. As credit risk is the Group's most significant risk, considerable resources, expertise and controls are devoted to managing this risk within the core departments of the Group.

The Group's credit policy provides for the development of a systematic and consistent approach to identifying and managing borrower and counter party risks contained in all retail, corporate and SME assets.

Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Group's does not enter in derivative trades for speculative or hedging purposes. The only exposure to derivatives is in respect of forward exchange contracts which entered into on behalf of the group's customers.

Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets. Whilst operational risk cannot be eliminated in its entirety, the group endeavours to minimise it by ensuring that a strong control infrastructure is in place throughout the organisation. The management of operational risk commence with the adoption of a formal governance structure under the Risk Management Committee to provide strategic direction oversight and monitoring of the Operational Risk Framework. The Framework incorporates standards for risk that are based on best practice and codify the core governing principles for operational risk management. It ensures that identification, evaluation, control, measurement, monitoring and reporting of operational risks are consistent across the group. It also reviews the adequacy of insurances the group holds, although not viewed as a mitigating factor.

3. Capital adequacy (continued)

b) Quantitative Disclosure:

	AED'000
Risk Weighted Assets	
Credit risk	18,720,220
Market risk	4,618
Operational risk	849,176
Total Risk Weighted Assets	<u>19,574,014</u>
 Total Tier 1 and eligible capital	 5,677,947
 Capital adequacy ratio(Post dividend)	 29.01%

4. Credit Risk - Quantitative disclosures

a) Gross credit exposure by currency:

At 31 December 2013 the Group had the following gross exposures:

	AED	USD	Other currencies	Total
	AED'000	AED'000	AED'000	AED'000
On balance sheet items				
Due from other banks	97,785	404,380	41,734	543,899
Loans and advances	21,103,712	839,527	16,006	21,959,245
Investment securities	50,000	2,645,952	-	2,695,952
Total funded	<u>21,251,497</u>	<u>3,889,859</u>	<u>57,740</u>	<u>25,199,096</u>
Off-balance sheet items				
Credit commitments	6,635,974	12,875	-	6,648,849
Guarantees, acceptances and other exposures	463,090	152,504	46,648	662,242
Total Non - Funded	<u>7,099,064</u>	<u>165,379</u>	<u>46,648</u>	<u>7,311,091</u>
Total	<u>28,350,561</u>	<u>4,055,238</u>	<u>104,388</u>	<u>32,510,187</u>

b) Gross credit exposure by geography:

The Group's activities are primarily within UAE. Exposure outside UAE are insignificant and are mainly in the form of Inter-bank placements and Investments amounting to AED 1.06 billion, roughly 3.2 % of the total credit exposure as at 31st December 2013.

4. Credit Risk – quantitative disclosures (continued)

c) Gross credit exposure by Industry:

	On balance sheet items			Total funded AED'000	Off balance sheet items	Total AED'000
	Loans and advances AED'000	Debt securities AED'000	Due from banks AED'000		AED'000	
Agriculture, fishing & related activities	7,938	-	-	7,938	154	8,092
Crude oil , gas, mining & quarrying	26,348	178,981	-	205,329	89,022	294,351
Manufacturing	288,326	-	-	288,326	191,901	480,227
Electricity & water	15,087	59,533	-	74,620	1,518	76,138
Construction	922,989	-	-	922,989	127,738	1,050,727
Trade	3,766,355	-	-	3,766,355	722,469	4,488,824
Transport, storage & communication	1,131,076	146,883	-	1,277,959	56,288	1,334,247
Financial Institutions	42,194	992,105	543,899	1,578,198	201,908	1,780,106
Services	1,012,269	-	-	1,012,269	263,750	1,276,019
Government	-	1,318,450	-	1,318,450	97,343	1,415,793
Retail and consumer banking	15,081,567	-	-	15,081,567	5,557,438	20,639,005
Others	60,709	-	-	60,709	1,562	62,271
Total exposures	22,354,858	2,695,952	543,899	25,594,709	7,311,091	32,905,800

d) Gross credit exposure by residual contractual maturity:

	< 3 months	3 months to 1 Year AED'000	1 to 5 Years AED'000	Over 5 Years AED'000	Total AED'000
Due from Other Banks	543,899	-	-	-	543,899
Loans and advances	3,166,779	479,725	8,458,382	9,854,359	21,959,245
Investments Securities	42,268	50,000	907,441	1,696,243	2,695,952
Total Funded	3,752,946	529,725	9,365,823	11,550,602	25,199,096
Off balance sheet items	7,300,326	10,731	34	-	7,311,091

5. Impairment and provisioning – Qualitative disclosures

a) Past Due and impaired loans with provisioning:

The Group assesses at each financial position date whether there is objective evidence that loans and advances are impaired. Loans and advances are impaired and impairment losses are incurred only if there is objective evidence that the Group will not be able to collect all amounts due.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio; and
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists either individually for financial assets that are individually significant and individually 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, whether significant or not, 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.

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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. 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 income statement. If the amount of impairment subsequently decreases due to an event occurring after the write down, the release of the provision is credited to the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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 purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors'

ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Impairment and provisioning – Qualitative disclosures

a) Past Due and impaired loans with provisioning (Continued):

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets reflect and are directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectable, it is written off against the related provision for impairment. This is normally done within six to twelve month of the loan becoming past due, depending on type of the loan. Non performing mortgage loans, however, are written off after considering each individual case. If no related provision exists, it is written off to the consolidated income statement. Subsequent recoveries are credited to the consolidated income statement.

b) Impaired loan by industry segment:

	Less than 90 days AED'000	Overdue above 90 Days AED'000	Total AED'000	Specific Provision AED'000
Agriculture, fishing & related activities	-	72	72	72
Crude oil, gas, mining & quarrying	-	-	-	-
Manufacturing	-	1,379	1,379	1,379
Electricity & water	-	-	-	-
Construction	83	46,558	46,641	38,998
Trade	319	38,346	38,665	34,662
Transport, storage & communication	2	5,093	5,095	5,095
Financial institution	-	2	2	1
Services	75	7,198	7,273	7,273
Government	-	-	-	-
Retail and consumer banking	5,147	435,133	440,280	241,700
Others	-	433	433	433
Total impaired loans	5,626	534,214	539,840	329,613

c) Past Due and impaired loans with provisioning (Continued):

The total impairment provision for loans and advances is AED 395.61 million of which AED 329.61 million represents provision in respect of the individually impaired loans and advances and the remaining AED 66.00 million represents the portfolio provision to reflect the risk inherent in the Group's loan portfolio

d) Impaired loan by geographical distribution:

As at 31st December 2013 the total impaired loans outstanding of nonresident customer is AED 5.6 million and 99.99% of which is mortgage loans backed by collateral.

5. Impairment and provisioning – Qualitative disclosures**e) Reconciliation of Changes in provision of impaired loans:**

	Impairment Provisions	
	Specific	General or Portfolio
	AED'000	AED'000
Opening Balance as at 01 Jan 2013	271,943	52,167
Add: Provided during the year	1,319,785	13,833
Less: Released during the year	941,523	-
Less : Written off during the year	320,592	-
Balance as at 31 Dec 2013	329,613	66,000

6. Credit risk weighted assets – Quantitative disclosures

	On balance sheet net outstanding AED '000	Off balance sheet net exposure after credit conversion AED '000	Exposure before CRM AED '000	Credit Risk Mitigation (CRM)		Risk weighted Assets AED '000
				CRM AED '000	After CRM AED '000	
31 December 2013						
Claims on sovereigns	3,683,882	-	3,683,882	-	3,683,882	-
Claims on PSE's	560,438	-	560,438	-	560,438	-
Claims on multi lateral development banks	-	-	-	-	-	-
Claims on banks	1,438,522	97	1,438,619	-	1,438,619	556,692
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	1,515,044	308,768	1,823,812	135,630	1,688,182	1,585,632
Claims included in the regulatory retail portfolio	17,355,802	230,816	17,586,618	68,156	17,518,462	13,410,836
Claims secured by residential property	3,383,181	-	3,383,181	-	3,383,181	1,459,004
Claims secured by commercial real estate	58,485	-	58,485	-	58,485	58,485
Past due loans	226,820	-	226,820	-	226,820	324,664
Higher-risk categories	-	-	-	-	-	-
Other assets	1,970,102	-	1,970,102	-	1,970,102	1,324,907
Total claims	30,192,276	539,681	30,731,957	203,786	30,528,171	18,720,220

Of which :

Rated exposure	2,995,486
Unrated exposure	27,736,471

The rated exposure pertain to interbank placements and investments. All other exposures are unrated.

The group has used only those ECAI's (External Credit Assessment Institutions) which are approved by the Central Bank of UAE namely Moody's, Fitch and Capital Intelligence.

7. Credit risk mitigation:

a) Qualitative disclosure:

The Head of Credit and his team including Collections are responsible for recognition and management of credit risk both at transaction and portfolio levels and to ensure that risk procedures are adhered to in a manner consistent with the framework set out in the Policy, Product Programs, Credit circulars and comply with regulatory norms.

The group manages, limits and controls concentration of credit risk wherever it is identified – in particular, to individual counterparties and groups, and to industries and countries. The group has a Product Program Guide that sets limits of exposure and lending criteria. The group also has credit limits that set out the lending and borrowing limits to/from other banks. Further mortgage loans and auto loans, which together represent a significant portion of loans and advances, are backed by collateral.

7. Credit risk mitigation (continued)

The Group stratifies the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on an ongoing basis. Limits on the level of credit risk by product, industry sector and by country are approved by the Executive Committee and the Board of Directors.

The exposure to any one borrower, including banks, is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored on an ongoing basis.

b) Quantitative disclosure:

	Exposure	Risk Weighted Assets
	AED '000	AED '000
Gross exposure prior to Credit Risk Mitigation	30,731,957	18,918,254
Less: Exposures covered by eligible financial collateral	(203,786)	(198,034)
Net Exposures after Credit Risk Mitigation	<u>30,528,171</u>	<u>18,720,220</u>

The eligible financial collaterals above include cash and deposits.

8. Market Risk:

a) Capital requirement for Market risk under standardized approach:

	Risk weighted asset	Capital charge
	AED '000	AED '000
Foreign exchange risk	<u>4,618</u>	<u>554</u>

Capital charge for year ended 31 December 2013 has been calculated at 12%

Equity risk:

As at 31 December 2013, the Group does not have a trading book in equity or currency or derivatives.

Interest rate risk:

Interest rate risk arises due to mismatches of fixed interest rate assets and floating rate interest rate liabilities. This is monitored through the use of detailed gap report and stress testing. Refer to Note number 3.3.2 of the audited financial statement for details of Interest rate risk.

9. Operational Risk:

The Group follows Alternative Standardized Approach (ASA) for calculation of operational risk.

The Group has a formal governance structure which is established under the Risk Management Committee to provide the strategic direction, oversight and monitoring of the Operational Risk Framework of the group.

The Group endeavours to minimise the operational risk through the framework which includes risk identification, assessment and control, Key risk indicators and operational risk self-assessments through an operational risk data base.

Calculation of Operational risk:

	Three year Average AED '000	M Factor	Beta Factor	Capital Charge AED '000	RWA = Capital Charge x 8.33* AED '000
Trading and Sales	80,719	-	18%	14,529	121,029
Commercial Banking	328,476	0.035	15%	1,724	14,365
Retail Banking	20,401,906	0.035	12%	85,688	713,782
Operational Risk					849,176

* Total Risk weighted assets are determined by multiplying the Capital Charge for Operational Risk by 8.33 (i.e. the reciprocal of the minimum capital ratio of 12%) and adding the resulting figures to sum the risk – weighted assets.