Bank of Sharjah P.S.C.

Reports and consolidated financial statements
for the year ended 31 December 2014

These audited consolidated financial statements are subject to approval of the Central Bank of the U.A.E. and adoption by shareholders at the annual general meeting.

Bank of Sharjah P.S.C.

Reports and consolidated financial statements for the year ended 31 December 2014

Bank of Sharjah P.S.C.

Board of Directors' report

The Board has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2014.

INCORPORATION AND REGISTERED OFFICE

Bank of Sharjah P.S.C. (the "Bank") is a Public Shareholding Company with Limited Liability, incorporated by an Amiri Decree issued on 22 December 1973 by His Highness The Ruler of Sharjah and was registered in February 1993 under Commercial Companies Law Number 8 of 1984 (as amended). The Bank commenced operations under a banking license issued from United Arab Emirates Central Bank dated 26 January 1974.

The Bank's registered office is located at Al Khan Road, P.O. Box 1394, Sharjah, United Arab Emirates.

PRINCIPAL ACTIVITY

The Group's principal activities are commercial and investment banking.

RESULTS

The profit for the year ended 31 December 2014 amounted to AED 286 million (2013: AED 353 million). The total comprehensive income for the year ended 31 December 2014 amounted to AED 228 million (2013: AED 433 million) after taking into consideration unrealised loss on revaluation of financial assets measured at fair value through other comprehensive income amounting to AED 45 million (2013: gain of AED 93 million).

The detailed results are set out in the attached consolidated financial statements.

DIRECTORS

The Directors during the year were:

1. Mr. Ahmed Abdalla Al Noman (Chairman)
2. Sheikh Mohammed Bin Saud Al Qassimi (Vice Chairman)
3. Sheikh Seif Bin Mohd Bin Butti Al Hamed
4. H.E. Humeid Naser Al Owais
5. Mr. Abdul Rahman Bukhatir
6. Mr. Abdul Aziz Hassan Al Midfa
7. Mr. Abdul Aziz Mubarak Al Hassawi
8. Mr. Saud Al Besharah
9. Mr. Francois Dauge
10. Mr. Jean-Jacques Santini
11. Mr. Varouj Nerguizian

On behalf of the Board

Mr. Ahmed Abdalla Al Noman
Chairman
Sharjah
14 February 2015

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Bank of Sharjah P.S.C.
Sharjah
United Arab Emirates

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of **Bank of Sharjah P.S.C.** (the "Bank") **and its subsidiaries** (together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management of the Group 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 the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, 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 AUDITOR'S REPORT (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Bank of Sharjah P.S.C. and its subsidiaries** as at 31 December 2014 and the Group's 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

Also, in our opinion, proper books of account are maintained by the Bank, and the information included in the Board of Directors' report relating to the consolidated financial statements is in agreement with the books of account. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. (8) of 1984 (as amended), or the Articles of Association of the Bank which might have a material effect on the financial position of the Bank or its financial performance. 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.

Deloitte & Touche (M.E.)

Anis Sadek
Registration Number 521
14 February 2015

Consolidated statement of financial position as at 31 December 2014

	Notes	2014 AED'000	2013 AED'000
ASSETS			
Cash and balances with central banks	**5**	**3,707,816**	3,400,245
Deposits and balances due from banks	**6**	**2,783,177**	4,111,230
Loans and advances, net	**7**	**14,080,102**	13,134,749
Other financial assets measured at fair value	**8**	**1,166,631**	1,217,330
Other financial assets measured at amortised cost	**8**	**597,349**	539,645
Investment properties	**9**	**336,143**	303,678
Goodwill and other intangibles	**10**	**242,018**	249,802
Other assets	**11**	**1,613,123**	1,504,605
Property and equipment	**13**	**292,341**	279,694
Non-current assets classified as held for sale	**14**	**235,683**	231,530
Total assets		**25,054,383**	24,972,508
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	**16**	**17,800,882**	18,374,066
Deposits and balances due to banks	**17**	**405,603**	97,336
Other liabilities	**18**	**1,677,471**	1,394,870
Syndicated loan	**19**	**734,600**	734,600
Liabilities directly associated with non-current assets classified as held for sale	**14**	**23,168**	19,015
Total liabilities		**20,641,724**	20,619,887
Equity			
Capital and reserves			
Share capital	**20 (a)**	**2,100,000**	2,100,000
Treasury shares	**20 (a)**	**(196,726)**	(327,792)
Statutory reserve	**20 (b)**	**1,050,000**	1,085,357
Contingency reserve	**20 (c)**	**450,000**	413,126
General reserve	**20 (d)**	**100,000**	92,999
Investments fair value reserve		**154,009**	199,347
Retained earnings		**543,427**	579,129
Equity attributable to owners of the Bank		**4,200,710**	4,142,166
Non-controlling interests		**211,949**	210,455
Total equity		**4,412,659**	4,352,621
Total liabilities and equity		**25,054,383**	24,972,508

………………………..……………………..

Mr. Ahmed Abdalla Al Noman
Chairman

…………………………….……………….

Mr. Varouj Nerguizian
Executive Director & General Manager

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

Bank of Sharjah P.S.C.

Consolidated income statement
for the year ended 31 December 2014

	Notes	2014 AED'000	2013 AED'000
Interest income	**26**	**984,947**	972,135
Interest expense	**27**	**(517,236)**	(518,655)
Net interest income		**467,711**	453,480
Net fee and commission income	**28**	**159,553**	121,586
Exchange profit		**24,642**	23,426
(Loss)/ income on investments	**29**	**(15,223)**	116,908
Revaluation gain on investment properties	**9**	**32,465**	48,475
Other income	**30**	**114,735**	23,881
Operating income		**783,883**	787,756
Net impairment loss on financial assets	**31**	**(238,828)**	(177,820)
Net operating income		**545,055**	609,936
General and administrative expenses	**32**	**(259,494)**	(239,650)
Amortisation of intangible assets	**10 (b)**	**(7,784)**	(7,784)
Profit before discontinued operations		**277,777**	362,502
Discontinued operations	**14**	**14,481**	-
Profit before taxes		**292,258**	362,502
Income tax expense - overseas		**(6,339)**	(9,661)
Profit for the year		**285,919**	**352,841**
Attributable to:			
Owners of the Bank		**280,876**	343,878
Non-controlling interests		**5,043**	8,963
		285,919	352,841
Basic and diluted earnings per share (AED)	**21**	**0.14**	0.17

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

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

	Notes	2014 AED'000	2013 AED'000
Profit for the year		**285,919**	352,841
Other comprehensive income items			
Items that will not be reclassified subsequently to profit or loss:			
Net changes in fair value of financial assets measured at fair value through other comprehensive income		**(45,332)**	93,213
Charity donations	**22**	**(2,500)**	(2,500)
Directors' remuneration	**22**	**(10,585)**	(10,588)
Total other comprehensive (loss)/income for the year		**(58,417)**	80,125
Total comprehensive income for the year		**227,502**	432,966
Attributable to:			
Owners of the Bank		**223,070**	424,621
Non-controlling interests		**4,432**	8,345
		227,502	432,966

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

Bank of Sharjah P.S.C.

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

	Share capital AED'000	Treasury shares AED'000	Statutory reserve AED'000	Contingency reserve AED'000	General reserve AED'000	Investments fair value reserve AED'000	Retained earnings AED'000	Equity attributable to owners of the Bank AED'000	Non-controlling interests AED'000	Total equity AED'000
Balance at 1 January 2013	2,100,000	(327,792)	1,085,357	378,738	62,565	106,134	519,305	3,924,307	257,742	4,182,049
Profit for the year	-	-	-	-	-	-	343,878	343,878	8,963	352,841
Other comprehensive income	-	-	-	-	-	93,213	(12,470)	80,743	(618)	80,125
Total comprehensive income for the year	-	-	-	-	-	**93,213**	**331,408**	**424,621**	**8,345**	**432,966**
Transfer to contingency reserve	-	-	-	34,388	-	-	(34,388)	-	-	-
Transfer to general reserve	-	-	-	-	30,434	-	(30,434)	-	-	-
Dividends paid (Note 22)	-	-	-	-	-	-	(193,500)	(193,500)	(7,713)	(201,213)
Allocation to non-controlling interests	-	-	-	-	-	-	(11,147)	(11,147)	11,147	-
Acquisition of subsidiaries	-	-	-	-	-	-	(2,115)	(2,115)	(59,066)	(61,181)
Balance at 31 December 2013	**2,100,000**	**(327,792)**	**1,085,357**	**413,126**	**92,999**	**199,347**	**579,129**	**4,142,166**	**210,455**	**4,352,621**
Profit for the year	-	-	-	-	-	-	280,876	280,876	5,043	285,919
Other comprehensive loss	-	-	-	-	-	(45,338)	(12,468)	(57,806)	(611)	(58,417)
Total comprehensive income for the year	-	-	-	-	-	**(45,338)**	**268,408**	**223,070**	**4,432**	**227,502**
Share dividends (Note 22)	-	119,197	-	-	-	-	(119,197)	-	-	-
Treasury shares sold during the year	-	11,869	-	-	-	-	-	11,869	-	11,869
Transfer from statutory reserve	-	-	(35,357)	-	-	-	35,357	-	-	-
Transfer to contingency reserve	-	-	-	36,874	-	-	(36,874)	-	-	-
Transfer to general reserve	-	-	-	-	7,001	-	(7,001)	-	-	-
Dividends paid (Note 22)	-	-	-	-	-	-	(176,395)	(176,395)	(2,938)	(179,333)
Balance at 31 December 2014	**2,100,000**	**(196,726)**	**1,050,000**	**450,000**	**100,000**	**154,009**	**543,427**	**4,200,710**	**211,949**	**4,412,659**

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

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

	2014	2013
	AED'000	AED'000
Cash flows from operating activities		
Profit for the year	**285,919**	352,841
Adjustments for:		
Depreciation of property and equipment	**19,926**	15,043
Amortisation of intangible assets	**7,784**	7,784
Amortisation of premium on debt instruments	**583**	2,141
(Gain)/ loss on sale of property and equipment	**(595)**	16
Fair value loss /(gain) on investments measured at FVTPL	**32,663**	(44,221)
Fair value gain on revaluation of investment properties	**(32,465)**	(48,475)
Net impairment loss on financial assets	**238,828**	177,820
Dividends received	**(7,451)**	(70,509)
Operating profit before changes in operating assets and liabilities	**545,192**	392,440
Increase in deposits and balances due from banks maturing after three months	**(287,000)**	(95,505)
Increase in statutory deposits with central banks	**(34,700)**	(83,927)
Increase in loans and advances	**(1,184,181)**	(1,068,230)
Increase in other assets	**(108,518)**	(156,607)
(Decrease)/ increase in customers' deposits	**(573,184)**	1,897,692
Increase in other liabilities	**282,601**	161,972
Cash (used in)/ generated from operating activities	**(1,359,790)**	1,047,835
Payment of directors' remuneration and charity donations	**(13,085)**	(13,088)
Net cash (used in)/ generated from operating activities	**(1,372,875)**	1,034,747
Cash flows from investing activities		
Purchase of property and equipment	**(34,193)**	(28,286)
Proceeds from sale of property and equipment	**2,215**	4,462
Addition to investment properties	**-**	(24,382)
Purchase of investments	**(200,035)**	(108,120)
Acquisition of non-controlling interest	**-**	(73,696)
Proceeds from sale of investments	**114,452**	302,785
Dividends received	**7,451**	70,509
Net cash (used in)/ generated from investing activities	**(110,110)**	143,272
Cash flows from financing activities		
Treasury shares sold during the year	**11,869**	-
Dividends paid	**(179,333)**	(201,213)
Net movement on syndicated facility	**-**	238,745
Net cash (used in)/ generated from financing activities	**(167,464)**	37,532
Net (decrease)/ increase in cash and cash equivalents	**(1,650,449)**	1,215,551
Cash and cash equivalents at the beginning of the year	**5,589,090**	4,373,539
Cash and cash equivalents at the end of the year (Note 24)	**3,938,641**	5,589,090
Non-cash transactions:		
Acquisition of subsidiaries (Note 14)	**-**	200,000

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

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

1 General information

Bank of Sharjah P.S.C. (the "Bank"), is a public shareholding company incorporated by an Amiri Decree issued on 22 December 1973 by His Highness The Ruler of Sharjah and was registered in February 1993 under the Commercial Companies Law Number 8 of 1984 (as amended). The Bank commenced its operations under a banking license issued by the United Arab Emirates Central Bank dated 26 January 1974. The Bank is engaged in commercial and investment banking activities.

The Bank's registered office is located at Al Khan Road, P.O. Box 1394, Sharjah, United Arab Emirates. The Bank operates through five branches in the United Arab Emirates located in the Emirates of Sharjah, Dubai, Abu Dhabi, and City of Al Ain.

The accompanying consolidated financial statements combine the activities of the Bank and its subsidiaries (collectively the "Group"), as listed in Note 15.

2 Application of new and revised International Financial Reporting Standards ("IFRSs")

2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2014, have been adopted in these consolidated financial statements. The application of these revised and new IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

New and revised IFRSs	Effective for annual periods beginning on or after
• Amendments to IAS 32 *Financial Instruments: Presentation* relating to application guidance on the offsetting of financial assets and financial liabilities.	1 January 2014
• Amendments to IAS 36 *Recoverable Amount Disclosures*: The amendments restrict the requirements to disclose the recoverable amount of an asset or Cash Generating Unit (CGU) to the period in which an impairment loss has been recognised or reversed. They also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal.	1 January 2014
• Amendments to IFRS 10, IFRS 12 and IAS 27 *Guidance on Investment Entities*: On 31 October 2012, the IASB published a standard on investment entities, which amends IFRS 10, IFRS 12, and IAS 27 and introduces the concept of an investment entity in IFRSs.	1 January 2014

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

2 Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)

2.2 New and revised IFRSs in issue but not yet effective and not early adopted

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
• Finalised version of IFRS 9 (IFRS 9 *Financial Instruments* (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model. A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets. A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.	1 January 2018
• IFRS 14 *Regulatory Deferral Accounts* issued in January 2014 specifies the financial reporting requirements for 'regulatory deferral account balance' that arise when an entity provides good or services to customers at a price or rate that is subject to rate regulation.	1 January 2016
• IFRS 15 *Revenue from Contracts with Customers*: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.	1 January 2017
• Annual Improvements to IFRSs 2012 - 2014 Cycle that include amendments to IFRS 5, IFRS 7 and IAS 19.	1 January 2016
• Amendments to IAS 16 and IAS 38 to clarify the acceptable methods of depreciation and amortisation.	1 January 2016
• Amendments to IFRS 11 to clarify accounting for acquisitions of *Interests in Joint Operations*.	1 January 2016
• Amendments to IAS 16 and IAS 41 require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16.	1 January 2016

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

2 Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)

2.2 New and revised IFRSs in issue but not yet effective and not early adopted (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
• Amendments to IFRS 10 and IAS 28 clarify that the recognition of the gain or loss on the sale or contribution of assets between an investor and its associate or joint venture depends on whether the assets sold or contributed constitute a business.	1 January 2016
• Amendments to IAS 27 allow an entity to account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IAS 39/IFRS 9 or using the equity method in an entity's separate financial statements.	1 January 2016
• Amendments to IFRS 10, IFRS 12 and IAS 28 clarifying certain aspects of applying the consolidation exception for investment entities.	1 January 2016
• Amendments to IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports.	1 January 2016
• Annual Improvements to IFRSs 2010 - 2012 Cycle that includes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24.	1 July 2014
• Annual Improvements to IFRSs 2011 - 2013 Cycle that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.	1 July 2014
• Annual Improvements to IFRSs 2012 - 2014 Cycle that include amendments to IFRS 5, IFRS 7 and IAS 19.	1 July 2016
• Amendments to IAS 19 *Employee Benefits* clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.	1 July 2014

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period beginning 1 January 2015 or as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

The application of the finalised version of IFRS 9 may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application until the Group performs a detailed review.

3 Summary of significant accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and applicable requirements of the Laws of the U.A.E. and U.A.E. Central Bank regulations.

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for assets, goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account when pricing the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value such as value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than that quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands dirham, except when otherwise indicated.

The principal accounting policies are set out below.

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved when the Bank has:

- power over the investee,
- exposure, or has rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders and other parties;
- rights raising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributable to the owners of the Parent and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributable to the owners of the parent and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Bank's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Bank are eliminated in full on consolidation.

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Bank's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid/payable or received/receivable is recognised directly in equity and attributed to owners of the Parent (the "Bank").

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

When the Bank loses control of a subsidiary, a gain or loss is recognised in the consolidated income statement and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary, and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to income statement or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3.4 Cash and cash equivalents

Cash and cash equivalents disclosed in the consolidated statement of cash flows consist of cash on hand, current accounts and other balances with central banks, certificate of deposits, balances with banks, and money market placements which have original maturity of less than three months.

3.5 Due from banks

Due from banks are stated at cost less any amounts written-off and allowance for impairment, if any.

3.6 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

3 Summary of significant accounting policies (continued)

3.6 Financial assets (continued)

Classification of financial assets

For the purposes of classifying financial assets an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

Financial assets measured at amortised cost:

Debt instruments, including loans and advances are measured at amortised cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs [except if they are designated as at fair value through profit or loss (FVTPL)]. They are subsequently measured at amortised cost using the effective interest method less any impairment, with interest revenue recognised on an effective yield basis in the consolidated income statement.

Subsequent to initial recognition, the Group is required to reclassify debt instruments from amortised cost to FVTPL if the objective of the business model changes so that the amortised cost criteria is no longer met.

The Group may irrevocably elect at initial recognition to classify a debt instrument that meets the amortised cost criteria above as FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost.

Financial assets measured at FVTPL

Debt instrument financial assets that do not meet the amortised cost criteria described above, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL.

Subsequent to initial recognition, the Group is required to reclassify debt instruments from FVTPL to amortised cost if the objective of the business model changes so that the amortised cost criteria starts to be met and the instruments' contractual cash flows meet the amortised cost criteria. Reclassification of debt instruments designated as at FVTPL at initial recognition is not permitted.

Investments in equity instruments are classified as financial assets measured at FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) at initial recognition.

3 Summary of significant accounting policies (continued)

3.6 Financial assets (continued)

Financial assets measured at FVTPL (continued)

Financial assets measured at FVTPL are measured at fair value, with any gains or losses arising on re-measurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement. Fair value is determined in the manner described in note 38.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated income statement when the Group's right to receive the dividends is established.

Financial assets measured at FVTOCI

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments fair value reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments fair value reserve is not transferred to consolidated income statement, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in the consolidated income statement when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange component forms part of its fair value gain or loss. For financial assets measured at FVTPL, the foreign exchange component is recognised in the consolidated income statement. For financial assets measured at FVTOCI any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated debt instruments measured at amortised cost, the foreign exchange gains and losses are determined based on the amortised cost of the asset and are recognised in the consolidated income statement.

3 Summary of significant accounting policies (continued)

3.7 Fair values

All financial instruments are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;

- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and

- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

3.8 Loans and advances

Loans and advances are non-derivative financial assets originating from or acquired by the Group with fixed or determinable payments.

Loans and advances are stated at amortised cost less any amounts written off and allowance for doubtful accounts. The carrying values of loans and advances which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged with the resultant adjustment recognised in the consolidated income statement.

Allowance for impairment is made against loans and advances when their recovery is in doubt taking into consideration IFRS requirements for fair value measurement. Loans and advances are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

3.9 Investment properties

Investment properties are held to earn rental income and/or capital appreciation. Investment property includes cost of initial purchase, developments transferred from property under development, subsequent cost of development, and fair value adjustments. Investment property is reported at valuation based on fair value at the end of the reporting period. 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, regardless of whether that price is directly observable or estimated using another valuation technique. The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated income statement in the period in which these gains or losses arise.

3 Summary of significant accounting policies (continued)

3.10 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method as follows:

	Years
Buildings	20 - 40
Furniture and office equipment	2 - 6
Installation, partitions and decorations	3 - 4
Leasehold improvements	5 - 10
Motor vehicles	3

Subsequent costs are included in the asset's carrying amount or recognized 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. All other repairs and maintenance are charged to the consolidated statement of comprehensive income when incurred.

Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the consolidated income statement.

Capital work-in-progress is carried at cost, less any accumulated impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

3.11 Intangible assets acquired separately

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Amortisation is charged so as to write off the cost of intangible assets, over their estimated useful lives using the straight-line method as follows:

	Years
Banking license	Indefinite
Legal corporate setup in Lebanon	10
Customer base	10
Branch network	10

3 Summary of significant accounting policies (continued)

3.12 Impairment of tangible and intangibles

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangibles to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

3.13 Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it’s becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

The amount of the impairment loss recognised is the difference between the asset’s carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and advances, where the carrying amount is reduced through the use of an allowance account. When a loan is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

3 Summary of significant accounting policies (continued)

3.13 Impairment of financial assets (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment of loans and advances measured at amortised costs are assessed by the Group as follows:

Individually assessed loans

Individually assessed loans mainly represent corporate and commercial loans which are assessed individually in order to determine whether there exists any objective evidence that a loan is impaired. Loans are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Group in accordance with the original contractual terms. Doubt about the borrower's ability to meet payment obligations generally arises when:

a) Principal and interest are not serviced as per contractual terms; and

b) When there is significant deterioration in the borrower's financial condition and the amount expected to be realised from disposal of collateral, if any, is not likely to cover the present carrying value of the loan.

Impaired loans are measured on the basis of the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

Impairment loss is calculated as the difference between the loan's carrying value and its present impaired value.

Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances calculated on:

a) Performing loans
b) Retail loans with common features and which are not individually significant.

Performing loans

Where individually assessed loans are evaluated and no evidence of loss has been identified, these loans are classified as performing loans portfolios with common credit risk characteristics based on industry, product or loan rating. Impairment covers losses which may arise from individual performing loans that are impaired at the end of the reporting period but were not specifically identified as such until sometime in the future. The estimated impairment is calculated by the Group's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Retail loans with common features and which are not individually significant

Impairment of retail loans is calculated by applying a formulaic approach which allocates progressively higher loss rates in line with the overdue instalment date.

3 Summary of significant accounting policies (continued)

3.13 Impairment of financial assets (continued)

Renegotiated loans

Retail loans, which are subject to collective impairment review and whose terms have been renegotiated, are no longer considered to be past due and consequently impaired only when the minimum required number of payments under the new arrangements has not been received and the borrower has not complied with the revised terms and conditions.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to continuous review to determine whether they remain impaired or are considered to be past due depending upon the borrower complying with the revised terms and conditions and making the minimum required payments for the loans to be moved to performing category.

Loans that are either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

3.14 Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated income statement.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments fair value reserve is not reclassified to the consolidated income statement, but is reclassified to retained earnings.

3.15 Assets acquired in settlement of debt

The Group occasionally acquires real estate and other collateral in settlement of certain loans and advances. Such real estate and other collateral are stated at the lower of the net realisable value of the loans and advances and the current fair value of such assets at the date of acquisition. Gains or losses on disposal and unrealised losses on revaluation are recognised in the consolidated income statement.

3 Summary of significant accounting policies (continued)

3.16 Derivative financial instruments

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date.

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including forward foreign exchange contracts and currency swaps.

Derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

For the purpose of hedge accounting, the Group classifies hedges into two categories: (a) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the derivative and the hedged item are recognised in the consolidated income statement. Fair value adjustments relating to the hedging instrument are allocated to the same consolidated income statement category as the related hedged item. Any ineffectiveness is also recognised in the same consolidated income statement category as the related hedged item. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortised in the consolidated income statement as part of the recalculated effective interest rate over the period to maturity.

3. Summary of significant accounting policies (continued)

3.16 Derivative financial instruments (continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The ineffective part of any gain or loss is recognised immediately in the consolidated income statement as trading revenue/loss. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in other comprehensive income remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in other comprehensive income are immediately transferred to the consolidated income statement and classified as trading revenue/loss.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement as trading revenue/loss. However, the gains and losses arising from changes in the fair values of derivatives that are managed in conjunction with financial instruments designated at fair value are included in net income from financial instruments designated at fair value under other non-interest revenue/loss.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in the consolidated income statement.

3.17 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

3 Summary of significant accounting policies (continued)

3.18 Customers' deposits and syndicated loan

Customers' deposits and syndicated loan are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective interest method.

3.19 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *IFRS 3 Business Combinations* are recognised at their fair values at the acquisition date; except for non-current assets (or disposal banks) that are classified as held for sale in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated income statement.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3.20 Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

3.21 Employees' end-of-service benefits

The Group provides end of service benefits for its expatriate employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Pension and national insurance contributions for the U.A.E. citizens are made by the Group in accordance with Federal Law No. 2 of 2000.

3 Summary of significant accounting policies (continued)

3.22 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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 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 pledged as collateral security, 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. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements.

3.23 Acceptances

Acceptances are recognised as financial liabilities in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments with respect to acceptances have been accounted for as financial assets and financial liabilities.

3.24 Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantees are initially recognised at their fair value, which is the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable).

3.25 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

3 Summary of significant accounting policies (continued)

3.25 Leasing (continued)

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.26 Recognition and de-recognition of financial instruments

The Group recognises a financial asset or liability in its consolidated statement of financial position only when it becomes party to the contractual provisions of that instrument. Financial assets are derecognised when the right to receive cash flows from the assets has expired; or when the Group has transferred its contractual right to receive the cash flows of the financial assets, and substantially all the risks and rewards of ownership; or where control is not retained. Financial liabilities are derecognised when they are extinguished - that is when the obligation specified in the contract is discharged, cancelled or expired.

3.27 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously.

3.28 Revenue and expense recognition

Interest income, interest expense, and loan commitment fees are recognised on a time proportion basis, taking into account the principal outstanding and the rate applicable. Commission and fee income are generally accounted for on the date the transaction arises. Interest accruing on loans and advances considered doubtful is excluded from income until received. Subsequently, notional interest is recognised on doubtful loans and advances and other financial assets based on the rate used to discount the net present value of future cash flows. Other fees receivable or payable are recognised when earned.

Gain or loss on financial assets measured at fair value through profit and loss comprises all gains and losses from changes in the fair value of the financial assets measured at fair value through profit and loss and from the disposal of those financial assets. Gain or loss on disposal of the financial assets measured at fair value through profit and loss represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs.

Dividend revenue from investments is recognised when the Group's right to receive payments has been established.

Payments made under operating leases are recognised in 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.

3 Summary of significant accounting policies (continued)

3.29 Foreign currencies

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements of the Group are presented in AED, which is the Group's presentation currency.

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the consolidated statement of financial position date. Any resulting exchange differences are included in the consolidated income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using rate of exchange at the date of initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised directly in equity if the gain or loss on the non-monetary item is recognised directly in equity. Any exchange component of a gain or loss on the non-monetary is recognised directly in the consolidated income statement if the gain or loss on the non-monetary item is recognised in the consolidated income statement.

In the consolidated financial statements, the assets, including related goodwill where applicable, and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not AED, are translated into the Group's presentation currency at the rate of exchange ruling at the consolidated statement of financial position date. The results of branches, subsidiaries, joint ventures and associates whose functional currency is not AED are translated into AED at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end, are recognised in other comprehensive income and accumulated in equity in the 'foreign exchange reserve'.

On disposal or partial disposal (i.e. of associates or jointly controlled entities not involving a change of accounting basis) of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the consolidated income statement on proportionate basis except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in consolidated income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3.30 Non-current assets classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale which should be expected to qualify for recognition as a comparable sale within one year from the date of classification.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3 Summary of significant accounting policies (continued)

3.31 Fiduciary activities

The Group acts as trustee/manager and in other capacities that result in holding or placing of assets in a fiduciary capacity on behalf of trusts or other institutions. Such assets and income arising thereon are not included in the Group's consolidated financial statements as they are not assets of the Group.

4 Critical accounting judgments and key sources of estimation of uncertainty

While applying the accounting policies as stated in Note 3, the management of the Group has made certain judgments, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

i. Impairment of financial assets measured at amortised cost and loans and advances

The Group's accounting policy for allowances in relation to impaired financial assets carried at amortised cost is described in Note 3. Impairment is calculated on the basis of discounted estimated future cash flows or by applying a statistical modelling on the performing unclassified loans and advances book based on market trend and historical pattern of defaults. For retail loans and advances impairment is calculated based on a formulaic approach depending on past due instalments and payments.

The allowance for loans and advances losses is established through charges to income in the form of an allowance. Increases and decreases in the allowance due to changes in the measurement of the impaired loans and advances are included in the allowance for loans and advances losses and affect the consolidated income statement accordingly.

Loans and advances

The impairment allowance for loan losses is established through charges to the consolidated income statement in the form of an impairment allowance for doubtful loans and advances.

Individually assessed loans

Impairment losses for individually assessed loans are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate loans and advances which are individually significant accounts or are not subject to the portfolio-based-approach.

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

4 Critical accounting judgments and key sources of estimation of uncertainty (continued)

i. Impairment of financial assets measured at amortised cost and loans and advances (continued)

Individually assessed loans (continued)

The following factors are considered by management when determining the allowance for impairment on individual loans and advances which are significant:

- The amount expected to be realised on disposal of collateral.
- The Group's ability to enforce its claim on the collateral and the associated cost of litigation.
- The expected time frame to complete legal formalities and disposal of collateral.

The Group's policy requires quarterly review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability.

Impaired loans continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable.

Collectively assessed loans

Collective assessment of allowance for impairment is made for overdue retail loans with common features which are not individually significant and performing loans which are not found to be individually impaired.

The following factors are considered by management when determining allowance for impairment for such loans:

Retail loans - All the loans falling under similar overdue category are assumed to carry similar credit risk and allowance for impairment is taken on a gross basis.

Other performing loans - The management of the Group assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of loans which may be impaired but not identified as of the end of the reporting period.

ii. Classification of properties

In the process of classifying properties, the management has made various judgments. Judgment is needed to determine whether a property qualifies as an investment property, property and equipment, and/or property held for resale. The Group develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, property and equipment, and property held for resale. In making its judgment, management considered the detailed criteria and related guidance for the classification of properties as set out in IAS 2, IAS 16 and IAS 40, in particular, the intended usage of property as determined by the management.

iii. Fair value of investment properties and investment properties under development

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determined the amount within a range of reasonable fair value estimates. In making its judgment, the Group considered recent prices of similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at those prices. Such estimation is based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

4 Critical accounting judgments and key sources of estimation of uncertainty (continued)

iii. Fair value of investment properties and investment properties under development (continued)

The determination of the fair value of revenue-generating properties requires the use of estimates such as future cash flows from assets (such as leasing, tenants' profiles, future revenue streams, capital values of fixtures and fittings, and the overall repair and condition of the property) and discount rates applicable to those assets. In addition, development risks (such as construction and leasing risks) are also taken into consideration when determining the fair value of investment properties under development. These estimates are based on local market conditions existing at the end of the reporting period.

iv. Useful lives of property and equipment and intangible assets

Management reviews the residual values and estimated useful lives of property and equipment and intangible assets at the end of each annual reporting period in accordance with IAS 16 and IAS 38. Management determined that current year expectations do not differ from previous estimates based on its review.

4.1 Key sources of estimation of uncertainty

The key assumptions concerning the future, and other key sources of estimation of uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Valuation of unquoted equity investments

The valuation of unquoted equity investments is normally based on recent market transactions done on an arm's length basis, or the fair value of another instrument that is substantially the same, or the expected cash flows discounted at current rates for similar instruments, or on other valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of the unquoted equity investments.

Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management's judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and

b) An appropriate discount rate for the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure, and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

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

4 Critical accounting judgments and key sources of estimation of uncertainty (continued)

4.1 Key sources of estimation of uncertainty (continued)

Valuation of investment properties

The Group values its investment properties at fair value on the basis of market valuations prepared by an independent chartered surveyor and property consultant. The fair values were derived by using appropriate valuation methods. The valuations are based on assumptions such as comparison with sale price of land for comparable developments, plot sizes and the recent value of any expected timing of payments and receipts in short-term to long-term, which are mainly on market conditions existing at the reporting date. Therefore, any future change in the market conditions could change significantly the fair value of these properties.

5 Cash and balances with central banks

(a) The analysis of the Group's cash and balances with central banks is as follows:

	2014	2013
	AED'000	AED'000
Cash on hand	**73,864**	71,619
Statutory deposits	**1,055,819**	1,021,119
Current accounts	**587,966**	636,428
Certificates of deposits	**1,990,167**	1,671,079
	3,707,816	3,400,245

(b) The geographical analysis of the cash and balances with central banks is as follows:

	2014	2013
	AED'000	AED'000
Banks abroad	**1,541,774**	1,278,978
Banks in the U.A.E.	**2,166,042**	2,121,267
	3,707,816	3,400,245

The Group is required to maintain statutory deposits with various central banks on demand, time and other deposits as per the statutory requirements. The statutory deposits with the Central Banks are not available to finance the day to day operations of the Group. However, as per notice 4310/2008, the Central Bank of the U.A.E. has allowed banks to borrow up to 100% of their AED and US$ reserve requirement limit. As at 31 December 2014, the statutory deposits with the Central Bank of the U.A.E. amounted to AED 482 million (31 December 2013: AED 468 million).

6 Deposits and balances due from banks

(a) The analysis of the Group's deposits and balances due from banks is as follows:

	2014 **AED'000**	2013 AED'000
Demand	**768,792**	1,007,809
Time	**2,014,385**	3,103,421
	2,783,177	4,111,230

(b) The above represent deposits and balances due from:

	2014 **AED'000**	2013 AED'000
Banks abroad	**653,467**	1,283,272
Banks in the U.A.E.	**2,129,710**	2,827,958
	2,783,177	4,111,230

7 Loans and advances, net

(a) The analysis of the Group's loans and advances measured at amortised cost is as follows:

	2014 **AED'000**	2013 AED'000
Overdrafts	**8,639,606**	7,308,166
Commercial loans	**5,480,731**	5,789,356
Bills receivable	**714,902**	538,530
Other advances	**880,244**	720,364
	15,715,483	14,356,416
Less: Allowance for impairment	**(1,347,377)**	(1,011,629)
Less: Interest in suspense	**(288,004)**	(210,038)
	14,080,102	13,134,749

(b) The geographic analysis of the loans and advances of the Group is as follows:

	2014 **AED'000**	2013 AED'000
Loans and advances in the U.A.E.	**13,275,107**	11,930,557
Loans and advances outside the U.A.E.	**2,440,376**	2,425,859
	15,715,483	14,356,416

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

7 Loans and advances, net

(c) Loans and advances are stated net of allowance for impairment. The movement in the allowance during the year was as follows:

	2014 AED'000	2013 AED'000
At 1 January	**1,011,629**	844,053
Additions/(reversals) through credit extension premium	**96,264**	(10,328)
Additions during the year (Note 31)	**260,726**	212,330
Write offs	**(6,641)**	(3,151)
Recoveries	**(14,601)**	(31,275)
At 31 December	**1,347,377**	1,011,629

Additions/(reversals) through credit extension premium represent the fees charged/refunded to clients upon sanctioning/renewing any facilities on the limit and allocated directly to collective impairment provision.

(d) The movement in the interest in suspense account during the year is as follows:

	2014 AED'000	2013 AED'000
At 1 January	**210,038**	126,624
Additions during the year	**89,153**	89,870
Write offs during the year	**(4,063)**	(2,665)
Recoveries	**(7,124)**	(3,791)
At 31 December	**288,004**	210,038

At 31 December 2014, the gross amount of loans and advances on which interest is not being accrued, or is suspended, amounted to AED 1,140 million (2013: AED 1,059 million). Unrecognised interest income for the year relating to such loans amounted to AED 89 million (2013: AED 90 million).

7 Loans and advances, net (continued)

(e) The composition of the loans and advances portfolio by industry is as follows:

	2014 AED'000	2013 AED'000
Economic sector		
Trading	**6,029,910**	5,484,678
Services	**3,875,448**	2,739,858
Manufacturing	**2,086,815**	1,935,435
Construction	**1,271,989**	1,156,561
Public utilities	**712,241**	861,767
Personal loans for commercial purposes	**576,359**	581,031
Mining and quarrying	**514,401**	404,319
Transport and communication	**227,896**	230,446
Financial institutions	**221,568**	186,281
Personal loans for individual purposes	**105,492**	140,280
Agriculture	**30,224**	95,239
Government	**20,643**	536,277
Other	**42,497**	4,244
	15,715,483	14,356,416
Less: Allowance for impairment	**(1,347,377)**	(1,011,629)
Less: Interest in suspense	**(288,004)**	(210,038)
	14,080,102	13,134,749

8 Other financial assets

(a) The analysis of the Group's other financial assets is as follows:

	2014 AED'000	2013 AED'000
Other financial assets measured at fair value		
(i) Investments measured at FVTPL		
Quoted equity	**19,979**	3,115
Unquoted debt securities	**65,422**	87,636
	85,401	90,751
(ii) Investments measured at FVTOCI		
Quoted equity	**107,569**	149,818
Unquoted equity	**973,661**	976,761
	1,081,230	1,126,579
Total other financial assets measured at fair value	**1,166,631**	1,217,330
Other financial assets measured at amortised cost		
Debt securities	**597,349**	539,645
Total other financial assets	**1,763,980**	1,756,975

The majority of the quoted investments are listed on the securities exchanges in the U.A.E. (Abu Dhabi Securities Exchange and Dubai Financial Market).

8 Other financial assets

(b) The composition of the investment portfolio by geography is as follows:

	2014 **AED'000**	2013 AED'000
United Arab Emirates	**231,973**	276,692
G.C.C. countries (other than U.A.E.)	**5,868**	5,800
Middle East (other than G.C.C. countries)	**1,526,015**	1,474,342
Europe	**124**	141
	1,763,980	1,756,975

(c) Other financial assets measured at FVTOCI are strategic equity investments that are not held to benefit from changes in their fair value and are not held for trading. The management believes therefore that designating these investments as at FVTOCI provides a more meaningful presentation of its medium to long-term interest in its investments than fair valuing through profit and loss.

(d) During the year ended 31 December 2014, dividends received from financial assets measured at FVTOCI amounting to AED 7 million (2013: AED 71 million) have been recognized as investment income in the consolidated income statement.

9 Investment properties

Details of investment properties are as follows:

	Plots of land in the U.A.E. **AED'000**	**Commercial and residential units in the U.A.E.** **AED'000**	**Total** **AED'000**
Cost			
Fair value at 1 January 2013	61,799	169,022	230,821
Additions during the year	-	24,382	24,382
Increase in fair value during the year	9,029	39,446	48,475
Fair value at 31 December 2013	70,828	232,850	303,678
Increase in fair value during the year	2,971	29,494	32,465
Fair value at 31 December 2014	**73,799**	**262,344**	**336,143**

The fair value of the Group's investment properties is estimated periodically by considering recent prices for similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at these prices. In estimating the fair value of the properties, the highest and best use of the properties is their current use. As at 31 December 2014, the valuations were carried out by professional valuers not related to the Group who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

9 Investment properties (continued)

Details of the Group's investment properties information about the fair value hierarchy as at 31 December 2014 and 2013 are as follows:

	Level 1 AED'000	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
At 31 December 2014				
Commercial and residential units in the U.A.E.	-	**262,344**	-	**262,344**
Plots of lands in the U.A.E.	-	**73,799**	-	**73,799**
Total	-	**336,143**	-	**336,143**

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 31 December 2013				
Commercial and residential units in the U.A.E.	-	232,850	-	232,850
Plots of lands in the U.A.E.	-	70,828	-	70,828
Total	-	303,678	-	303,678

There were no transfers between Level 1 and Level 2 during the current and prior year.

10 Goodwill and other intangibles

(a) The analysis of the Group's goodwill and other intangibles is as follows:

	2014 AED'000	2013 AED'000
Goodwill	**184,733**	184,733
Other intangibles		
Banking license	**18,365**	18,365
Legal corporate setup in Lebanon	**21,475**	25,769
Customer base	**15,611**	18,733
Branch network	**1,834**	2,202
	57,285	65,069
Total	**242,018**	249,802

10 Goodwill and other intangibles (continued)

(b) The movement on other intangible assets during the year is as follows:

Other intangibles	Banking license AED'000	Legal corporate setup in Lebanon AED'000	Customer base AED'000	Branch network AED'000	Total AED'000
Balance as at 1 January 2013	18,365	30,063	21,855	2,570	72,853
Amortisation in 2013	-	(4,294)	(3,122)	(368)	(7,784)
Balance as at 31 December 2013	18,365	25,769	18,733	2,202	65,069
Amortisation in 2014	-	(4,294)	(3,122)	(368)	(7,784)
Balance as at 31 December 2014	**18,365**	**21,475**	**15,611**	**1,834**	**57,285**
	=======	=======	=======	=======	=======

11 Other assets

	2014 AED'000	2013 AED'000
Acceptances – contra (Note 18)	**1,455,347**	1,147,850
Assets acquired in settlement of debt	**16,390**	277,324
Receivable from sale of investments	**9,088**	-
Clearing receivables and accrued income	**98,044**	930
Interest receivable	**5,298**	4,904
Prepayments	**9,608**	31,112
Positive fair value of derivatives (Note 12)	**44**	-
Other	**19,304**	42,485
	1,613,123	1,504,605
	=========	=========

During the year, the Bank sold assets acquired in settlement of debt with a net book value of AED 261 million; the proceeds of the transaction were AED 266 million.

Clearing receivables and accrued income includes an amount of AED 75.4 million of accrued income from success fee as the Bank successfully closed a corporate finance transaction for one of the Bank's major borrowers (Note 30).

The Group reports under other assets, positive fair value of derivative contracts used by the Group in the ordinary course of business. Refer to Note 12 below for further details about the nature and type of derivative contracts utilised by the Group, together with the notional amounts and maturities.

12 Derivative financial instruments

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

The Group uses the following derivative financial instruments for both hedging and non-hedging purposes.

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

12 Derivative financial instruments (continued)

Forward currency transactions - Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

Swap transactions - Currency swaps are commitments to exchange one set of cash flows for another. Currency swaps result in an economic exchange of currencies. No exchange of principal takes place, except for certain cross-currency swaps. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts, and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Derivative related credit risk - Credit risk with respect to derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. The Group enters into derivative contracts with a number of financial institutions of good credit rating.

Derivatives held or issued for hedging purposes - The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in exchange rates. The Group uses forward foreign exchange contracts to hedge exchange rate risks. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

The following table shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity, and the nature of the risk being hedged.

	Notional amounts by term to maturity				
Held as fair value hedges	**Positive fair value AED'000**	**Negative fair value AED'000**	**Notional amount AED'000**	**Within 3 months AED'000**	**3-12 months AED'000**
2014					
Currency swaps	**-**	**-**	**220,380**	**220,380**	**-**
Forward foreign exchange contracts	**44**	**3**	**84,900**	**69,650**	**15,250**
Total	**44**	**3**	**305,280**	**290,030**	**15,250**
2013					
Currency swaps	-	-	-	-	-
Forward foreign exchange contracts	-	93	143,752	131,550	12,202
Total	-	93	143,752	131,550	12,202

The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the fair value of the derivatives, nor market risk.

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

13 Property and equipment

	Land & buildings AED'000	Furniture and office equipment AED'000	Leasehold improvements installation, partitions and decoration AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost						
At 1 January 2013	211,190	92,616	55,197	4,835	35,000	398,838
Additions	190	9,841	18,127	128	-	28,286
Eliminated on disposals	-	(4,171)	(813)	(56)	-	(5,040)
Transfers	35,000	-	-	-	(35,000)	-
At 31 December 2013	246,380	98,286	72,511	4,907	-	422,084
Additions	-	22,668	10,437	1,088	-	34,193
Eliminated on disposals	(535)	(9,035)	(3,609)	(869)	-	(14,048)
Transfers	-	(15,033)	15,033	-	-	-
At 31 December 2014	**245,845**	**96,886**	**94,372**	**5,126**	**-**	**442,229**
Accumulated depreciation						
At 1 January 2013	11,747	69,927	43,480	2,755	-	127,909
Charge for the year	2,363	7,344	4,570	766	-	15,043
Eliminated on disposals	-	(392)	(114)	(56)	-	(562)
At 31 December 2013	14,110	76,879	47,936	3,465	-	142,390
Charge for the year	2,363	10,141	6,697	725	-	19,926
Eliminated on disposals	-	(7,968)	(3,591)	(869)	-	(12,428)
At 31 December 2014	**16,473**	**79,052**	**51,042**	**3,321**	**-**	**149,888**
Net book value:						
At 31 December 2014	**229,372**	**17,834**	**43,330**	**1,805**	**-**	**292,341**
At 31 December 2013	232,270	21,407	24,575	1,442	-	279,694

14 Non-current assets classified as held for sale

In 2013, Borealis Gulf FZC a wholly owned subsidiary of the Bank was acquired with a view to reselling an 80% equity interest in each of Pragma Lounge Limited and Red Zone Limited, Jebel Ali Free Zone entities. The entities are in the facilities management business and the assets and associated liabilities from this acquisition transaction have been classified as held for sale. The consideration was settled by offseting credit to the seller's overdraft and loans accounts with the Group.

In December 2014, a potential buyer has irrevocably undertaken to buy the shares of Borealis Gulf FZC in both companies within the period prior to 30 June 2015.

15 Subsidiaries

(a) The Group's interest held directly or indirectly in the subsidiaries is as follows:

Name of Subsidiary	**Proportion of ownership interest**		**Year of incorporation**	**Country of incorporation**	**Principal activities**
	2014	2013			
Emirates Lebanon Bank S.A.L.	**80%**	80%	1965	Lebanon	Financial institution
BOS Real Estate FZC	**100%**	100%	2009	U.A.E.	Real estate development activities
BOS Capital FZC	**100%**	100%	2009	U.A.E.	Investment
Polyco General Trading L.L.C.	**100%**	100%	2008	U.A.E.	General trading
Borealis Gulf FZC	**100%**	100%	2011	U.A.E.	Investment & Real estate development activities

(b) Non-controlling interest:

The table below shows details of non-wholly owned subsidiaries of the Bank that have material non-controlling interests:

Name of subsidiary	**Proportion of ownership interests and voting rights held by the non-controlling interests**		**Profit allocated to non-controlling interests**		**Accumulated non-controlling interests**	
	2014	2013	**2014 AED'000**	2013 AED'000	**2014 AED'000**	2013 AED'000
Emirates Lebanon Bank S.A.L.	**20 %**	20%	**5,043**	8,963	**211,949**	210,455
			=====	=====	======	=======

15 Subsidiaries (continued)

(c) Emirates Lebanon Bank S.A.L summarised statements of financial position, comprehensive income and cash flows as at and for the years ended 31 December 2014 and 2013:

	2014 AED'000	2013 AED'000
Statement of financial position		
Total assets	**5,506,796**	5,309,727
Total liabilities	**4,509,450**	4,320,147
Equity	**997,346**	989,580
Dividends paid to non-controlling interests	**2,938**	7,713
Statement of comprehensive income		
Interest income	**237,282**	231,493
Profit for the year	**25,212**	35,948
Total comprehensive income	**22,159**	32,856
Statement of cash flows		
Net cash flows generated from/(used in) operating activities	**47,079**	(118,063)
Net cash flows (used in)/generated from investing activities	**(62,683)**	280,629
Net cash flows used in financing activities	**(14,452)**	(29,501)
Net cash flows (used in)/generated during the year	**(30,056)**	133,065

16 Customers' deposits

The analysis of customers' deposits is as follows:

	2014 AED'000	2013 AED'000
Current and other accounts	**4,242,438**	4,707,501
Saving accounts	**1,586,748**	1,577,749
Time deposits	**11,971,696**	12,088,816
	17,800,882	18,374,066

17 Deposits and balances due to banks

The analysis of deposits and balances due to banks is as follows:

	2014 AED'000	2013 AED'000
Demand	**42,584**	25,289
Time	**363,019**	72,047
	405,603	97,336

Due to banks represent due to:

	2014 AED'000	2013 AED'000
Banks in the U.A.E.	**110,848**	624
Banks outside the U.A.E.	**294,755**	96,712
	405,603	97,336

18 Other liabilities

	2014 AED'000	2013 AED'000
Acceptances – contra (Note 11)	**1,455,347**	1,147,850
Provision for employees' end of service benefits	**33,025**	53,845
Interest payable	**75,791**	67,831
Unearned income	**21,017**	22,355
Managers' cheques	**17,598**	19,408
Accrued expenses and others	**74,690**	83,488
Negative fair value of derivatives (Note 12)	**3**	93
	1,677,471	1,394,870

The movement in the provision for employees' end of service benefits is as follows:

	2014 AED'000	2013 AED'000
At 1 January	**53,845**	65,687
Charged during the year	**9,905**	8,564
Payments during the year	**(30,725)**	(20,406)
At 31 December	**33,025**	53,845

19 Syndicated loan

On 8 July 2013, the Bank signed a USD 200 million (AED 735 million) syndicated term loan facility. The purpose of the facility is to finance general corporate activities. The facility has a tenor of two years and is payable at maturity. The facility carries an interest rate of LIBOR plus a margin of 125 basis points which is payable on a quarterly basis. The drawdown on the facility was on 18 August 2013.

20 Issued and paid up capital and reserves

(a) Issued and paid up capital and treasury shares

	2014		2013	
	Number of shares	**AED'000**	Number of Shares	AED'000
Issued capital	**2,100,000,000**	**2,100,000**	2,100,000,000	2,100,000
Shares held in treasury	**(99,526,834)**	**(196,726)**	(165,000,000)	(327,792)
	2,000,473,166	**1,903,274**	1,935,000,000	1,772,208

During 2014, 60 million shares were released from the treasury shares as share dividend and in December 2014, the Bank sold out 5,473,166 shares of the treasury shares. As at 31 December 2014, the treasury shares balance stood at 99,526,834 shares (31 December 2013: 165 million shares) with a carrying value of AED 197 million (31 December 2013: AED 328 million). As such, the number of shares outstanding as at 31 December 2014 is 2 billion shares (31 December 2013: 1.935 billion shares). The market value of the treasury shares as at 31 December 2014 is AED 194 million (31 December 2013: AED 295 million).

(b) Statutory reserve

In accordance with the U.A.E Union Law, 10% of the profit for the year is to be transferred to statutory reserve. Such transfers to reserves may cease when they reach the levels established by the respective regulatory authorities (in the U.A.E. this level is 50% of the issued and paid up share capital).

(c) Contingency reserve

In accordance with the Articles of Association of the Bank a contingency reserve is calculated at 10% of the profit for the year to be transferred to a contingency reserve until this reserve becomes 50% of the issued and paid up share capital.

(d) General reserve

Transfers to general reserve are made based on the discretion of the Board of Directors and is subject to the approval of the shareholders at the annual general meeting.

21 Earnings per share

Earnings per share are computed by dividing the profit for the year by the average number of shares outstanding during the year as follows:

	2014	2013
Basic and diluted earnings per share		
Profit attributable to owners of the Bank for the year (AED'000)	**280,876**	343,878
Charity donations (AED'000)	**(2,500)**	(2,500)
Directors' remuneration (AED'000)	**(9,968)**	(9,970)
Profit available to the owners of the Bank	**268,408**	331,408
Weighted average number of shares outstanding during the year (in thousands shares)	**1,995,457**	1,995,000
Basic and diluted earnings per share (AED)	**0.14**	0.17

The weighted average number of shares outstanding during prior year has been revised to include the impact of releasing 60 million shares from the treasury shares as share dividend declared during the current year.

As at the reporting date, the diluted earnings per share is equal to the basic earnings per share as the Group has not issued any financial instruments that should be taken into consideration when the diluted earnings per share is calculated.

22 Dividends and Directors' remuneration

At the Annual General Meeting of the shareholders held on 15 March 2014, the shareholders approved a cash dividend of AED 0.09 per outstanding share amounting to AED 176.4 million (2013: cash dividend of AED 0.10 per outstanding share amounting to AED 193.5 million). They also approved a share dividend of 60 million shares out of the treasury shares held by the bank representing 2.86% of the issued shares with an average total cost of AED 119 million (2013: nil). The shareholders also approved Directors' remuneration of AED 7.5 million (2013: AED 7.5 million) and charitable donations of AED 2.5 million (2013: AED 2.5 million). In addition, the shareholders also approved the transfer of AED 35.3 million (2013: nil) being the excess in statutory reserve to the contingency reserve as well as the appropriation of AED 1.5 million to contingency reserves (2013: nil) and a further AED 7 million into general reserves from retained earnings (2013: AED 23.3 million). An additional AED 7.1 million was allocated to the general reserve at the subsidiary level "Emirates Lebanon Bank S.A.L."). The Board of Directors, in their meeting dated 14 February 2015 proposed the distribution of a cash dividend of AED 0.09 per outstanding share amounting to AED 180 million and a share dividend of 99.5 million shares out of the treasury shares held by the Bank. The proposed dividends are subject to the Central Bank approval and the shareholders ratification at the Annual General Meeting.

At the Annual General Meeting held on 11 April 2014 of the shareholders of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, the shareholders approved a cash dividend for an amount of AED 14.7 million (2013: cash dividend of AED 29.4 million) out of which the non-controlling interest share amounted to AED 2.9 million (2013: AED 7.7 million). In addition to the above, an amount of AED 3.1 million was paid as Directors' remuneration (2013: AED 3.1 million).

23 Commitments and contingent liabilities

	2014 AED'000	2013 AED'000
Financial guarantees for loans	**1,060,534**	1,536,694
Other guarantees	**1,868,815**	1,610,725
Letters of credit	**1,211,836**	1,385,260
Capital commitments	**44,929**	69,311
	4,186,114	4,601,990
Irrevocable commitments to extend credit	**1,535,327**	1,241,853
	5,721,441	5,843,843

Credit-related commitments include commitments to extend credit, standby letters of credit, and guarantees which are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit and guarantees commit the Group to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. These contracts would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at zero or floating interest rates.

24 Cash and cash equivalents

	2014 AED'000	2013 AED'000
Cash and balances with central banks (Note 5)	**3,707,816**	3,400,245
Deposits and balances due from banks (Note 6)	**2,783,177**	4,111,230
Deposits and balances due to banks (Note 17)	**(405,603)**	(97,336)
	6,085,390	7,414,139
Less: Deposits and balances due from banks - original maturity more than three months	**(1,090,930)**	(803,930)
Less: Statutory deposits with central banks (Note 5)	**(1,055,819)**	(1,021,119)
	3,938,641	5,589,090

25 Fiduciary assets

The Group holds investments amounting to AED 2.4 billion (31 December 2013: AED 0.8 billion) which are held on behalf of customers and not treated as assets in the consolidated statement of financial position.

26 Interest income

	2014 **AED'000**	2013 AED'000
Loans and advances	**886,364**	878,691
Certificates of deposit, treasury bills with central banks and debt instruments	**89,893**	87,263
Placements with banks	**8,690**	6,181
	984,947	972,135

27 Interest expense

	2014 **AED'000**	2013 AED'000
Customers' deposits	**488,633**	492,800
Banks' deposits	**9,677**	9,706
Syndicated loan	**12,314**	9,537
Interest on cash contribution towards capital due to non-controlling interests	**6,612**	6,612
	517,236	518,655

28 Net fee and commission income

	2014 **AED'000**	2013 AED'000
Corporate banking credit related fees	**58,940**	29,936
Trade finance activities	**59,306**	46,283
Letters of guarantee	**36,852**	41,337
Other	**4,455**	4,030
	159,553	121,586

29 (Loss)/ income on investments

	2014 **AED'000**	2013 AED'000
Dividends	**7,451**	70,509
Revaluation (loss)/gain on investments measured at FVTPL	**(32,663)**	44,221
Other investment income	**9,989**	2,178
	(15,223)	116,908

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

30 Other income

	2014 AED'000	2013 AED'000
Success fee *	**75,370**	-
Other	**39,365**	23,881
	114,735	23,881

* Success fee is the compensation given to the Bank for successfully arranging project finance for one of the Bank's major borrowers (Note 11).

31 Net impairment loss on financial assets

	2014 AED'000	2013 AED'000
Collective impairment of loans and advances	**215,423**	211,552
Specific provision of loans and advances	**45,303**	778
Total charge for the year (Note 7)	**260,726**	212,330
Recoveries during the year	**(21,898)**	(34,510)
	238,828	177,820

32 General and administrative expenses

	2014 AED'000	2013 AED'000
Salaries and employees related expenses	**164,511**	158,338
Depreciation on property and equipment (Note 13)	**19,926**	15,043
Other	**75,057**	66,269
	259,494	239,650

33 Related party transactions

The Group enters into transactions with major shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

Transactions between the Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

33 Related party transactions (continued)

The related parties balances included in the consolidated statement of financial position and the significant transactions with related parties are as follows:

	2014 AED'000	2013 AED'000
Loans and advances	**2,497,043**	2,470,411
Deposits	**377,780**	313,977
Letters of credit, guarantee and acceptances	**648,160**	1,041,446
Interest income	**153,908**	136,978
Interest expense	**63,283**	8,529
Key management compensation	**21,399**	20,416

The Board of Directors has proposed a remuneration of AED 7.5 million (2013: AED 7.5 million) for the Board Members. This is subject to the approval of the shareholders at the Annual General Meeting.

As at 31 December 2014, entities related to one of the directors accounted for 74 % (2013: 60%) of the total aforementioned loans and advances, 12% (2013: 22%) of the total aforementioned deposits, and 96 % (2013: 97%) of the total aforementioned financial guarantees for loans.

34 Segmental information

34.1 IFRS 8 *Operating Segments*

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14: *Segment Reporting*) required an entity to identify two segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. However, the business segments reported earlier as per the requirements of IAS 14 *Segment Reporting* are also used by the General Manager to allocate resources to the segments and to assess their performance.

34.2 Products and services from which reportable segments derive their revenues

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is specifically focused on the type of business activities undertaken as a Group. For operating purposes, the Group is organised into two major business segments:

(i) Commercial Banking, which principally provides loans and other credit facilities, deposits and current accounts for corporate, government, institutional and individual customers; and

(ii) Investment Banking, which involves the management of the Group's investment portfolio.

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

34 Segmental information (continued)

34.2 Products and services from which reportable segments derive their revenues (continued)

The following table presents information regarding the Group's operating segments for the year ended 31 December 2014:

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated AED'000	Total AED'000
Revenue from external customers				
- Net interest income	444,040	23,671	-	467,711
- Net fee and commission income	159,553	-	-	159,553
- Exchange profit	24,642	-	-	24,642
- Investment loss	-	(15,223)	-	(15,223)
- Revaluation gain on investment properties	-	32,465	-	32,465
- Other income	114,735	-	-	114,735
Operating income	**742,970**	**40,913**	**-**	**783,883**
Other material non-cash items				
- Net impairment charge on financial assets	(238,828)	-	-	(238,828)
- Depreciation of property and Equipment	-	-	(19,926)	(19,926)
- General and administrative Expenses	(203,613)	(35,955)	-	(239,568)
- Amortization of intangible assets	(7,784)	-	-	(7,784)
- Income tax expenses – overseas	-	-	(6,339)	(6,339)
- Discontinued operations	-	14,481	-	14,481
Profit for the year after taxes	**292,745**	**19,439**	**(26,265)**	**285,919**
Segment assets	**22,504,143**	**2,109,211**	**441,029**	**25,054,383**
Segment liabilities	**19,685,001**	**734,600**	**222,123**	**20,641,724**

34 Segmental information (continued)

34.2 Products and services from which reportable segments derive their revenues (continued)

The following table presents information regarding the Group's operating segments for the year ended 31 December 2013:

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated AED'000	Total AED'000
Revenue from external customers				
- Net interest income	427,006	26,474	-	453,480
- Net fee and commission income	121,586	-	-	121,586
- Exchange profit	23,426	-	-	23,426
- Investment income	-	116,908	-	116,908
- Revaluation gain on investment properties	-	48,475	-	48,475
- Other income	23,881	-	-	23,881
Operating income	595,899	191,857	-	787,756
Other material non-cash items				
- Net impairment charge on financial assets	(177,820)	-	-	(177,820)
- Depreciation of property and equipment	-	-	(15,043)	(15,043)
- General and administrative expenses	(190,915)	(33,692)	-	(224,607)
- Amortization of intangible assets	(7,784)	-	-	(7,784)
- Income tax expenses - overseas	-	-	(9,661)	(9,661)
Profit for the year after taxes	219,380	158,165	(24,704)	352,841
Segment assets	22,275,406	2,060,653	636,449	24,972,508
Segment liabilities	19,638,267	734,600	247,020	20,619,887

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the year (2013: Nil). Transactions between segments, inter-segment cost of funds and allocation of expenses are not determined by management for resource allocation purpose. The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to reportable segments except for property and equipment, goodwill and other intangibles and certain amounts included in other assets; and
- All liabilities are allocated to reportable segments except for certain amounts included in other liabilities.

34 Segmental information (continued)

34.3 Geographical information

The Group operates in two principal geographical areas - United Arab Emirates (country of domicile) and Lebanon (referred to as 'foreign').

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

2014	**Country of domicile AED'000**	**Foreign AED'000**	**Total AED'000**
Operating income (from external customers)	**684,034**	**99,849**	**783,883**
Non-current assets	**731,914**	**296,364**	**1,028,278**
2013			
Operating income (from external customers)	656,893	130,863	787,756
Non-current assets	884,249	305,680	1,189,929

34.4 Information about major customers

In 2014, one customer accounted for more than 10% of the Group's revenue from external customers (2013: two customers accounted for more than 10% of the Group's revenue from external customers).

35 Classification of financial assets and liabilities

(a) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2014:

	FVTPL AED'000	**FVTOCI AED'000**	**Amortised cost AED'000**	**Total AED'000**
Financial assets:				
Cash and balances with central banks	**-**	**-**	**3,707,816**	**3,707,816**
Deposits and balances due from banks	**-**	**-**	**2,783,177**	**2,783,177**
Loans and advances, net	**-**	**-**	**14,080,102**	**14,080,102**
Other financial assets measured at fair value	**85,401**	**1,081,230**	**-**	**1,166,631**
Other financial assets measured at amortised cost	**-**	**-**	**597,349**	**597,349**
Other assets	**44**	**-**	**1,603,471**	**1,603,515**
Total	**85,445**	**1,081,230**	**22,771,915**	**23,938,590**
Financial liabilities:				
Customers' deposits	**-**	**-**	**17,800,882**	**17,800,882**
Deposits and balances due to banks	**-**	**-**	**405,603**	**405,603**
Other liabilities	**3**	**-**	**1,623,426**	**1,623,429**
Syndicated loan	**-**	**-**	**734,600**	**734,600**
Total	**3**	**-**	**20,564,511**	**20,564,514**

35 Classification of financial assets and liabilities (continued)

(b) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2013:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	3,400,245	3,400,245
Deposits and balances due from banks	-	-	4,111,230	4,111,230
Loans and advances, net	-	-	13,134,749	13,134,749
Other financial assets measured at fair value	90,751	1,126,579	-	1,217,330
Other financial assets measured at amortised cost	-	-	539,645	539,645
Other assets	-	-	1,473,493	1,473,493
Total	90,751	1,126,579	22,659,362	23,876,692
Financial liabilities:				
Customers' deposits	-	-	18,374,066	18,374,066
Deposits and balances due to banks	-	-	97,336	97,336
Other liabilities	-	-	1,318,670	1,318,670
Syndicated loan	-	-	734,600	734,600
Total	-	-	20,524,672	20,524,672

36 Risk management

The Group has Senior Management committees to oversee the risk management. The Executive Committee and the Board Risk Committee, under delegation from the Board of Directors defines policies, processes, and systems to manage and monitor credit risk. It also sets policies, system and limits for interest rate risk, foreign exchange risk, and liquidity risk. The Group also has a Credit Risk function which independently reviews adherence to all risk management policies and processes. The Group's internal audit function, which is part of risk review, primarily evaluates the effectiveness of the controls addressing operational risk.

Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and by limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counter-parties to mitigate credit risk.

Concentrations of credit risk arise when a number of counter-parties 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 of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

36 Risk management (continued)

Credit risk management (continued)

Policies relating to credit are reviewed and approved by the Group's Executive Committee. All credit lines are approved in accordance with the Group's credit policy set out in the Credit Policy Manual. Credit and Marketing functions are segregated. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Group further limits risk through diversification of its assets by economic and industry sectors.

All credit facilities are administered and monitored by the Credit Administration Department. Periodic reviews are conducted by Credit Risk and facilities are risk graded based on criterion established in the Credit Policy Manual.

Cross border exposure and financial institutions exposure limits for money market and treasury activities are approved as per guidelines established by the Group's Executive Committee and are monitored by the Senior Management on a daily basis.

The Executive Committee is responsible for setting credit policy of the Group. It also establishes industry caps, approves policy exceptions, and conducts periodic portfolio reviews to ascertain portfolio quality.

Commercial/Institutional lending underwriting:

All credit applications for commercial and institutional lending are subject to the Group's credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Group does not lend to companies operating in industries that are considered by the Group inherently risky and where industry knowledge specialised is required. In addition, the Group sets credit limits for all customers based on their creditworthiness.

All credit facilities extended by the Group are made subject to prior approval pursuant to a delegated signature authority system under the ultimate authority of the Executive Committee or the Group's Executive Director and General Manager under the supervision of the Board. At least two signatures are required to approve any commercial or institutional credit application.

Credit review procedures and loan classification

The Group's Credit Risk department subjects the Group's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the U.A.E. and the Group's internal policies in order to assist in the early identification of accrual and potential performance problems. The Credit Risk department validates the risk ratings of all commercial clients, provides an assessment of portfolio risk by product and industry and monitors observance of all approved credit policies, guidelines and operating procedures across the Group.

All commercial/institutional loan facilities of the Group are assigned one of nine risk ratings (A-I) where A is being excellent and I being loss with no reimbursement capacity and total provisioning.

If a credit is impaired, interest suspended will not be credited to the consolidated income statement. Specific allowance for impairment of classified assets is made based on recoverability of outstanding and risk ratings of the assets.

The Group also complies with IAS 39 in accordance with which it assesses the need for any impairment losses on its loan portfolio by calculating the net present value of the expected future cash flows for each loan. As required by Central Bank of the U.A.E. guidelines, the Group takes the higher of the loan loss provisions required under IAS 39, and Central Bank regulations.

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

36 Risk management (continued)

Credit risk management (continued)

Executive Committee (EC) & Board Risk Committee (BRC)

In addition to its credit related activity, the Executive Committee along with the Board Risk Committee have a broad range of authority delegated by the Board of Directors to manage the Group's asset and liability structure and funding strategy. The EC and BRC review liquidity ratios; asset and liability structure; interest rate and foreign exchange exposures; internal and statutory ratio requirements; funding gaps; and general domestic and international economic and financial market conditions. The EC & BRC formulate liquidity risk management guidelines for the Group's operation on the basis of such review.

The Group's Senior Management monitors the liquidity on a daily basis and uses an interest rate simulation model to measure and monitor interest rate sensitivity and varying interest rate scenarios.

The EC members comprise of the Chairman, three Board Members, in addition to the Executive Director and General Manager. The EC meets once or more every 45 days, as circumstances dictate. The quorum requires all members to be present at the meeting and decisions taken to be unanimous.

Maximum exposure to credit risk

	Loans and advances to customers	
	2014	2013
	AED'000	AED'000
Carrying amount		
Individually impaired		
Grade (G-I) - gross amount	**1,139,843**	1,059,200
Neither past due nor impaired		
Grade A	**872,238**	1,602,231
Grade B	**7,992,057**	6,491,069
Grade C	**4,091,371**	3,681,888
Grade D	**1,147,688**	975,857
Grade E	**68,202**	67,080
	15,311,399	13,877,325
Past due but not impaired	**404,084**	479,091
Total carrying amount	**15,715,483**	14,356,416
Allowance for impairment (including interest in suspense)	**(1,635,381)**	(1,221,667)
Net carrying amount	**14,080,102**	13,134,749

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

36 Risk management (continued)

Credit risk management (continued)

Executive Committee (EC) & Board Risk Committee (BRC)/(continued)

The risk classification of loans and advances

	2014 **AED'000**	2013 AED'000
Performing loans	**12,751,544**	12,002,556
Other loans exceptionally monitored	**1,824,096**	1,294,660
Non-performing loans	**1,139,843**	1,059,200
	15,715,483	14,356,416
Less: Allowance for impairment	**(1,347,377)**	(1,011,629)
Less: Interest in suspense	**(288,004)**	(210,038)
	14,080,102	13,134,749

As at 31 December 2014, loans and advances measured at amortised cost include AED 404 million (2013: AED 479 million) of loans and advances that are past due but not impaired. Past due but not impaired includes loans and advances that are either fully secured or there is no concern over the credit worthiness of the counterparty as per management's judgment. Out of the balance of AED 404 million (2013: AED 479 million) of past due loans AED 59 million (2013: AED 127 million) was the instalment amounts of principle or interest that is past due.

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is likely the collectability of all principal and interest due according to the contractual terms of the loan/securities agreement(s) would be doubtful. These loans are graded G to I in the Group's internal credit risk grading system.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loan loss allowance established for group of homogeneous assets with respect to losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

36 Risk management (continued)

Write-off policy

The Group writes off a loan/security balance (and any related allowances for impairment losses) when the Group determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

The Group holds collateral against loans and advances in the form of mortgage interests over properties, vehicles and machineries, cash margins, fixed deposits, guarantees and others. The Group accepts guarantees mainly from well-reputed local or international banks, well-established local or multinational corporate and high net worth private individuals. Management has estimated the fair value of collateral to be AED 9.1 billion (2013: AED 8.5 billion). The fair value of the collateral includes cash deposits which are not under lien and the Group has right to set-off against the outstanding facilities.

No collateral are held against investment securities.

Liquidity risk management

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

The Group manages its liquidity in accordance with U.A.E. Central Bank requirements and the Group's internal guidelines. The U.A.E. Central Bank sets cash ratio requirements on overall deposits ranging between 1.0 percent for time deposits and 14.0 percent for demand deposits, according to the tenor of the deposits. The U.A.E. Central Bank also imposes a mandatory 1:1 utilisation ratio, 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 U.A.E. Central Bank. Stable funds are defined by the U.A.E. Central Bank to mean free-own funds, inter-bank deposits with a remaining term of more than six months, and stable customer deposits. To guard against liquidity risk, the Group diversifies its funding sources and manages its assets with liquidity in mind, seeking to maintain a preferable proportion between cash, cash equivalent, and readily marketable securities. The Board Risk Committee sets and monitors liquidity ratios and regularly revises and updates the Group's liquidity management policies to ensure that the Group would be in a position to meet its obligations as they fall due. Management of liquidity risk within the parameters prescribed by the Board Risk Committee has been delegated to an Asset and Liability Committee (ALCO) comprising the Deputy General Manager and senior executives from treasury, finance, corporate credit, and investment departments.

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or potential damage to the Group's reputation.

The Treasury department communicates with other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury maintains a portfolio of short-term liquid assets to ensure liquidity is maintained within the Group's operations as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is performed under a variety of scenarios covering both normal and severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board Risk Committee. The Daily Position sheet, which reports the liquidity and exchange positions of the Group is reviewed by Senior Management. A summary report, including any exceptions and remedial action taken, is submitted to the Board Risk Committee.

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

36 Risk management (continued)

Liquidity risk management (continued)

The maturity profile of the assets and liabilities at 31 December 2014 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Undated AED'000	Total AED'000
Assets					
Cash and balances with central banks	2,596,399	-	1,090,930	20,487	3,707,816
Deposits and balances due from banks	2,691,059	92,118	-	-	2,783,177
Loans and advances, net	8,830,753	673,897	4,571,305	4,147	14,080,102
Other financial assets measured at fair value	19,979	65,422	-	1,081,230	1,166,631
Other financial assets measured at amortised cost	62,455	98,336	426,039	10,519	597,349
Investment properties	-	-	-	336,143	336,143
Goodwill and other intangibles	-	-	-	242,018	242,018
Other assets	981,884	813,987	36,545	16,390	1,848,806
Property and equipment	-	-	-	292,341	292,341
Total assets	15,182,529	1,743,760	6,124,819	2,003,275	25,054,383
Liabilities and equity					
Customers' deposits	11,371,145	5,000,449	106,627	1,322,661	17,800,882
Deposits and balances due to banks	35,279	370,324	-	-	405,603
Other liabilities	814,449	627,911	42,153	216,126	1,700,639
Syndicated loan	-	734,600	-	-	734,600
Equity	-	-	-	4,412,659	4,412,659
Total liabilities and equity	12,220,873	6,733,284	148,780	5,951,446	25,054,383

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

36 Risk management (continued)

Liquidity risk management (continued)

The maturity profile of the assets and liabilities at 31 December 2013 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Undated AED'000	Total AED'000
Assets					
Cash and balances with central banks	2,435,282	195,650	734,978	34,335	3,400,245
Deposits and balances due from banks	4,023,078	88,152	-	-	4,111,230
Loans and advances, net	7,430,036	1,033,258	4,667,801	3,654	13,134,749
Other financial assets measured at fair value	3,115	-	87,636	1,126,579	1,217,330
Other financial assets measured at amortised cost	-	108,373	420,996	10,276	539,645
Investment properties	-	-	-	303,678	303,678
Goodwill and other intangibles	-	-	-	249,802	249,802
Other assets	1,155,850	294,934	8,027	277,324	1,736,135
Property and equipment	-	-	-	279,694	279,694
Total assets	15,047,361	1,720,367	5,919,438	2,285,342	24,972,508
Liabilities and equity					
Customers' deposits	11,974,233	5,164,733	80,185	1,154,915	18,374,066
Deposits and balances due to banks	38,978	58,358	-	-	97,336
Other liabilities	1,220,765	32,293	33,372	127,455	1,413,885
Syndicated loan	-	-	734,600	-	734,600
Equity	-	-	-	4,352,621	4,352,621
Total liabilities and equity	13,233,976	5,255,384	848,157	5,634,991	24,972,508

36 Risk management (continued)

Market risk management

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into trading, or non-trading /banking book.

a) Market risk - trading book

The Executive Committee has set limits for acceptable level of risks in managing the trading book. The Group maintains a well-diversified portfolio. In order to manage the market risk in the trading book, the Group carries a limited amount of market risk based on the policy preference and this is continuously monitored by Senior Management. Proprietary trading for the account of the Group is managed by a proprietary trading limit with a stop-loss limit.

The Group's trading book mainly comprises of equity instruments in companies listed on the U.A.E. exchanges. As such, the market risk in the trading book is limited to equity price risk.

Equity price risk refers to the risk of a decrease in the fair values of equities in the Group's trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's equity investments held in the trading book due to a reasonable possible change in U.A.E. equity indices, with all other variables held constant is as follows:

	31 December 2014		31 December 2013	
Market indices	**Change in equity price %**	**Effect on income AED'000**	Change in equity price %	Effect on income AED'000
Global stock markets	**+1%**	**854**	+1%	907

b) Market risk - non-trading or banking book

Market risk on non-trading or banking positions mainly arises from the interest rate, foreign currency exposures and equity price changes.

i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities.

The Group uses simulation-modelling tools to periodically measure and monitor interest rate sensitivity. The results are monitored and analysed by the Senior Management. Since most of the Group's financial assets and liabilities are floating rate, deposits and loans generally re-price simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Group's assets and liabilities will be re-priced within one year or less, thereby further limiting interest rate risk.

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

36 Risk management (continued)

i) Interest rate risk (continued)

The Group's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at 31 December 2014 was as follows:

	Weighted Average Effective Rate	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with central banks	**1.05%**	**1,853,341**	**-**	**694,245**	**1,160,230**	**3,707,816**
Deposits and balances due from banks	**0.25%**	**1,415,187**	**-**	**-**	**1,367,990**	**2,783,177**
Loans and advances, net	**6.43%**	**13,858,050**	**122,388**	**91,770**	**7,894**	**14,080,102**
Other financial assets - Equity instruments	**-**	**-**	**-**	**-**	**1,166,631**	**1,166,631**
Other financial assets - Debt securities	**6.17%**	**77,074**	**87,450**	**423,868**	**8,957**	**597,349**
Investment properties	**-**	**-**	**-**	**-**	**336,143**	**336,143**
Goodwill and other intangibles	**-**	**-**	**-**	**-**	**242,018**	**242,018**
Other assets	**-**	**-**	**-**	**-**	**1,848,806**	**1,848,806**
Property and equipment, net	**-**	**-**	**-**	**-**	**292,341**	**292,341**
Total assets		**17,203,652**	**209,838**	**1,209,883**	**6,431,010**	**25,054,383**
		========	========	========	========	========
Liabilities and equity						
Customers' deposits	**2.17%**	**9,827,077**	**4,335,255**	**11,019**	**3,627,531**	**17,800,882**
Deposits and balances due to banks	**1.13%**	**25,561**	**374,646**	**-**	**5,396**	**405,603**
Other liabilities	**-**	**-**	**-**	**-**	**1,700,639**	**1,700,639**
Syndicated loan	**1.48%**	**734,600**	**-**	**-**	**-**	**734,600**
Equity	**-**	**-**	**-**	**-**	**4,412,659**	**4,412,659**
Total liabilities and equity		**10,587,238**	**4,709,901**	**11,019**	**9,746,225**	**25,054,383**
		========	========	========	========	========
On statement of financial position gap		**6,616,414**	**(4,500,063)**	**1,198,864**	**(3,315,215)**	**-**
Cumulative interest rate sensitivity gap		**6,616,414**	**2,116,351**	**3,315,215**	**-**	**-**
		========	========	========	========	========

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

36 Risk management (continued)

i) Interest rate risk (continued)

The Group's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at 31 December 2013 was as follows:

	Weighted Average Effective Rate	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with central banks	1.68%	1,668,897	41,420	499,906	1,190,022	3,400,245
Deposits and balances due from banks	0.35%	2,271,312	-	-	1,839,918	4,111,230
Loans and advances, net	6.84%	12,821,706	122,193	93,459	97,391	13,134,749
Other financial assets - Equity instruments	-	-	-	-	1,129,694	1,129,694
Other financial assets - Debt securities	6.55%	69,706	166,692	352,101	38,782	627,281
Investment properties	-	-	-	-	303,678	303,678
Goodwill and other intangibles	-	-	-	-	249,802	249,802
Other assets	-	1,254	-	-	1,734,881	1,736,135
Property and equipment	-	-	-	-	279,694	279,694
Total assets		16,832,875	330,305	945,466	6,863,862	24,972,508
Liabilities and equity						
Customers' deposits	2.43%	9,014,495	4,745,511	3,357	4,610,703	18,374,066
Deposits and balances due to banks	0.11%	61,465	771	514	34,586	97,336
Other liabilities	-	-	-	-	1,413,885	1,413,885
Syndicated loan	1.49%	734,600	-	-	-	734,600
Equity	-	-	-	-	4,352,621	4,352,621
Total liabilities and equity		9,810,560	4,746,282	3,871	10,411,795	24,972,508
On statement of financial position gap		7,022,315	(4,415,977)	941,595	(3,547,933)	-
Cumulative interest rate sensitivity gap		7,022,315	2,606,338	3,547,933	-	-

36 Risk management (continued)

i) Interest rate risk (continued)

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, excluding non-interest bearing items. The rate is a historical rate for a fixed rate instrument carried at amortised cost and the current market rate for a floating rate instrument or for an instrument carried at fair value.

The following table depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Group's consolidated income statement or equity. The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2014, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at 31 December 2014 for the effect of assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in AED thousands.

2014		**Sensitivity**	**Sensitivity of Equity**				
Currency	**Increase in basis**	**of interest income**	**6 months or less**	**1 year or less**	**1-5 years or less**	**Over 5 years**	**Total 2014**
AED	**+25**	**10,813**	**-**	**-**	**-**	**-**	**10,813**
USD	**+25**	**(3,749)**	**-**	**-**	**-**	**-**	**(3,749)**
Others	**+25**	**(392)**	**-**	**-**	**-**	**-**	**(392)**

2013		**Sensitivity**	Sensitivity of Equity				
Currency	Increase in basis	**of interest income**	6 months or less	1 year or less	1-5 years or less	Over 5 years	Total 2013
AED	+25	10,637	-	-	-	-	10,637
USD	+25	(2,817)	-	-	-	-	(2,817)
Others	+25	(317)	-	-	-	-	(317)

ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging instruments are also used to ensure that positions are maintained within the limits.

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, in the normal course of business the Group takes on foreign currency exposures to finance its client's activities. The Executive Committee sets the limits on the level of exposure by currency for both overnight and intra-day positions, which are closely monitored by Senior Management. As at 31 December 2014, the Group's net currency position was not material, and all the positions were within limits approved by the Executive Committee. The table below shows the foreign currencies to which the Group has a significant exposure to:

35 Risk management (continued)

ii) Currency risk (continued)

	2014 AED'000 equivalent long (short)	2013 AED'000 equivalent long (short)
US Dollar	**(178,423)**	(87,638)
Euro	**369**	1,046

The analysis below calculates the effect of a possible movement of the currency rate against AED, with all other variables held constant, on the consolidated income statement (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in consolidated income statement or equity; whereas a negative effect shows a potential net reduction in consolidated income statement or equity.

(AED'000)

Currency exposure as at 31 December 2014	**Change in currency rate in %**	**Change on net profit**	**Change on Equity**
USD	**+5%**	**(8,921)**	**-**
EUR	**+5%**	**18**	**-**

(AED'000)

Currency exposure as at 31 December 2013	Change in currency rate in %	Change on net profit	Change on Equity
USD	+5%	(4,382)	-
EUR	+5%	52	-

iii) Equity price risk

Equity price risk refers to the risk of a decrease in the fair value of equities in the Group's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's quoted equity investments held as financial assets at FVTOCI due to reasonable possible change in equity prices, with all other variables held constant is as follows:

	31 December 2014		31 December 2013	
Market indices	**Change in equity price %**	**Effect on equity AED'000**	Change in equity price %	Effect on equity AED'000
Global stock markets	**1+%**	**1,081**	+1%	1,126

35 Risk management (continued)

iii) Equity price risk (continued)

Operational risk

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

37 Capital adequacy and capital management

Capital management process

The Group's objectives when managing capital, which is a broader concept than the 'equity' in the consolidated statement of financial positions, are:

- To comply with the capital requirements set by the Central Bank of United Arab Emirates;
- To safeguard the Group's ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the authority on a quarterly basis.

The U.A.E. Central Bank vide its circular No.27/2009 dated 17 November 2009 informed all the Banks operating in the U.A.E. to implement the Standardised Approach of Basel II from the date of the circular. For credit and market risks, the Central Bank has issued draft guidelines for implementation of the Standardised Approach and banks are expected to comply and report under Pillar 2- Internal Capital Adequacy Assessment Process (ICAAP) requirements by March 2010. For operational risk, the Central Bank has given banks the option to use the Basic Indicators Approach or the Standardised Approach and the Group has chosen to use the Basic Indicator Approach. The capital adequacy ratio required under Basel II is 12% to be maintained at all times.

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

37 Capital adequacy and capital management (continued)

Capital management process (continued)

The ratios calculated in accordance with Basel II are as follows:

	Basel II	
	2014	2013
	AED'000	AED'000
Tier 1 capital		
Share capital	**2,100,000**	2,100,000
Shares held in treasury	**(196,726)**	(327,792)
Statutory reserve	**1,050,000**	1,085,357
Contingency and general reserves	**550,000**	506,125
Retained earnings	**543,427**	579,129
Non-controlling interest in equity of subsidiaries	**211,949**	210,455
Goodwill and other intangibles	**(242,018)**	(249,802)
	4,016,632	3,903,472
Tier 2 capital		
Collective impairment allowance on loans and advances	**242,459**	236,890
Cumulative change in fair value	**69,304**	89,706
	311,763	326,596
Total regulatory capital	**4,328,395**	4,230,068
Risk-weighted assets:		
Credit risk	**17,935,851**	18,058,801
Market risk	**106,957**	5,448
Operational risk	**1,403,369**	886,973
Total risk-weighted assets	**19,446,177**	18,951,222
Capital adequacy ratio	**22.26%**	22.32%

38 Fair value of financial instruments

Investments held at fair value through profit and loss

Investments held for trading or designated at fair value through profit and loss represent investment securities that present the Group with opportunity for returns through dividend income, trading gains and capital appreciation. Including in these investment listed equity securities for which the fair values are based on quoted prices at close of business as of 31 December 2014, and unlisted bonds for which the fair values are derived from internal valuation performed based on generally accepted pricing models, all inputs used for the valuation are supposed by observable market prices or rates.

38 Fair value of financial instruments (continued)

Unquoted investments held at fair value through other comprehensive income

The consolidated financial statements include holdings in unquoted securities amounting to AED 974 million (2013: AED 977 million) which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalisation of sustainable earnings basis or comparable ratios depending on the investment and industry. The valuation model includes some assumptions that are not supported by observable market prices or rates.

For determining the fair value of those investments that are valued using the discounted cash flow analysis, a long term earnings growth factor of 2% and risk adjusted discount or capitalisation rates in the range of 14% to 20% were used. If the long term earnings growth factor were 100 basis points higher/lower while all other variable were held constant, then the carrying amount of the shares would increase/decrease by AED 2.6 million (2013: AED 2.4 million). Similarly, if the risk adjusted discount or capitalisation rates were 100 basis points higher/lower while all other variables were held constant, then the fair value of the securities would decrease/increase by AED 5.7 million (2013: AED 5.2 million).

For investments valued using comparable ratios, share prices of comparable companies represent significant inputs to the valuation model. If the share prices of the comparable companies were 5% higher/lower while all other variables were held constant, then the fair value of the securities would increase/decrease by AED 36 million (2013: AED 47 million).

The impact of the change in fair valuation from previously existing carrying amounts have been recognised as a part of cumulative changes in fair value in equity.

Fair value of financial assets carried at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values.

	2014		2013	
	Carrying amount AED’000	**Fair value AED’000**	Carrying amount AED’000	Fair value AED’000
Financial assets				
- Other financial assets measured at amortised cost	**597,349**	**604,283**	539,645	547,583
	========	========	========	========

The fair value for other financial assets measured at amortised cost is based on market prices.

38 Fair value of financial instruments (continued)

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value. They are banked into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices, including over-the-counter quoted prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 AED'000	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
At 31 December 2014				
Other financial assets measured at fair value				
Investment measured at FVTPL				
-Quoted equity	**19,979**	**-**	**-**	**19,979**
-Unquoted debt securities	**-**	**65,422**	**-**	**65,422**
Investments measured at FVTOCI				
Quoted equity	**107,569**	**-**	**-**	**107,569**
Unquoted equity	**-**	**-**	**973,661**	**973,661**
Total	**127,548**	**65,422**	**973,661**	**1,166,631**
Other assets /liabilities				
Positive fair value of derivatives	**-**	**44**	**-**	**44**
Negative fair value of derivatives	**-**	**(3)**	**-**	**(3)**
At 31 December 2013				
Other financial assets measured at fair value				
Investment measured at FVTPL				
-Quoted equity	3,115	-	-	3,115
-Unquoted debt securities	-	87,636	-	87,636
Investments measured at FVTOCI				
Quoted equity	149,818	-	-	149,818
Unquoted equity	-	-	976,761	976,761
Total	152,933	87,636	976,761	1,217,330
Other assets				
Negative fair value of derivatives	-	(93)	-	(93)

There were no transfers between Level 1 and Level 2 during the current year.

38 Fair value of financial instruments (continued)

Reconciliation of Level 3 fair value measurements of other financial assets measured at FVTOCI:

	2014 **AED'000**	2013 AED'000
Opening balance	**976,761**	952,553
Additions	**-**	7,910
(Losses)/gains recognised in other comprehensive income	**(3,100)**	16,298
Closing balance	**973,661**	976,761

39 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 14 February 2015.