NATIONAL BANK OF OMAN (SAOG) - UAE BRANCHES

Financial statements

31 December 2014

National Bank of Oman (SAOG), UAE Branches

Financial statements

31 December 2014

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Independent auditors' report

The Country Manager
National Bank of Oman (SAOG), UAE Branches

Report on the financial statement

We have audited the accompanying financial statements of National Bank of Oman (SAOG), UAE Branches ("the Branches") which comprises the statement of financial position as at 31 December 2014, statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Branches as at 31 December 2014, and of 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

We further confirm that we have obtained all information and explanations necessary for our audit and that financial statements comply, in all material respects, with the applicable requirement of Union Law no. 10 of 1980.

KPMG

KPMG Lower Gulf Limited
Austin Alan Henry Rudman
Registration No. 844

23 APR 2015

National Bank of Oman (SAOG), UAE Branches

Statement of financial position

As at 31 December

	Note	**2014** **AED'000**	2013 AED'000
Assets			
Cash and balances with the UAE Central Bank	*8*	**119,847**	103,753
Due from banks	*9*	**334,626**	121,638
Due from Head Office and overseas branches	*25*	**15,708**	19,839
Customers' indebtedness for acceptances	*28*	**81,756**	16,404
Loans and advances to customers	*5(b)*	**1,119,227**	295,773
Investment securities	*10*	**6,694**	25,757
Property and equipment	*11*	**3,362**	2,924
Deferred tax asset	*22*	**1,237**	-
Other assets	*12*	**4,153**	4,210
Total assets		**1,686,610**	590,298
Liabilities			
Due to Head Office and overseas branches	*26*	**477,657**	73,274
Deposits from customers	*13*	**967,743**	366,095
Liabilities under acceptances	*28*	**81,756**	16,404
Other liabilities	*14*	**21,396**	8,734
Total liabilities		**1,548,552**	464,507
Equity			
Branch capital	*15*	**52,500**	52,500
Legal reserve	*16*	**26,250**	25,295
Retained earnings		**32,008**	20,696
Total equity		**110,758**	98,491
Funding from Head Office			
Placement from Head Office	*17 & 25*	**27,300**	27,300
Total equity and funding from Head Office		**138,058**	125,791
Total Liabilities, Equity and Funding from Head Office		**1,686,610**	590,298
Commitments and contingent liabilities	*27*	**452,465**	468,922

Ahmed Al-Musalmi
Chief Executive Officer

Manoj S Nair
Country Manager-UAE

The attached notes 1 to 30 form part of these financial statements.

The independent auditors' report is set out on pages 1.

National Bank of Oman (SAOG), UAE Branches

Statement of profit or loss and other comprehensive income

for the year ended 31 December

	Note	2014 AED'000	2013 AED'000
Operating income			
Interest income	18	**37,179**	17,430
Interest expense	18	**(7,971)**	(5,066)
Net interest income	18	**29,208**	12,364
Net fees and commission income	19	**11,754**	5,594
		40,962	17,958
Net foreign exchange gain		**1,995**	1,316
Gains from investment securities		**1,438**	-
Other operating income	20	**1,293**	1,393
Total operating income		**45,688**	20,667
Operating expenses			
Staff costs		**(15,093)**	(10,360)
Depreciation	11	**(1,230)**	(1,190)
Other operating expenses	21	**(9,628)**	(6,447)
Total operating expenses		**(25,951)**	(17,997)
Profit from operations before impairment losses		**19,737**	2,670
Provision for credit losses, net	5(b)	**(4,403)**	(2,640)
Profit before income tax		**15,334**	30
Income tax expense, net	22	**(3,067)**	(6)
Profit for the year		**12,267**	24
Other comprehensive income		-	-
Total comprehensive income		12,267	24

The attached notes 1 to 30 form part of these financial statements.
The independent auditors' report is set out on pages 1.

National Bank of Oman (SAOG), UAE Branches

Statement of changes in equity

for the year ended 31 December

	Share capital AED'000	Legal reserve AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2013	52,500	25,293	20,674	98,467
Total comprehensive income for the year	-	-	24	24
Transfer to legal reserve	-	2	(2)	-
At 31 December 2013	52,500	25,295	20,696	98,491
At 1 January 2014	52,500	25,295	20,696	98,491
Total comprehensive income for the year	-	-	12,267	12,267
Transfer to legal reserve	-	955	(955)	-
At 31 December 2014	**52,500**	**26,250**	**32,008**	**110,758**

The attached notes 1 to 30 form part of these financial statements.
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National Bank of Oman (SAOG), UAE Branches

Statement of cash flows

for the year ended 31 December

	2014 AED'000	2013 AED'000
Cash flows from operating activities		
Profit before income tax	**15,334**	30
Adjustments for:		
Depreciation	**1,230**	1,190
Net gains from investment securities	**(1,438)**	-
Provision for credit losses	**11,851**	12,450
Provision for employees' end-of-service benefits	**675**	161
Gain on disposal of property and equipment	**1**	-
	27,653	13,831
Changes in:		
Due from Head Office and overseas branches	**1,836**	7,347
Loans and advances to customers	**(835,305)**	(25,029)
Customers' indebtedness for acceptances	**(65,352)**	(5,874)
Other assets	**57**	(1,940)
Due to Head Office and overseas branches	**213,897**	(2,699)
Deposits from customers	**601,648**	67,144
Liabilities under acceptances	**65,352**	5,874
Other liabilities	**7,689**	2,439
Net cash generated from operating activities	**17,475**	61,093
Income tax paid	**(6)**	(935)
End-of-service benefits paid	-	(482)
Net cash from operating activities	**17,469**	59,676
Cash flows from Investing activities		
Purchase of property and equipment	**(1,738)**	(1,382)
Proceeds from sale of property and equipment	**69**	-
Purchase of investment securities	**(6,694)**	(25,757)
Proceeds from sale of investment securities	**27,195**	-
Net cash from/ (used) in investing activities	**18,832**	(27,139)
Net increase in cash and cash equivalents	**36,301**	32,537
Cash and cash equivalents at 1 January	**176,603**	144,066
Cash and cash equivalents at 31 December ***(Note 24)***	**212,904**	176,603

The attached notes 1 to 30 form part of these financial statements.

The independent auditors' report is set out on pages 1.

1 Legal status and activities

National Bank of Oman SAOG (the "Bank" or the "Head Office") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail banking, wholesale banking and investment banking services. The Bank in United Arab Emirates ("UAE") operates with two branches i.e. Abu Dhabi and Dubai (the "Branches") under a commercial bank licence granted by the UAE Central Bank. The registered office of the Branches is P O Box 3822, Abu Dhabi, UAE. Dubai Branch started its operation in December 2013.

The principal activities of the Branches are the granting of loans, advances and the provision of other commercial banking services.

The financial statements were authorised for issue by the Branches' management on 23 APR 2015.

2 Basis of preparation

2.1 *Statement of compliance*

These financial statements have been prepared on an ongoing basis in accordance with the International Financial Reporting Standards (IFRSs) (which comprises accounting standards issued by international Accounting Standards Board (IASB) as well as Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC)) and the requirements of applicable laws in the UAE.

2.2 *Basis of measurement*

The financial statements have been prepared on a historical cost basis except for investment securities, which are stated at fair value.

2.3 *Functional and presentation currency*

These financial statements have been presented using UAE Dirham ("AED"), which is the functional currency of the Branches. Except as otherwise indicated, financial information presented in AED has been rounded to the nearest thousand, except when otherwise indicated.

2.4 *Significant accounting judgments and estimates*

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Going concern

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

2.4 *Significant accounting judgments and estimates (continued)*

Impairment losses on loans and advances and investment securities

Assets accounted for at amortised cost are evaluated for impairment on the basis described in Note 4(h).

The Branches reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of profit and loss account. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Branches make judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

In making an assessment of whether an investment is impaired, the Branches consider the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country as well as the intention, reflected in public statements, about governments' and agencies' willingness to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfill the required criteria.

Fair value measurement principles

The 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 carrying values and the fair value estimates.

While these financial statements are prepared under the historical cost convention modified for measurement at fair value of available-for-sale investments, in the opinion of management, the carrying values and fair values of those financial assets and liabilities that are not carried at fair value in the financial statements are not materially different, since assets and liabilities are either short term in nature or frequently repriced.

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

At 31 December 2014 and 2013, the Branches used level 1 valuation hierarchy for its available-for-sale investments.

The Bank's financial assets and financial liabilities at amortised cost excluding held to maturity, are categorised under Level 3 in the fair value hierarchy, as there is no active market for such assets and liabilities.

3 Changes in accounting policies

Except for the changes below, the Branches have consistently applied the accounting policies set out in note 4 to all periods presented in these financial statements.

The Branches have adopted the following new relevant amendments to standards, with a date of initial application of 1 January 2014.

*(a) **Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32).***

As a result of the amendments to IAS 32, the Branches has changed its accounting policy for offsetting financial assets and financial liabilities. The amendments clarify when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement.

The change did not have a material impact on the Branches' financial statements.

4 Significant accounting policies

a) **Foreign currency**

Transactions in foreign currencies are translated into the functional currency of the Branches at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in statement of profit and loss. However, foreign currency differences arising from available-for-sale equity instruments transactions are recognised in the statement of profit and loss:

b) **Interest**

Interest income and expense are recognised in statement of profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Branches estimate future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs, fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.
Interest income and expenses presented in the statement of profit or loss include:

- interest on financial assets and liabilities measured at amortised cost calculated on an effective interest basis;
- interest on available for sale investment securities calculated on an effective interest basis.

4 Significant accounting policies *(continued)*

c) Fees and commission income

Fees and commission income – including account servicing fees, sales commission, placement fees and syndication fees – are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

d) Leases

Lease payments – lessee

Payments made under operating leases are recognised in the statement of profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

e) Taxation

Income tax expense comprises current and deferred tax.
Taxation is provided for in accordance with the instructions of the Department of Private Affairs of His Highness Shaikh Zayed Bin Sultan Al Nahyan, dated 11 September 2003 for Abu Dhabi and tax for Dubai Branch is paid as per the Dubai tax decree.
Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes

Income tax is recognised in the statement of profit or loss for the year. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

f) Financial assets and financial liabilities

(i) Recognition

The Branches initially recognise loans and advances and deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Branches becomes a party to the contractual provisions of the instrument.

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

(ii) Classification

Financial assets

The Branches uses the following categories to classify it financial instruments:
• loans and receivables:
• available-for-sale and

Financial liabilities

The Branches classify their financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

(iii) Derecognition

Financial assets

The Branches derecognise a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Branches neither transfer nor retain substantially all of the risks and rewards of ownership and do not retain control of the financial asset.

4 Significant accounting policies *(continued)*

f) Financial assets and liabilities (continued)

Derecognition (*continued*)

Financial assets

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in statement profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Branches is recognised as a separate asset or liability.

When the Branches have transferred their rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Branches continuing involvement in the asset. In that case, the Branches also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Branch has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Branches could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss for the year.

The Branches derocognise a financial liability when its contractual obligation are discharged or cancelled, or expires.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Branches have a legal right to set off the amounts and intend either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

(v) Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the branches have access at that date. The fair value of liability reflects its non performance risk.

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

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

4 Significant accounting policies *(continued)*

(vi) Fair value measurement *(continued)*

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

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

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

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

4 Significant accounting policies (*continued)*

(vii) Identification and measurement of impairment

At each reporting date, the Branches assess whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

• significant financial difficulty of the borrower or issuer;
• default or delinquency by a borrower;
• the restructuring of a loan or advance by the Branches on terms that the Branches would not consider otherwise;
• indications that a borrower or issuer will enter bankruptcy;
• observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Branches consider evidence of impairment for financial asset held at amotised cost at both a specific asset and a collective level. All individually significant financial asset held at amotised cost are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial asset held at amotised cost that are not individually significant are collectively assessed for impairment by grouping together financial asset held at amotised cost with similar risk characteristics.

In assessing collective impairment the Branches use the higher of 1.5% of risk weighted asset computed as per Central Bank of UAE guidelines and a statistical modelling which incorporates historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognised in statement of profit or loss and reflected in an allowance account against financial asset held at amotised cost. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through statement of profit or loss.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to statement of profit or loss. The cumulative loss that is reclassified from equity to statement of profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in statement of profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through statement of profit or loss; otherwise, any increase in fair value is recognised through other comprehensice income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in other comprehensice income.

The Branches writes off a loan, either partially or in full, and any related allowance for impairment losses, when management determines that there is no realistic prospect of recovery.

4 Significant accounting policies *(continued)*

g) Cash and cash equivalents

Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Branches in the management of their short-term commitments.

h) Loans and advances

'Loans and advances' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Branches does not intend to sell immediately or in the near term.

Loans and advances include bank balances due from head office and branches, loans and receivables and acceptances.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

i) Investment securities

Available-for-sale

Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise debt securities. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in statement of profit or loss using the effective interest method. Dividend income is recognised in statement of profit or loss when the Branches becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in statement of profit or loss. Impairment losses are recognised in statement of profit or loss.

Other fair value changes, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to statement of profit or loss.

j) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in statement of profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Branches. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Branches will obtain ownership by the end of the lease term. Land is not depreciated.

4 Significant accounting policies *(continued)*

(iii) Depreciation (continued)

The estimated useful lives of significant items of property and equipment are as follows:

· Leasehold improvements	3 to 5 years
· Motor vehicles	4 years
· Furniture	10 years
· Equipment	5 years

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

k) Impairment of non-financial assets

The carrying amounts of the Branches' non financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit and loss.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses are recognised in statement of profit or loss.

l) Provisions

A provision is recognised if, as a result of a past event, the Branches has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

m) Staff terminal benefits

The terminal benefits are provided for in accordance with the employees' contracts of employment and applicable requirements of the UAE and Oman labour laws. Entitlement to these benefits is usually based upon the employees' length of service and completion of minimum service period. The expected costs of these benefits are accrued over the period of employment.

n) Segment reporting

The Branches' segmental reporting is based on the following operating segments: Commercial banking, treasury and investments. Segment results are reported to the Chief Executive Officer of the Bank, (being the chief operating decision maker) and include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

4 Summary of significant accounting policies (*continued*)

o) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. Those that may be relevant to the Branches are set out below. The Branches does not plan to adopt these standards early.

• IFRS 9 Financial Instruments (2013) -IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

• IFRS 15 Revenue from Contracts with Customers-IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The following new or amended standards are not expected to have a significant impact of the Branches' consolidated financial statements.

• Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).

• Annual Improvements to IFRSs 2010–2012 Cycle.

• Annual Improvements to IFRSs 2011–2013 Cycle.

5 Financial risk management

a) Introduction and overview

The Branches have exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risks; and
- operational risks

This note presents information about the Branches' exposure to each of the above risks, the Branches' objectives, risk management frameworks, policies and processes for measuring and managing risk, and the Branches' management of capital.

Risk management framework

The overall responsibility for risk management in the Branches is vested with the Board of Directors of the Bank. The Board authorises appropriate credit, liquidity and market risk policies as well as suitable operational guidelines based on the recommendation of management. Approval authorities are delegated to different functionaries, including the UAE Country Manager, in the hierarchy depending on the amount, type of risk and collateral security. The Bank has established various committees that decide on all risk issues.

b) Credit risk

Credit risk is the risk of financial loss to the Branches if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Branches seek to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. The Branches also monitor credit exposures and continually assesses the credit worthiness of counterparties. They also obtain security when appropriate.

The branches only invest in well reputed securities and hence credit risk is minimal.

Management of credit risk

The Board of Directors of the Bank has delegated responsibility for the oversight of credit risk to its Credit Committee. A separate Credit Department, reporting to the Credit Committee, is responsible for managing credit risk, including the following:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- Establishing the authorisation structure for the approval and renewal of credit facilities.

- Reviewing and assessing credit risk exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities).

- Developing and maintaining risk grading to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by Group Risk.

5 Financial risk management *(continued)*

Management of credit risk *(continued)*

• Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to the Credit Committee, which may require appropriate corrective action to be taken.

• Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement the credit policies and procedures, with credit approval authorities delegated from the Credit Committee. Each business unit has a Chief Credit Risk officer who reports on all credit-related matters to local management and the Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and credit processes are undertaken by Internal Audit.

The credit quality of financial assets is managed by the Branches using internal credit ratings. The table below shows the credit quality by class of asset, based on the Branches' credit rating system. The amounts presented are gross of impairment provisions.

5 Financial risk management *(continued)*

b)* Credit risk *(continued)

Exposure to credit risk

The Branches measure their exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, interest suspended and impairment losses, if any.

	Loans and advances		Due from banks		Investment securities	
	2014	2013	**2014**	2013	**2014**	2013
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Carrying amount, net	**1,119,227**	295,773	**334,626**	121,638	**6,694**	25,757
Individually impaired						
Substandard	-	1	-	-	-	-
Doubtful	**128**	224	-	-	-	-
Loss	**36,068**	72,279	-	-	-	-
Gross amount	**36,196**	72,504	-	-	-	-
Interest suspended	**(9,105)**	(31,700)	-	-	-	-
Specific allowance for impairment	**(27,507)**	(41,105)	-	-	-	-
Carrying amount*	**(416)**	(301)	-	-	-	-
Past due but not impaired (overdue by more than 90 days)	-	-	-	-	-	-
	-	-	-	-	-	-
Neither past due nor impaired						
Standard	**1,130,633**	296,769	**334,626**	121,638	**6,694**	25,757
Accounts with renegotiated terms	**7,249**	7,081	-	-	-	-
	1,137,882	303,850	**334,626**	121,638		
Total non-impaired portfolio	**1,137,882**	303,850	**334,626**	121,638	**6,694**	25,757
Collective allowance for impairment	**(18,239)**	(7,776)	-	-	-	-
Carrying amount	**1,119,643**	296,074	**334,626**	121,638	**6,694**	25,757
Carrying amount, net	**1,119,227**	295,773	**334,626**	121,638	**6,694**	25,757

* The negative carrying amount represents specific provision against unfunded exposures.

5 Financial risk management *(continued)*

b)* Credit risk *(continued)

Impaired loans and advances

The Branches regard a loan and advance or a debt security as impaired in the following circumstances.

• There is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset.

• A retail loan is overdue for 90 days or more.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Loans and investment debt securities that are past due but not impaired

Loans and investment debt securities that are 'past due but not impaired' are those for which contractual interest or principal payments are past due but the Branches believe that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Branches.

Loans with renegotiated terms

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 4.

For the purposes of disclosures in these financial statements, 'loans with renegotiated terms' are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Branches has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Branches had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, earlier repayment or until it is written off.

The Branches hold collateral against loans and advances to customers in the form of cash margins, pledges/ liens over deposits, mortgage interests over property, other registered securities over assets and guarantees. The Branches accept guarantees mainly from well reputed local or international banks/financial institutions, well established local or multinational organisations, large corporate and high net worth individuals. Estimates of fair value are based on the value of collateral assessed at the time of borrowing which are updated during annual reviews. Generally, collateral is not held over loans and advances to other banks or financial institutions, except when securities are held as a part of reverse repurchase and securities borrowing activity.

It is the Branches' policy to ensure that loans are extended to customers within their capability to service interest and repay principal instead of relying excessively on securities. Accordingly, depending on customers' credit worthiness and the type of product, facilities may be unsecured. Nevertheless, collateral is and can be an important credit risk mitigant.

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below.

	2014	2013
	AED'000	AED'000
Cash	**69,863**	42,526
Commercial and industrial property	**494,460**	22,810
Residential property	**30,650**	5,650
Other	**500**	2,630
Total collateral held	**595,473**	73,616

Collateral values reflect the maximum exposure or the value of the collateral whichever is lower.

5 Financial risk management *(continued)*

b)* Credit risk *(continued)

Concentration of credit risk

The Branches monitor internally concentrations of credit risk by sector and geographical location. An analysis of concentrations of credit risk as defined by the Branches' internal approved guidelines at the reporting date is shown below:

AED'000	Loans and advances 2014	Loans and advances 2013	Due from banks 2014	Due from banks 2013	Investment securities 2014	Investment securities 2013
Carrying value, net	**1,119,227**	295,773	**334,626**	121,638	**6,694**	25,757
Concentration by sector:						
Sovereign	**36,730**	19,528	-	-	**6,694**	25,757
Construction	**119,381**	36,332	-	-	-	-
Trade	**494,763**	177,400	-	-	-	-
Real estate and real estate trading	**30,399**	-	-	-	-	-
Manufacturing	**134,372**	15,042	-	-	-	-
Services	**201,186**	56,196	-	-	-	-
Investments	-	-	-	-	-	-
Banks and financial institutions	**130,765**	35,300	**334,626**	121,638	-	-
Transport and communication	-	-	-	-	-	-
Retail	**13,187**	16,555	-	-	-	-
Agriculture	-	-	-	-	-	-
Others	**13,295**	20,000	-	-	-	-
Gross total	**1,174,078**	376,353	**334,626**	121,638	**6,694**	25,757
Concentration by location:						
United Arab Emirates	**1,174,078**	376,353	**123,413**	117,790	**6,694**	25,757
Outside UAE	-	-	**211,213**	3,848	-	-
Gross total	**1,174,078**	376,353	**334,626**	121,638	**6,694**	25,757

5 Financial risk management *(continued)*

b)* Credit risk *(continued)

Interest is accrued on doubtful and loss accounts for litigation purposes only and accordingly interest is not taken to income. Such accruals increase gross loans and advances receivable. Loans and advances are written off only when all legal and other avenues for recovery or settlement are exhausted.

The movement during the year in the impairment provision was as follows:

	Portfolio basis		**Specific basis**	
	2014	2013	**2014**	2013
	AED'000	AED'000	**AED'000**	AED'000
At 1 January	**7,776**	6,565	**41,105**	42,972
Charge for the year *(see (i) below)*	**10,463**	949	**1,388**	11,501
Transferred from un-allocated provision	-	262	-	-
Recoveries during the year	-	-	**(1,183)**	(3,840)
Amounts written off during the year	-	-	**(13,803)**	(9,528)
	18,239	7,776	**27,507**	41,105

(i) Provision for credit losses amounting to AED 4,403 thousand (*2013: AED 2,640 thousand*) represents charge for the year amounting to AED 11,851 thousand (*2013: AED 12,450 thousand*), netted off against recoveries of AED 7,448 thousand (2013: AED 9,810 thousand)

Settlement risk

The Branches' activities may give rise to risk at the time of settlement of transactions and trades. 'Settlement risk' is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Branches mitigate this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free-settlement trades requires transaction-specific or counterparty-specific approvals from the Bank's risk function.

***c)* Liquidity risk**

Liquidity risk is the risk that the Branches will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. To limit this risk, management continuously looks for opportunities to diversify its funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade asset which could be collateralised to secure additional funding if required.

The Branches maintain liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition, the Branches hold certain liquid assets as part of its liquidity risk management strategy.

The Branches manage liquidity risk based on the Central Bank of UAE guidelines and the liquidity contingency policies, which are approved by the Board Risk Committee. Liquidity risk position is monitored regularly through analysis of various reports, such as, maturity of assets and liabilities, liquidity lines, early warning indicators and stock ratios. Further, the Branches also periodically conduct stress tests on liquidity based on market and bank specific events in line with Basel Committee recommendations. The liquidity position of the Branches are regularly reviewed by management and also discussed at the Branches' Asset and Liability Committee ('ALCO').

5 Financial risk management ***(continued)***

c) **Liquidity risk** ***(continued)***

The key elements of the Branches' liquidity strategy are as follows;

• Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities.

• Carrying a portfolio of highly liquid assets, diversified by currency and maturity.

• Monitoring liquidity ratios, maturity mismatches.

• Carrying out stress testing of the liquidity position.

Residual contractual maturity of financial liabilities

The following table shows the undiscounted cash flows on the Branches' financial liabilities on the basis of their earliest possible contractual maturity. The Branches' expected cash flow on these instruments may vary significantly from this analysis, for example demand deposits from customers are expected to maintain a stable or increasing balance.

2014	**Carrying amount AED'000**	**Gross nominal outflow AED'000**	**Less than 3 months AED'000**	**3 months to 1 year AED'000**	**1 to 5 years AED'000**
Non-derivative liabilities					
Deposits from Head Office and overseas branches	**477,657**	**(480,618)**	**(195,813)**	**(284,805)**	**-**
Deposits from customers	**967,743**	**(976,549)**	**(757,372)**	**(218,868)**	**(309)**
	1,445,400	**(1,457,167)**	**(953,185)**	**(503,673)**	**(309)**

2013	**Carrying amount AED'000**	**Gross nominal outflow AED'000**	**Less than 3 months AED'000**	**3 months to 1 year AED'000**	**1 to 5 years AED'000**
Non-derivative liabilities					
Deposits from Head Office and overseas branches	73,274	(73,566)	(56,746)	-	(16,820)
Deposits from customers	366,095	(366,976)	(340,822)	(26,154)	-
	439,369	(440,542)	(397,568)	(26,154)	(16,820)

5 Financial risk management *(continued)*

c)* Liquidity risk *(continued)

The Branches have established policies to manage the liquidity risk arising from the mismatch in the final maturity of the assets and liabilities. These policies ensure that all obligations are met by the Branches on a timely and cost efficient basis.

	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Unspecified maturity AED'000	Total AED'000
At 31 December 2014					
Assets					
Cash and balances with the UAE Central Bank	119,847	-	-	-	119,847
Due from other banks	334,626	-	-	-	334,626
Due from Head Office and overseas branches	1,016	14,692	-	-	15,708
Loans and advances to customers	404,681	217,179	497,367	-	1,119,227
Customers' indebtedness for acceptances	81,756	-	-	-	81,756
Investment securities	-	-	6,694	-	6,694
Property and equipment	-	-	-	3,362	3,362
Other assets	841	3,312	1,237	-	5,390
Total assets	**942,767**	**235,183**	**505,298**	**3,362**	**1,686,610**
Liabilities and equity					
Due to Head Office and overseas branches	242,585	235,072	-	-	477,657
Deposits from customers	750,542	216,894	307	-	967,743
Liabilities under acceptances	81,756	-	-	-	81,756
Other liabilities	6,718	14,678	-	-	21,396
Equity	-	-	-	110,758	110,758
Placement from Head Office	-	-	-	27,300	27,300
Total liabilities and equity	**1,081,601**	**466,644**	**307**	**138,058**	**1,686,610**
At 31 December 2013					
Assets					
Cash and balances with the UAE Central Bank	103,753	-	-	-	103,753
Due from other banks	121,638	-	-	-	121,638
Due from Head Office and overseas branches	3,311	-	16,528	-	19,839
Loans and advances to customers	148,732	38,407	108,634	-	295,773
Customers' indebtedness for acceptances	16,404	-	-	-	16,404
Investment securities	-	-	25,757	-	25,757
Property and equipment	-	-	-	2,924	2,924
Other assets	1,089	3,121	-	-	4,210
Total assets	394,927	41,528	150,919	2,924	590,298
Liabilities and equity					
Due to Head Office and overseas branches	56,746	-	16,528	-	73,274
Deposits from customers	330,779	35,316	-	-	366,095
Liabilities under acceptances	16,404	-	-	-	16,404
Other liabilities	3,846	4,888	-	-	8,734
Equity	-	-	-	98,491	98,491
Placement from Head Office	-	-	-	27,300	27,300
Total liabilities and equity	407,775	40,204	16,528	125,791	590,298

Maturities of assets and liabilities have been determined on the basis of the outstanding period from the reporting date to the contracted or expected maturity dates.

5 Financial risk management *(continued)*

***d)* Market risks**

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads will affect the Branches' income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risks

The Bank-wide organisational set up for market risk management of the UAE operations involves the Board Risk Committee at the Board level and various committees at the management level.

Board Risk Committee ('BRC')

BRC is responsible for establishing a comprehensive and integrated framework for managing credit risk, market risk (including risks relating to interest rate, liquidity and foreign exchange) and operational risk. The Committee sets the policies on all risk issues.

Management Risk Committee ('MRC')

MRC is the highest ruling authority at management level on all risk related issues of the Bank. Its responsibilities include oversight on management of interest rate risk, liquidity risk and all market risks including foreign exchange risk.

Global ALCO

Global ALCO is responsible for identifying, monitoring, controlling and mitigating the overall market risks the Bank is exposed to. Global ALCO sets and annually reviews net open position limits for foreign exchange and dealer limits. Global ALCO also reviews the asset-liability mismatch position for UAE Branches, minutes of the UAE ALCO meetings and any other issues sent for approval/ recommendation by UAE ALCO. Global ALCO meets on a monthly basis.

UAE ALCO

The UAE ALCO includes, among others, the UAE Country Manager, Head of Treasury, Head of Finance and other members as decided by the UAE Country Manager as well as invitees from Global Treasury and Market Risk, Oman. UAE ALCO is responsible for reviewing reports on liquidity, interest rate risk, money market lines, foreign exchange during the monthly UAE ALCO meetings. It is also responsible for escalating market risk issues to Global ALCO through the Head of Market Risk (Oman).

Country Manager, UAE

The Country Manager is responsible for updating Market Risk (Oman), UAE ALCO and Global ALCO on all changes in regulatory environment and ensuring compliance to all internal and regulatory limits (set up by the Central Bank of Oman and the Central Bank of UAE) for foreign exchange, liquidity, interest rate, etc.

Market Risk and Mid-Office, Oman

Considering the currently limited scale of the UAE operations, Market Risk (Oman) assists in formulating policies for UAE. Mid-Office (Oman) independently monitors the foreign exchange exposure against net open position limits based on reports prepared by UAE treasury operations.

Exposure to interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the future profitability or the fair value of the financial instruments. The Branches are exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or reprice in a given period. The Branches manage this risk by matching the repricing of assets and liabilities through risk management strategies.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument.

5 **Financial risk management** ***(continued)***

d) **Market risk** ***(continued)***

Exposure to interest rate risk ***(continued)***

The Branches' interest rate sensitivity position, based on the contractual repricing or maturity dates, whichever dates are earlier, is as follows:

Assets and liabilities repricing profile

	Effective interest rate	Less than 3 months	3 months to 1 year	1 to 5 years	Non-interest bearing	Total
2014		AED'000	AED'000	AED'000	AED'000	AED'000
Assets						
Cash and balances with the UAE Central Bank	-	-	-	-	119,847	119,847
Due from banks	0.33%	334,626	-	-		334,626
Due from Head office and overseas branches	1.73%	14,692	-	-	1,016	15,708
Loans and advances to customers	4.45%	1,106,222	13,005	-	-	1,119,227
Customers' indebtedness for acceptances	-	81,756	-	-	-	81,756
Investment securities	3.27%	-	-	6,694	-	6,694
Property and equipment	-	-	-	-	3,362	3,362
Deferred tax asset	-	-	-	-	1,237	1,237
Other assets	-	-	-	-	4,153	4,153
Total assets		**1,537,296**	**13,005**	**6,694**	**129,615**	**1,686,610**
Liabilities and equity						
Due to Head Office and overseas branches	0.62	195,000	235,072	-	47,585	477,657
Deposits from customers	0.91	600,078	216,894	307	150,464	967,743
Liabilities under acceptances	-	81,756	-	-	-	81,756
Other liabilities	-	6,718	14,678	-	-	21,396
Equity	-	-	-	-	110,758	110,758
Placement from Head Office	-	-	-	-	27,300	27,300
Total liabilities and equity		**883,552**	**466,644**	**307**	**336,107**	**1,686,610**
Interest rate sensitivity gap		**653,744**	**(453,639)**	**6,387**	**(206,492)**	**-**
Cumulative interest rate sensitivity gap: As of 31 December 2014		**653,744**	**200,105**	**206,492**		

5 **Financial risk management *(continued)***

e) **Market risk *(continued)***

Exposure to interest rate risk *(continued)*

Assets and liabilities repricing profile

2013	Effective Interest rate	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Non-interest bearing AED'000	Total AED'000
Assets						
Cash and balances with the UAE Central Bank			-	-	103,753	103,753
Due from banks	0.38%	121,638	-	-	-	121,638
Due from Head Office and overseas branches	1.74%	-	-	16,528	3,311	19,839
Loans and advances to customers	6.10%	277,707	18,066	-	-	295,773
Customers' indebtedness for acceptances	-	-	-	-	16,404	16,404
Investment securities	4.48%	-	-	25,757	-	25,757
Property and equipment	-	-	-	-	2,924	2,924
Other assets	-	-	-	-	4,210	4,210
Total assets		399,345	18,066	42,285	130,602	590,298
Liabilities and equity						
Due to Head Office and overseas branches	0.56%	56,746	-	16,528	-	73,274
Deposits from customers	1.24%	218,947	35,316	-	111,832	366,095
Liabilities under acceptances	-	-	-	-	16,404	16,404
Other liabilities	-	-	-	-	8,734	8,734
Equity	-	-	-	-	98,491	98,491
Placement from Head Office	-	-	-	-	27,300	27,300
Total liabilities and equity		275,693	35,316	16,528	262,761	590,298
Interest rate sensitivity gap		**123,652**	**(17,250)**	**25,757**	**(132,159)**	-
Cumulative interest rate sensitivity gap: As of 31 December 2013		**123,652**	**106,402**	**132,159**		

5 **Financial risk management *(continued)***

d) **Market risk *(continued)***

Foreign currency risk

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

At the reporting date, the Branches' had the following net long exposures denominated in foreign currency:

	2014	2013
	AED '000	AED '000
United States Dollar ('USD')	**37,303**	27,116
Omani Riyal	**48**	546
Euros	**47**	125
Pound Sterling	**22**	85
	37,420	27,872

USD is pegged against AED and therefore, the Branches' exposure is limited to that extent.

e) **Operational risks**

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

Operational risks emanate from every segment of the Branches' operations and are faced by all the business units.

The Branches cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the branches are able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit. Further, the Bank now has established an operational loss appetite statement to monitor losses under various operational loss categories and any breaches of set off thresholds are reported to the Board Risk Committee. In addition to this, the Bank has an operational loss reporting database.

5 Financial risk management *(continued)*

***f)* Capital risk management and Basel II requirements**

Capital allocation

The Branches' lead regulator, the Central Bank of the UAE ('CBUAE'), sets and monitors regulatory capital requirements.

The objectives when managing capital are as follows.

- Safeguarding the Branches' ability to continue as a going concern; and
- complying with regulatory capital requirements set CBUAE.

The policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Branches recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Branches also assess their capital requirements internally taking into consideration growth requirements and business plans, and quantifies its regulatory and risk /economic capital requirements within its integrated ICAAP Framework. Risks such as interest rate risk in the banking book, concentration risk, strategic risk, legal and compliance risk, stress risk, insurance risk and reputational risk are all part of the ICAAP.

The Branches' regulatory capital adequacy ratio is set by CBUAE. The Branches' have determined their regulatory capital as recommended by the Basel II Capital Accord, in line with the guidelines of CBUAE with effect from 2007. The Branches' have adopted the Standardised Approach for credit risk and market risk and the Basic Indicator Approach for operational risk. The Branches have complied with all externally imposed capital requirements throughout the year. There have been no material changes in the Branches' management of capital during the year. The Central Bank has advised that the capital adequacy ratio should be 12% analysed into two tiers, of which tier 1 capital adequacy must not be less than 8% .

The Branches' regulatory capital is analysed into two tiers as follows:

- Tier 1 capital, which includes ordinary share capital, translation reserve and retained earnings; and
- Tier 2 capital, which includes fair value reserves relating to unrealised gains / losses on investments classified as available-for-sale and derivatives held as cash flow hedges, general provision and subordinated term loans. The following limits have been applied for Tier 2 capital:

- Total tier 2 capital shall not exceed 67% of tier 1 capital;
- Subordinated liabilities shall not exceed 50% of total tier 1 capital; and
- General provision shall not exceed 1.25% of total risk weighted assets.

5 Financial risk management ***(continued)***

f) **Capital risk management and Basel II requirements** ***(continued)***

The Branches' regulatory capital position at 31 December was as follows:

Tier 1 capital

	2014 AED '000	2013 AED '000
Branch capital	**52,500**	52,500
Legal reserve	**26,250**	25,295
Placement from Head Office	**27,300**	27,300
Retained earnings	**32,008**	20,696
Total tier 1 capital	**138,058**	125,791
Tier 2 capital		
Asset revaluation reserves	-	-
General provisions/general loan loss reserves	18,239	7,776
Total tier 2 capital	**18,239**	7,776
Total regulatory capital	**156,297**	133,567
Risk weighted assets		
Credit risk	**1,215,933**	555,141
Market risks	**69**	210
Operational risks	**52,760**	27,943
Total risk weighted assets ('RWA')	**1,268,762**	583,294
Total regulatory capital expressed as a % of RWA	**12.32%**	22.90%
Total tier 1 capital expressed as a % of RWA	**10.88%**	21.57%

6 Classes and categories of financial instruments

The table below sets out the Branches' classification of each class of financial assets and liabilities.

At 31 December 2014	Amortised cost	AFS	Total carrying amount
	AED '000	AED '000	AED '000
Financial assets			
Cash and balances with the UAE Central Bank	**119,847**	-	**119,847**
Due from banks	**334,626**	-	**334,626**
Due from Head Office and overseas branches	**15,708**	-	**15,708**
Customers' indebtedness for acceptances	**81,756**	-	**81,756**
Loans and advances to customers	**1,119,227**	-	**1,119,227**
Investment securities	-	**6,694**	**6,694**
Other assets	**841**	-	**841**
	1,672,005	**6,694**	**1,678,699**
Financial liabilities			
Customer deposits	**967,743**	-	**967,743**
Due to Head Office and overseas branches	**477,657**	-	**477,657**
Liabilities under acceptances	**81,756**	-	**81,756**
Other liabilities	**18,134**	-	**18,134**
	1,545,290	-	**1,545,290**

At 31 December 2013			
Financial assets			
Cash and balances with the UAE Central Bank	103,753	-	103,753
Due from banks	121,638	-	121,638
Due from Head Office and overseas branches	19,839	-	19,839
Customers' indebtedness for acceptances	16,404	-	16,404
Loans and advances to customers	295,773	-	295,773
Investment securities	-	25,757	25,757
Other assets	426	-	426
	557,833	25,757	583,590
Financial liabilities			
Customer deposits	366,095	-	366,095
Due to Head Office and overseas branches	73,274	-	73,274
Liabilities under acceptances	16,404	-	16,404
Other liabilities	6,135	-	6,135
	461,908	-	461,908

7 Segmental analysis

The Branches operate in one geographical area, the United Arab Emirates, and their results arise largely from commercial banking, treasury and investment activities. Information with respect to business segments is as follows:

	2014			2013		
	Commercial banking AED'000	**Treasury and investments AED'000**	**Total AED'000**	Commercial banking AED'000	Treasury and investments AED'000	Total AED'000
Year ended 31 December						
Net interest and other income	**41,155**	**4,533**	**45,688**	19,284	1,383	20,667
Net impairment losses	**(11,851)**	**-**	**(11,851)**	(12,450)	-	(12,450)
Net profit for the year	**9,484**	**2,783**	**12,267**	-785	809	24
Segment capital expenditure	**1,738**	**-**	**1,738**	1,382	-	1,382
Segment depreciation	**1,230**	**-**	**1,230**	1,190	-	1,190
At 31 December						
Segment total assets	**1,329,582**	**357,028**	**1,686,610**	**423,064**	**167,234**	**590,298**
Segment total liabilities	**1,070,895**	**477,657**	**1,548,552**	**391,233**	**73,274**	**464,507**

8 Cash and balances with the UAE Central Bank

	2014 AED'000	2013 AED'000
Cash in hand	**8,350**	5,094
Deposits in current account with the UAE Central Bank	**73,843**	84,456
Statutory reserve deposits with the UAE Central Bank	**37,654**	14,203
	119,847	103,753

Statutory reserve deposits are required to maintain as per regulations of the UAE Central Bank; the deposits are not available for the branches' day-to-day operations and are non-interest bearing.

9 Due from banks

	2014 AED'000	2013 AED'000
Money market placements	**123,413**	117,200
Current accounts	**211,213**	4,438
	334,626	121,638

10 Investment securities

	2014 AED'000	2013 AED'000
Available-for-sale financial assets		
- Listed debt securities	**6,694**	25,757
	6,694	25,757

11 Property and equipment

	Leasehold improvements and CWIP AED'000	Furniture and equipment AED'000	Motor Vehicles AED'000	Total AED'000
Cost				
At 1 January 2014	3,144	4,520	660	8,324
Additions	881	680	177	1,738
Disposals	-	(165)	(260)	(425)
At 31 December 2014	**4,025**	**5,035**	**577**	**9,637**
Accumulated depreciation				
At 1 January 2014	1,657	3,426	317	5,400
Charge for the year	662	445	123	1,230
Disposals	-	(165)	(190)	(355)
At 31 December 2014	**2,319**	**3,706**	**250**	**6,275**
Net book value at 31 December 2014	**1,706**	**1,329**	**327**	**3,362**
Cost				
At 1 January 2013	2,503	4,054	385	6,942
Additions	641	466	275	1,382
Disposals	-	-	-	-
At 31 December 2013	**3,144**	**4,520**	**660**	**8,324**
Accumulated depreciation				
At 1 January 2013	800	3,148	262	4,210
Charge for the year	857	278	55	1,190
Disposals	-	-	-	-
At 31 December 2013	**1,657**	**3,426**	**317**	**5,400**
Net book value at 31 December 2013	**1,487**	**1,094**	**343**	**2,924**

12 Other assets

	2014 AED'000	2013 AED'000
Interest receivable	**841**	426
Sundry debtors and prepayments	**3,312**	3,784
	4,153	4,210

13 Deposits from customers

	2014 AED'000	2013 AED'000
Current and other accounts	**157,792**	128,307
Savings accounts	**39,653**	22,416
Term deposits	**770,298**	215,372
	967,743	366,095

14 Other liabilities

	2014 AED'000	2013 AED'000
Accrued interest payable	**5,481**	4,888
Staff entitlements *(note 23)*	**3,262**	2,599
Accounts payable and sundry creditors	**8,349**	1,241
Income tax payable *(note 22)*	**4,304**	6
	21,396	8,734

15 Branch capital

Branch capital represents amount transferred from the Head Office in accordance with Article 80 of Union Law No. 10 of 1980. The branch capital meets the minimum requirement of UAE Central Bank for branches of foreign banks operating in the UAE.

16 Reserves

In accordance with Article 82 of Union Law No. 10 of 1980, an annual transfer of 10% of the net profit for the year is to be made to a non-distributable Legal reserve until the reserve equals half of the Branches' capital. The transfer for the year amounted to AED 955 thousand *(2013: AED 2 thousand)*.

17 Placement from Head Office

This represents additional funding provided by the Head Office in order to meet the CBUAE requirements regarding the capital adequacy ratio. The placement is non-interest bearing AED deposit. The placement will be progressively reduced in a manner that will not compromise CBUAE's capital adequacy ratio requirements. In accordance with CBUAE circular number 372, the Branches include this placement as part of their capital for the purpose of calculating capital adequacy ratio *(note 5)* in its CBUAE quarterly returns.

18 Net interest income

	2014	2013
	AED'000	AED'000
Interest income:		
Loans and advances	**36,604**	16,847
Placements with banks	**575**	583
	37,179	17,430
Interest expenses:		
Term deposits	**(6,780)**	(4,486)
Saving accounts	**(44)**	(53)
Call deposits	**(35)**	(16)
Borrowings from banks and overseas branches	**(1,112)**	(511)
	(7,971)	(5,066)
	29,208	12,364

19 Net fees and commission income

	2014	2013
	AED'000	AED'000
Fees and commission income :		
Letters of credit	**1,728**	969
Letters of guarantee	**2,741**	2,984
Commission on acceptances	**914**	203
Retail and corporate lending fees	**6,106**	1,180
Others	**351**	301
	11,840	5,637
Fees and commission expenses :		
Service charges	**(86)**	(43)
	(86)	(43)
	11,754	5,594

20 Other operating income

	2014	2013
	AED'000	AED'000
Telex charges	**849**	761
Service charges	**115**	130
Miscellaneous income	**329**	502
	1,293	1,393

21 Other operating expenses

	2014	2013
	AED'000	AED'000
Rent, rates and taxes	**5,301**	3,701
Repair expenses	**1,061**	528
Management fee	**1,345**	639
Others	**1,921**	1,579
	9,628	6,447

22 Income tax

	2014 AED'000	2013 AED'000
Balance at 1 January	**6**	935
Charge for the year, net *(note i)*	**3,067**	6
Paid during the year	**(6)**	(935)
Balance at 31 December	**3,067**	6
i) *Charge for the year, net*		
Provided during the year	**4,304**	6
Deferred Tax Income *(note 22a)*	**(1,237)**	-
Charge for the year	**3,067**	6

22(a) Deferred Tax Asset

	2014 AED'000	2013 AED'000
Deferred tax asset are attributable to the following:		
Allowance for impairment	**6,185**	-
	6,185	-

Movement in temporary difference during the year is as follows

	Opening Balance AED'000	Recognized in Statement of Profit and loss AED'000	Closing Balance AED'000
2014			
Allowances for impairment Dubai Branch	-	6,185	6,185
	-	**6,185**	**6,185**
2013			
Allowances for impairment	-	-	-
	-	-	-

The Branches are required to pay tax at the rate of 20% of profits (*2013: 20%*).

23 Staff entitlements

	2014 AED'000	2013 AED'000
Employees' end-of-service benefits	**3,087**	2,412
Others	**175**	187
	3,262	2,599

The Branches provide for employees' end-of-service benefits in accordance with the employees' contracts of employment and the applicable requirements of the UAE labor laws. The movements in the employees' end- of- service benefits liability are as follows:

	2014 AED'000	2013 AED'000
Balance at 1 January	**2,412**	2,733
Provided during the year	**675**	161
Paid during the year	-	(482)
Balance at 31 December	**3,087**	2,412

24 Cash and cash equivalents

	2014 AED'000	2013 AED'000
Cash and balance with CBUAE	**119,847**	103,753
Due from banks maturing within three months	**335,642**	124,949
Deposits from other banks maturing within three months	**(242,585)**	(52,099)
	212,904	176,603

Cash and deposits with the UAE Central Bank include AED 37,654 thousand (*2013: AED 14,203 thousand*) comprising mandatory reserves with the U.A.E. Central Bank which are not available for use in the Branches' day to day operations.

25 Related party transactions

The aggregate balances with related parties as of the statement of financial position date are as follows:

	2014 AED'000	2013 AED'000
Placement from Head Office *(see note 17)*	**27,300**	27,300
Due from Head Office and overseas branches	**15,708**	19,839
Due to Head Office and overseas branches (*see note 26*)	**(282,657)**	(73,274)

Transactions with related parties

The following balances represent transactions with the Head Office and other branches which were customers of the Branches during the year. The terms of these transactions are approved by the Branches' management.

	2014 AED'000	2013 AED'000
Interest expense on deposits	**(1,072)**	(454)
Management fees charged by Head Office	**(944)**	(639)
Interest income on placements	**270**	372
Compensation of key management personnel		
Salaries and other short term benefits	**972**	959
End-of-service benefits	**55**	74

26 Due to Head Office and overseas branches

	2014 AED'000	2013 AED'000
Borrowing from local banks	**195,000**	-
Balances with Head Office and branches	**282,657**	73,274
	477,657	73,274

27 Commitments and contingent liabilities

Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned are as follows:

	2014 AED'000	2013 AED'000
Letters of credit	**120,224**	166,888
Letters of guarantee	**332,241**	302,034
	452,465	468,922

Undrawn commitments

As at 31 December 2014, the Branches had undrawn commitments of AED 206,964 thousand *(2013: AED 281,135 thousand)*.

28 Customers' indebtedness for / liabilities under acceptances

Customers' indebtedness for acceptances represents the accepted documented liability amount which is recoverable from the respective customers of the Branches at the reporting date. Liabilities under acceptances represents bills of exchange, letters of credit etc where the Branches have accepted the liabilities under documentary credits at the reporting date. These assets and liabilities have been presented on a gross basis on the face of the statement of financial position as the Branches do not have a legal right of set-off.

29 Subsequent Events

Subsequent to the year end National Bank of Oman Head Office increased the share capital of National Bank of Oman – UAE Branches, from AED 52.50 million to AED 200.374 million pursuant to the decision of the Board of Directors Meeting held on 11 December 2014. The increase in the share capital has been fully paid, through a cash injection amounting to AED 147.874 million from the head office National Bank of Oman.

30 Comparative figures

Certain comparative figures have been reclassified where necessary to conform to current year's presentation.