NOOR
BANK

Noor Bank P.J.S.C.
(Formerly Noor Islamic Bank P.J.S.C.)

Directors' report and financial statements for the year ended 31 December 2014

Directors' report and financial statements for the year ended 31 December 2014

Directors' report for the year ended 31 December 2014

The Board of Directors are pleased to submit their report on the activities of Noor Bank P.J.S.C. ("the Bank") together with the audited financial statements for the year ended 31 December 2014.

Principal activities

The principal activities of the Bank are carrying out banking, financing and investing activities through various Islamic financing instruments such as Murabahah, Wakalah, Tawarruq, Istisna, Islamic sukuk and Ijarah. The activities of the Bank are conducted in accordance with the Islamic Shari'a principles and in compliance with the provisions of the Memorandum and Articles of Association of the Bank.

Results

The statement of financial position of the Bank as at 31 December 2014, together with its income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended are set out in the accompanying financial statements.

Dividends

The Board of Directors have proposed cash dividends of 10% for the year ended 31 December 2014.

Composition of the Board of Directors

The Board of Directors of the Bank comprised of the following individuals during the year ended 31 December 2014:

H.H. Sheikh Ahmed bin Mohammad bin Rashid Al Maktoum (Chairman)
H.E. Lt. Gen. Musabbeh Rashid Musabbeh Al Fattan (Vice Chairman)
H.E. Abdullah Bin Mohammed Ghobash
Mr. Sultan Ahmad Sultan bin Sulayem
Mr. Mohamed Alabbar
Mr. Essa Abdulfattah Kazim Al Mulla
Mr. Soud Ahmad Abdulrahman Ba'alawy
Mr. Abdulla Ahmed Mohamed Al Habbai
Mr. Hussain Ahmad Dhaen Al Qemzi

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors on 23 February 2015

……………………
Director

……………………
Director

نـور بنـك، ص.ب 8822، دبـي، الإمـارات العربيـة المتحـدة، تلفـون: 4268888 4 971+
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Independent auditors' report to the shareholders of Noor Bank P.J.S.C.

Report on the financial statements

We have audited the accompanying financial statements of Noor Bank P.J.S.C. ("the Bank"), which comprise the statement of financial position as at 31 December 2014 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Independent auditors' report to the shareholders of Noor Bank P.J.S.C. (continued)

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

As required by the UAE Federal Law No (8) of 1984, as amended, we report that:

a) we have obtained all the information we considered necessary for the purpose of our audit;

b) the financial statements comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, and the Articles of Association of the Bank;

c) the Bank has maintained proper books of account and the financial statements are in agreement therewith;

d) the financial information included in the Directors' report is consistent with the books of account of the Bank; and

e) nothing has come to our attention, which causes us to believe that the Bank has breached any of the applicable provisions of the UAE Federal Law No (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2014.

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

PricewaterhouseCoopers
23 February 2015

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

NOOR BANK

Statement of financial position

As at 31 December 2014

	Note	2014 AED'000	2013 AED'000
ASSETS			
Cash and balances with the UAE Central Bank	4	3,391,684	3,491,896
Due from banks	5	2,992,166	2,340,657
Investments in Islamic financing instruments	6	18,036,859	14,345,215
Investments in Islamic sukuk	7	2,881,263	1,811,289
Investment properties	8	1,266,567	213,800
Other assets	9	227,839	179,735
Property and equipment	10	216,577	768,899
Total assets		29,012,955	23,151,491
LIABILITIES AND EQUITY			
Liabilities			
Customer deposits	11	23,850,955	18,663,581
Wakalah term deposits	12	544,192	770,921
Due to banks	13	542,223	853,218
Other liabilities	14	802,360	420,517
Total liabilities		25,739,730	20,708,237
Equity			
Share capital	15	3,307,895	3,307,895
Subscribed share capital	15	50,000	-
Statutory reserve	16	156,917	89,108
Revaluation surplus on land and buildings	10	127,932	7,587
Cumulative changes in fair value of available-for-sale Islamic sukuk		(19,984)	(1,525)
Accumulated losses		(349,535)	(959,811)
Total equity		3,273,225	2,443,254
Total liabilities and equity		29,012,955	23,151,491

These financial statements were approved by the Board of Directors on 23 February 2015 and signed on its behalf by:

………… Director

………… Director

The accompanying notes on pages 9 to 57 form an integral part of these financial statements.

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Income statement
for the year ended 31 December 2014

	Note	2014 AED'000	2013 AED'000
Operating Income			
Income from Islamic financing and sukuk	17	895,165	678,686
Depositors' share of profit	18	(238,413)	(270,930)
Net income from Islamic financing		656,752	407,756
Fee and other income, net of charges	19	296,573	211,646
Gain on investments in Islamic sukuk	20	30,990	7,311
Change in fair value of investment properties	8	28,356	5,852
Total operating income		1,012,671	632,565
Operating Expenses			
Staff costs	21	(340,007)	(234,978)
General and administration expenses	22	(127,270)	(129,391)
Depreciation	10	(21,532)	(23,895)
Total operating expenses		(488,809)	(388,264)
Operating profit before impairment on investment in Islamic financing instruments		523,862	244,301
Impairment charge on Islamic financing instruments	6	(122,593)	(43,850)
Operating profit after impairment on investment in Islamic financing instruments		401,269	200,451
Reversal of impairment loss on land and buildings	10	276,816	54,972
Profit for the year		678,085	255,423

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Statement of comprehensive income
for the year ended 31 December 2014

	Note	2014 AED'000	2013 AED'000
Profit for the year		678,085	255,423
Other comprehensive income			
Items that will not be reclassified to income statement			
- Gain on revaluation of land and buildings	*10*	120,345	7,587
Items that may be subsequently reclassified to income statement			
Fair value reserve on available-for-sale Islamic sukuk			
- Net changes in fair value	*7*	2,316	(1,840)
- Net realised gain transferred to income statement	*20*	(20,775)	(1,354)
Total other comprehensive income		101,886	4,393
Total comprehensive income for the year		779,971	259,816

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Statement of changes in equity
for the year ended 31 December 2014

	Share capital	Subscribed share capital	Statutory reserve	Revaluation surplus on land & buildings	Cumulative changes in fair value of available-for- sale investment in Islamic sukuk	Accumulated losses	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At 1 January 2013	3,157,895	150,000	63,566	-	1,669	(1,189,692)	2,183,438
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	255,423	255,423
Revaluation of land and buildings (Note 10)	-	-	-	7,587	-	-	7,587
Net changes in fair value	-	-	-	-	(1,840)	-	(1,840)
Net realised gain transferred to income statement on disposal of available-for-sale investments in Islamic sukuk	-	-	-	-	(1,354)	-	(1,354)
	-	-	-	7,587	(3,194)	255,423	259,816
Other equity movements							
Shares capital issued (Note 15 (ii))	150,000	(150,000)	-	-	-	-	-
Transfer to statutory reserve (Note 16)	-	-	25,542	-	-	(25,542)	-
At 31 December 2013	3,307,895	-	89,108	7,587	(1,525)	(959,811)	2,443,254
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	678,085	678,085
Revaluation of land and buildings (Note 10)	-	-	-	120,345	-	-	120,345
Net changes in fair value	-	-	-	-	2,316	-	2,316
Net realised gain transferred to income statement on disposal of available-for-sale investments in Islamic sukuk	-	-	-	-	(20,775)	-	(20,775)
	-	-	-	120,345	(18,459)	678,085	779,971
Other equity movements							
Shares subscribed received (Note 15)	-	50,000	-	-	-	-	50,000
Transfer to statutory reserve (Note 16)	-	-	67,809	-	-	(67,809)	-
At 31 December 2014	3,307,895	50,000	156,917	127,932	(19,984)	(349,535)	3,273,225

The accompanying notes on pages 9 to 57 form an integral part of these financial statements.

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

Statement of cash flows

for the year ended 31 December 2014

	Note	2014 AED'000	2013 AED'000
Operating activities			
Profit for the year		678,085	255,423
Adjustments for:			
Impairment loss on Islamic financing instruments	6	122,593	43,850
Change in fair value of investment properties	8	(28,356)	(5,852)
Reversal of impairment loss on property	10	(276,816)	(54,972)
Property and equipment disposed/written off	10	-	8
Amortisation of premium on Held to Maturity sukuk		2,887	1,869
Gain on investments in Islamic sukuk		(30,990)	(7,311)
Depreciation of property and equipment	10	21,532	23,895
Operating cash flows before changes in operating assets and liabilities		488,935	256,910
Changes in operating assets and liabilities:			
Statutory reserve with the UAE Central Bank	4	(778,318)	(329,494)
Due from banks	4,5	137,633	(898,329)
Investments in Islamic financing instruments	6	(3,868,982)	(3,636,151)
Net proceeds from disposal of investments in Islamic sukuk – Held for trading		(68,981)	(24,299)
Other assets	9	(46,104)	(6,054)
Customer deposits	11	5,187,374	4,611,390
Due to banks	4,13	(395,945)	(122,306)
Other liabilities	14	381,843	97,922
Net cash generated from operating activities		1,037,455	(50,411)
Investing activities			
Purchase of Islamic sukuk - Available for sale investments		(9,234,437)	(6,308,222)
Proceeds from Islamic sukuk - Available for sale investments		8,653,820	5,895,441
Purchase of Islamic sukuk – Held to maturity		(555,814)	(181,189)
Maturity proceeds from Islamic sukuk - Held to maturity		145,082	525,511
Investments in certificate of deposits	4	(500,000)	100,000
Additional investment in other equity investments	9	(2,000)	-
Additions to property and equipment	10	(41,715)	(16,951)
Net cash generated from investing activities		(1,535,064)	14,590
Financing activity			
Subscription received towards subscribed share capital	14	50,000	-
Tier II Wakalah deposit repaid		(770,921)	-
Tier II Wakalah deposit received		544,192	-
		(176,729)	
Net increase in cash and cash equivalents		(674,338)	(35,821)
Cash and cash equivalents at beginning of the year		2,857,003	2,892,824
Cash and cash equivalents at end of the year	4	2,182,665	2,857,003

1 Incorporation and principal activities

Noor Bank P.J.S.C. ("the Bank") was incorporated on 26 March 2007 as a Public Joint Stock Company under UAE Federal Law No. 8 of 1984 (as amended) and is regulated by the Central Bank of the United Arab Emirates ("UAE"). Effective 3 September 2014, the Bank has changed its name from "Noor Islamic Bank P.J.S.C" to "Noor Bank P.J.S.C". The Bank has its registered office at Emaar Square, Building No. 1, Sheikh Zayed Road, P.O. Box 8822, Dubai, UAE. The Bank was registered with the Securities and Commodities Authority ("SCA") on 26 April 2007 and commenced its operations thereafter.

The principal activities of the Bank are carrying out banking, financing and investing activities through various Islamic instruments such as Murabahah, Wakalah, Tawarruq, Ijarah, Istisna' and Islamic sukuk. The activities of the Bank are conducted in accordance with the Shari'a rules and principles as applied and interpreted by the Bank's Fatwa and Shari'a Supervisory Board and in compliance with the provisions of the Memorandum and Articles of Association of the Bank.

Noor Investment Group LLC ("NIG"), the parent company, holds 91% of the shareholding in the Bank.

2 Basis of preparation

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board (IASB).

2.2 Basis of measurement

These financial statements have been prepared under the historical cost basis, except for the fair value measurement of following items in the statement of financial position:

- Financial assets and liabilities held for trading.
- Investments in Islamic sukuk classified as available-for-sale and fair value through income statement.
- Investment properties.
- Land and buildings classified under property and equipment.

2.3 Functional and presentation currency

These financial statements are presented in United Arab Emirates Dirham ("AED"), which is the Bank's functional currency. Except as indicated, the financial information has been rounded to the nearest thousand.

2 Basis of preparation (continued)

2.4 Use of estimates and judgements

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

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

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described as follows:

(a) Impairment of investments in Islamic financing instruments

The Bank reviews its financing portfolio to assess impairment on a regular basis. In determining whether an impairment loss should be recognised, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence also may include observable data indicating that there has been an adverse change in the collections from customers in a group. Management uses estimates based on historical loss experience for financing with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Classification of investments in Islamic sukuk as Held-to-Maturity ("HTM")

In accordance with IAS 39 guidance, the Bank classifies its investments in Islamic sukuk with fixed or determinable payments and fixed maturities as HTM which requires significant judgment in evaluating Bank's intention and ability to hold such investments until maturity. Except for certain specific circumstances, any sale or reclassification of a more than insignificant amount of HTM investments would result in the reclassification of all HTM investments as available-for-sale, and would prevent the Bank from classifying investment in Islamic sukuk as HTM for the current and the following two financial years.

(c) Fair valuation of investment properties and land and buildings under property and equipment

The fair valuation of investment properties and buildings and certain plots of land classified under property and equipment is based on estimated value as determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). The fair valuation of remaining plots of land is determined by the Dubai Land Department. In undertaking the valuation the valuation experts have made a number of assumptions and relied upon various sources of information. Management reviews the assumptions based on their reasonable knowledge and other information available about the property.

2 Basis of preparation (continued)

2.4 Use of estimates and judgements (continued)

(d) Estimated useful life and residual value of property and equipment

The Bank's management determines the estimated useful lives and related depreciation charges for its property and equipment at least on an annual basis. The Bank carries out a review of the useful lives of property, plant and equipment at the reporting date and makes necessary changes to the useful life of the property and equipment, if required. Residual value in case of all property and equipment are assumed to be "AED 1".

(a) New standards, amendments to published standards and interpretations effective for the Bank's accounting period beginning on 1 January 2014

New standards and significant amendments to standards	Effective date
Amendments to IFRS 10, 'Consolidated financial statements', IFRS 12, 'Disclosure of interest in other entities' and IAS 27, 'Separate financial statements' on consolidation for investment entities The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. These amendments mean that many investment funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. Changes have also been made to IFRS 12 to introduce disclosures that an investment entity needs to make.	1 January 2014
Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting These amendments are to the application guidance in IAS 32 and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.	1 January 2014
Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal, including the discount rate used if the recoverable amount is determined using a present value technique.	1 January 2014
Amendment to IAS 39, 'Financial instruments: recognition and measurement' on novation of derivatives This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.	1 January 2014

There is no material impact of these amendments to published standards or IFRIC interpretations on the financial statements of the Bank.

2 Basis of preparation (continued)

(b) New standards and amendments to published standards issued but not effective for the financial year beginning 1 January 2014 and not early adopted by the Bank

New standards and significant amendments to standards	Effective date
Annual improvements 2012 These annual improvements amend standards from the 2010 - 2012 reporting cycle. It includes changes to: ■ IFRS 8, 'Operating segments' which is amended to require disclosure of the judgements made by management in applying the aggregation criteria to operating segments. It is also amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported. ■ IFRS 13, 'Fair value measurement' which amended the basis of conclusions to clarify that it did not intend to remove the ability to measure short term receivables and payables on an undiscounted basis where the effect of discounting is immaterial. ■ IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. ■ IAS 24, 'Related party disclosures' is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the 'management entity'). Disclosure of the amounts charged to the reporting entity is required.	1 July 2014
Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortisation. This amendment clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The presumption may only be rebutted in certain limited circumstances.	1 January 2016
Amendments to IFRS 10 and IAS 28, 'Investments in associates and joint ventures' regarding the sale or contribution of assets between an investor and its associate or joint venture These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.	1 January 2016

2 Basis of preparation (continued)

(b) New standards and amendments to published standards issued but not effective for the financial year beginning 1 January 2014 and not early adopted by the Bank *(continued)*

New standards and significant amendments to standards	Effective date
Annual improvements 2014 These annual improvements amend standards from the 2012 - 2014 reporting cycle. It includes changes to: ■ IFRS 7, 'Financial instruments: Disclosures' – The amendment related to servicing contracts requires that if an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. ■ IAS 19, 'Employee benefits' – The amendment clarifies, when determining the discount rate for post-employment benefit obligations, that it is the currency that the liabilities are denominated in that is important, not the country where they arise.	1 July 2016
IFRS 15, 'Revenue from contracts with customers' This standard replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.	1 January 2017

2 Basis of preparation (continued)

(b) New standards and amendments to published standards issued but not effective for the financial year beginning 1 January 2014 and not early adopted by the Bank (continued)

New standards and significant amendments to standards	Effective date
IFRS 9, 'Financial instruments' The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.	1 January 2018 Earlier application is permitted. If an entity elects to early apply it must apply all of the requirements at the same time with the following exception: Entities with a date of initial application before 1 February 2015 continue to have the option to apply the standard in phases.

The Bank is in the process of assessing the impact of the above new standards and amendments to published standards or IFRIC interpretations issued but not yet effective for the Bank's financial year beginning on 1 January 2014.

There are no other applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Bank's financial year beginning on 1 January 2014 that would be expected to have a material impact on the financial statements of the Bank.

3 Significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these financial statements:

3.1 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, as part of 'foreign exchange and other income' under "fee and other income, net of charges".

3.2 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand, balances held with the UAE Central Bank, deposits and balance due from banks or due to banks and placements with original maturity of less than three months, excluding statutory deposits required to be maintained with the UAE Central Bank.

3.3 Due from banks

Amounts due from banks are initially recognised at fair value and subsequently measured at amortised cost less any amounts written off and provision for impairment, if any. Impairment of amounts due from banks is assessed as outlined in the accounting policy of impairment of financial assets (Note 3.8).

3.4 Investments in Islamic financing instruments

Investments in Islamic financing instruments are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments that are not quoted in an active market.

Investments in Islamic financing instruments are initially measured at fair value including transaction costs associated with the investments in Islamic financing instruments, if any, as soon as the customer is bound by the financing agreement to drawdown the financing amount.

Investments in Islamic financing instruments are subsequently measured at amortised cost using the effective profit rate method.

Following the initial recognition, subsequent transfers between the various classes of investments in Islamic financing instruments is not ordinarily permissible.

3 Significant accounting policies (continued)

3.5 Investments in Islamic sukuk

3.5.1 Classification

The Bank classifies its investments in Islamic sukuk in the following categories: Held-to-Maturity ("HTM") investments in Islamic sukuk, Available-For-Sale ("AFS") investment in Islamic sukuk and financial assets at fair value through income statement ("FVTPL"). Management determines the classification of its investments at initial recognition.

Held-to-maturity

Investments in Islamic sukuk at HTM are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount from the HTM category, the entire category would be reclassified as AFS.

Available-for-sale

Investments in Islamic sukuk at AFS are those non-derivative financial assets that are designated as AFS or are not classified as (a) investments in Islamic financing instruments, (b) HTM investments or (c) financial assets at fair value through income statement.

Financial assets and financial liabilities at fair value through the income statement

Investments in Islamic sukuk at FVTPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

3.5.2 Recognition and measurement

Regular-way purchases and sales are recognized on trade-date – the date on which the Bank commits to purchase or sell the asset. Investments in Islamic sukuk are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through income statement. Financial assets carried at fair value through income statement are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments in Islamic sukuk have expired or have been transferred and the Bank has transferred substantially all risk and rewards of ownership. AFS and FVTPL financial assets are subsequently measured at fair value. HTM financial assets are subsequently carried at amortized cost using the effective profit rate method. Impairment on investments in Islamic sukuk classified as HTM is assessed as outlined in the accounting policy of impairment of financial assets.

Gains and losses arising from changes in the fair value of AFS financial assets are recognised in other comprehensive income, until the investments in Islamic sukuk is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity through other comprehensive income is recognized in the income statement.

3 Significant accounting policies (continued)

3.5 Investments in Islamic sukuk (continued)

3.5.2 Recognition and measurement (continued)

Foreign currency gains and losses arising on AFS monetary financial assets are directly recognised in the income statement.

Gains or losses arising from changes in the fair value of the FVTPL category are presented in the income statement within gain on investments in Islamic sukuk in the period in which they arise.
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. The fair values of quoted investments in active markets are based on current bid prices, as the Bank considers the bid to be most representative of fair value. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. In rare cases when the fair value of unlisted securities cannot be determined reliably, the securities are carried at cost less impairment.

Profit earned whilst holding investments in Islamic sukuk is reported as part of income from Islamic financing and sukuk in the income statement.

The Bank assesses at each reporting date whether there is objective evidence that an investments in Islamic sukuk are impaired. In the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset are impaired. If any such evidence exists for AFS financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement if there are subsequent increases in fair value. If, in a subsequent period, the fair value of a sukuk instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment is reversed through the income statement.

3.6 Property and equipment

Property and equipment are stated at cost less accumulated depreciation except for land and buildings, which are carried at fair value based on periodic valuations by an external independent valuer, less subsequent depreciation on buildings.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. 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 Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

3 Significant accounting policies (continued)

3.6 Property and equipment (continued)

Increases in the carrying amount arising on revaluation of land and buildings are recognised in the statement of other comprehensive income. Increases that offset previous decreases of the same asset are recognised in the income statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in the statement of other comprehensive income; all other decreases are charged to the income statement. Each year, the difference between the depreciation charge based on the revalued carrying amount of the asset and depreciation charge based on the asset's original cost or previous revalued amount is transferred from the revaluation reserve to retained earnings.

Land is not depreciated but is tested for impairment (Note 3.9). Depreciation on other fixed assets is calculated on the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	25
Leasehold improvements	10
Furniture, fittings and equipment	5
Vehicles	5
Computer equipment and software	3-5

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Capital work in progress is stated at cost incurred from the date of commencement of the project to the date on which it is commissioned. When commissioned, capital work in progress is transferred to the appropriate category of property and equipment and depreciated in accordance with the Bank's accounting policies.

3.7 Investment property

Investment property comprises property held for rental yields and for capital appreciation. It is not held for purposes of the Bank's own use as part of property and equipment. Investment property is initially recognized at cost, including transaction expenses. Subsequent to initial recognition, investment property is carried at fair value.

Fair value of the investment property is determined on the basis of valuation undertaken by an independent valuer who holds a recognized and relevant qualification and has recent experience in the location and category of the investment property being valued. Gains and losses arising from changes in the fair value are recognized in the income statement in the period in which they arise.

If an item of property and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in other comprehensive income in equity as a revaluation of property and equipment under IAS 16. If a fair value gain reverses a previous revaluation loss, the gain is recognised in the income statement.

3 Significant accounting policies (continued)

3.8 Impairment of investment in Islamic financing instruments

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If an Islamic financing instrument has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

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

3 Significant accounting policies (continued)

3.8 Impairment of investment in Islamic financing instruments (continued)

When a financial asset is uncollectable, it is written off against the related provision for impairment. If no related provision exists, it is written off to the income statement. Subsequent recoveries are credited to the income statement. If the amount of impairment subsequently decreases due to an event occurring after the write down, the release of the provision is credited to the income statement.

When the terms and conditions of financial assets that have been classified as past due are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether the financial asset remains past due.

3.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed for possible reversal of impairment at each reporting date.

3.10 Fiduciary activities

Assets and the income arising on the Bank's fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these financial statements. Income earned by the Bank from its fiduciary services is recognised in accordance with the accounting policy on fees and other income (Note 3.15).

3.11 Customer deposits and amounts due to banks

Customer deposits and amounts due to banks are initially recognized at fair value less transaction costs. Subsequently, they are measured at amortized cost using the effective profit rate method. Amortized cost is calculated by taking into account any discount or premium on settlement.

3 Significant accounting policies (continued)

3.12 Employee benefits

i) Defined contribution plan

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

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

ii) Defined benefit plan

The provision for defined benefit obligation for the end of service benefits due to non-UAE nationals in accordance with the UAE Labour Law is calculated annually using the projected unit credit method in accordance with IAS 19. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using profit rates on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The provision arising is disclosed as ‘provision for employee’s end of service benefits’ in the statement of financial position under ‘other liabilities’.

3.13 Provisions

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

3.14 Revenue recognition on investments in Islamic financing instruments

Income from Islamic financing and sukuk and Depositors’ share of profit are recognized in the income statement for all profit-bearing Islamic financing instruments below using the effective profit rate method.

The effective profit rate method is a method of calculating the amortised cost of a financing asset or liability and of allocating the income from Islamic financing and sukuk and depositors’ share of profit. The effective profit rate is the rate that exactly discounts the estimated future cash payments over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financing asset or liability.

3 Significant accounting policies (continued)

3.14 Revenue recognition on investments in Islamic financing instruments (continued)

3.14.1 Murabahah

Definition

An agreement whereby the Bank sells to a customer a physical asset, commodity, goods, or shares, which the Bank has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin. The settlement specified in the agreement is normally either on deferred lump sum basis or an instalment basis.

Revenue recognition

Income on Murabahah financing is recognized on a time apportioned basis over the period of the Murabahah contract, using the effective profit rate method.

3.14.2 Ijarah

Definition

An agreement whereby the Bank (lessor) leases to a customer (lessee) a service or the usufruct of an owned or rented physical asset which either exists currently or is to be constructed in future (forward lease), for a specific period of time and against certain rental instalments. The Ijarah could end by transferring the ownership of the asset to the lessee through an independent mode at the end of the agreement.

Revenue recognition

Income from Ijarah investments are recognized on a time apportioned basis over the lease term, using the effective profit rate method.

3.14.3 Mudarabah

Definition

An agreement between the Bank and its customer where one of them provides the funds and is called Rab al-Mal and the other provides efforts and expertise and is called the Mudarib. The Mudarib is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudarabah profit. The Mudarib is responsible for all losses arising from misconduct, negligence or violation of the conditions of the agreement. In all other instances, the losses are borne by the Rab-al-Mal.

Revenue recognition

Income or losses on Mudarabah investments, where the Bank is the Rab-al-Mal are recognized on an accruals basis if they can be reliably estimated. Otherwise, income is recognized on distribution by the Mudarib and the losses are recognised upon their declaration by the Mudarib.

3 Significant accounting policies (continued)

3.14 Revenue recognition on investments in Islamic financing instruments (continued)

3.14.4 Wakalah

Definition

An agreement whereby the Bank provides a certain sum of money to an agent who invests it according to specific conditions in return for a fee (a lump sum of money or a percentage above the anticipated profits). Similarly, the Bank also obtains money under wakala agreement which is recognised as a liability in its financial statements.

Revenue recognition

The estimated income or expenses from a Wakalah is recognized on an accrual basis over the period of the investment as a liability, adjusted by the actual income or expense when received.

3.14.5 Tawarruq

Definition

An agreement between two parties, whereby the Bank will, directly or indirectly, buys an asset and immediately sell it to a customer on a deferred payment basis. The Bank on behalf of the customer then sells the same asset to a third party for immediate delivery and payment. The customer is given the sales proceeds and has a deferred payment obligation to the Bank at a marked-up price.

Revenue recognition

Income or losses on Tawarruq financing are recognized on an accruals basis over the deferred payment period.

3.14.6 Istisna'

Definition

An agreement whereby the Bank (Al-Saane') provides funds to a customer (Al-Mustasne) for the development of an asset according to pre-agreed specifications at a specific price and date.

Revenue recognition

Istisna' revenue and the associated profit margin (difference between the cash price of the asset sold to the customer and the Bank's total Istisna' cost) is accounted for on a time apportioned basis.

3 Significant accounting policies (continued)

3.15 Fees and other income

Fees and other income from banking services are recognized on an accrual basis as the service is performed, when it is probable that associated economic benefits will be obtained and a reliable estimate of amount can be made.

Foreign exchange income on foreign exchange transactions undertaken on behalf customers is recognised as and when the underlying customer related exchange transactions are completed.

3.16 Zakat

Zakat is computed in accordance with the Bank's Fatwa and Shari'a Supervisory Board decisions and it is the Bank's shareholders' responsibility to pay the Zakat on their respective share and therefore it is not recorded in the financial statements of the Bank.

3.17 Allocation of profit

Allocation of profits between depositors and shareholders is calculated according to the Bank's standard procedures and is approved by the Bank's Fatwa and Shari'a Supervisory Board.

3.18 Financial guarantees

Financial guarantees are initially recognized in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. The premium received is recognized in the income statement over the life of the guarantee.

3.19 Government grants

Non-monetary grants in the form of land received from the government are initially recognized at fair value and credited to the income statement when there is reasonable assurance that the grant will not be revoked.

3.20 Repossessed properties

When the Bank acquires and becomes the legal owner of a collateralized property against full and final settlement of an Islamic financing contract, the respective contract is terminated, the related outstanding balance is de-recognised and property is recognised at the carrying amount of the Islamic financing. If the fair value of the repossessed property is lower than the carrying amount of the outstanding Islamic financing balance, the balance is first impaired to the extent of the shortfall. The subsequent measurement will depend on the intended use and classification of the repossessed property as follows:

- The property is classified as "Investment property" (Note 3.7) in case of indeterminate use, capital appreciation and rental yield;
- The property is classified as "Property and equipment" (Note 3.6) if the Bank intends to retain the property for self-use.
- The property is classified as "Non-current asset held for sale" and measured at the lower of its carrying amount (which will be the fair value at the effective date of re-possession) and

fair value less costs to sell, if sale of the property is highly probable, management is committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan is initiated.

3 Significant accounting policies (continued)

3.21 Islamic derivative financing instruments

Islamic swaps

Islamic swaps are based on a Waa'd (promise) structure between two parties to buy a specified Shari'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. Islamic swaps comprise profit rate swaps and currency swaps. In case of profit rate swaps, counterparties generally exchange fixed and floating rate profit payments by executing the purchase / sale of a commodity under "Murabahah Sale Agreement" in a single currency. In case of Islamic currency swaps, profit payments as well as the cost of the underlying commodity are exchanged in different currencies, by executing the purchase or sale of commodities under "Murabahah Sale Agreements".

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

4 Cash and balances with the UAE Central Bank

	2014 AED'000	2013 AED'000
Cash in hand	124,467	82,185
Balances with the UAE Central Bank:		
- Current account	635,887	606,699
- Certificate of deposits	1,050,000	2,000,000
- Statutory deposits	1,581,330	803,012
	3,391,684	3,491,896

The statutory deposits with the UAE Central Bank are not available to finance the day to day operations of the Bank, except in a crisis situation. Cash in hand, current account balances and statutory deposits with the UAE Central Bank are non-profit bearing. Certificates of deposit with the UAE Central Bank carry a profit rate of 0.08% - 0.39% (2013: 0% - 0.08%) per annum.

4 Cash and balances with the UAE Central Bank (continued)

Cash and cash equivalents include the following for the purposes of the statement of cash flows

	2014 AED'000	2013 AED'000
Cash and balances with the UAE Central Bank	3,391,684	3,491,896
Due from banks	2,992,166	2,340,657
Due to banks	(542,223)	(853,218)
	5,841,627	4,979,335
Less: Statutory deposits with the UAE Central Bank	(1,581,330)	(803,012)
Less: Balances having original maturity more than 3 months:		
- Certificate of deposits	(500,000)	-
- Net due from banks	(1,577,632)	(1,319,320)
Cash and cash equivalents	2,182,665	2,857,003

5 Due from banks

	2014 AED'000	2013 AED'000
Current accounts with banks	315,264	171,190
Deposits with banks	1,290,896	904,565
Export bills	1,386,006	1,264,902
	2,992,166	2,340,657

6 Investments in Islamic financing instruments

	2014 AED'000	2013 AED'000
Wakalah	400,000	500,000
Ijarah	3,618,148	3,085,525
Murabahah	15,527,996	12,184,266
Gross investments in Islamic financing instruments	19,546,144	15,769,791
Less : allowance for impairment	(1,509,285)	(1,424,576)
Net investments in Islamic financing instruments	18,036,859	14,345,215

6 Investments in Islamic financing instruments (continued)

Movement in allowance for impairment:

	2014 AED'000	2013 AED'000
At 1 January	1,424,576	1,615,634
Charge for the year	122,593	43,850
	1,547,169	1,659,484
Written off during the year	(37,884)	(234,908)
At 31 December	1,509,285	1,424,576

The investments in Islamic financing instruments are further analysed as follows:

	2014 AED'000	2013 AED'000
Performing	17,735,186	13,930,644
Past due but not impaired	380,969	339,901
Impaired	1,429,989	1,499,246
Gross investments in Islamic financing instruments	19,546,144	15,769,791
Less : allowance for impairment	(1,509,285)	(1,424,576)
Net investments in Islamic financing instruments	18,036,859	14,345,215

Below is the analysis of impaired balances:

	2014 AED'000	2013 AED'000
Impaired but not past due	95,129	89,630
Past due and impaired	1,334,860	1,409,616
	1,429,989	1,499,246

Summary of past due but not impaired:

	2014 AED'000	2013 AED'000
0 – 29 days	225,089	230,018
30 – 59 days	78,867	70,609
60 – 89 days	50,066	23,674
90 days and above	26,947	15,600
	380,969	339,901

6 Investments in Islamic financing instruments (continued)

Economic sector risk concentration (refer to note 25 for related party credit risk concentration) of investments in Islamic financing instruments is as follows:

	2014 AED'000	2013 AED'000
Construction & real estate	2,116,332	1,686,426
Financial institutions	3,645,195	4,354,145
Manufacturing	650,566	725,228
Consumer financings and credit cards	5,196,998	3,962,361
Trade	4,027,390	1,864,562
Transport, storage and communication	1,766,855	1,352,720
Other services	2,142,808	1,824,349
Gross investment in Islamic financing instruments	19,546,144	15,769,791
Less: allowance for impairment	(1,509,285)	(1,424,576)
Net investment in Islamic financing instruments	18,036,859	14,345,215

7 Investments in Islamic sukuk

	2014 AED'000	2013 AED'000
Available-for-sale	1,853,507	1,270,574
Held to maturity	734,949	327,104
Held for trading	292,807	213,611
	2,881,263	1,811,289

At 31 December 2014, the fair value of the held to maturity Islamic sukuk portfolio was AED 737 million (2013: AED 332 million).

During the year ended 31 December 2014, the Bank recognised a net fair value loss on available-for-sale investments in Islamic sukuk of AED 18.5 million (2013: loss of AED 3.2 million) in other comprehensive income under “cumulative changes in fair value of available-for-sale investment in Islamic sukuk”.

The Bank holds certain Islamic sukuk in a fiduciary capacity on behalf of customers without recourse to itself and, accordingly, these sukuk are not included in the Bank’s Islamic sukuk portfolio as at 31 December 2014 (Note 24).

8 Investment properties

	2014 AED'000	2013 AED'000
At 1 January	213,800	83,948
Additions during the year	54,745	124,000
Transfer from property and equipment (Note 10 (ii))	969,666	-
Change in fair value during the year	28,356	5,852
At 31 December	1,266,567	213,800

The carrying value of investment properties represents their fair value as determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). The basis of determination of fair value are the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

9 Other assets

	2014 AED'000	2013 AED'000
Accrued income on investments in Islamic financing and sukuk	160,962	131,270
Due from related parties (Note 25)	14,304	9,659
Equity investments in related companies (Note (i) below)	28,530	26,530
Prepayments and advances	12,619	5,956
Others	11,424	6,320
	227,839	179,735

(i) Equity investments in related companies at 31 December 2014 and 31 December 2013, held as available-for-sale financial assets, represent the Bank's share of its investment in the following entities:

	Shareholding structure	
	Noor Bank P.J.S.C.	*Noor Investment Group LLC*
Noor Takaful Family P.J.S.C.	10%	90%
Noor Takaful General P.J.S.C.	10%	90%
Premium Marketing LLC	10%	90%
Noor BPO LLC	30%	70%

10 Property and equipment

	Land	Buildings	Leasehold improvements	Vehicles	Computer and office equipment	Capital work in progress	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cost / fair value							
At 1 January 2014	621,192	118,435	36,250	1,745	160,205	11,943	949,770
Revaluation surplus	348,474	48,687	-	-	-	-	397,161
Additions during the year	-	5,698			26,384	9,633	41,715
Transfer to investment properties (note ii below)	(969,666)	-	-	-	-	-	(969,666)
Transfers	-	-			8,395	(8,395)	-
At 31 December 2014	-	172,820	36,250	1,745	194,984	13,181	418,980
Accumulated depreciation							
At 1 January 2014	-	18,153	18,231	839	143,648	-	180,871
Charge for the year	-	4,728	3,625	300	12,879	-	21,532
At 31 December 2014	-	22,881	21,856	1,139	156,527	-	202,403
Net book value							
At 31 December 2014	-	149,939	14,394	606	38,457	13,181	216,577

The fair value of the Bank's land and buildings was determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). From the resultant re-valuation gain, an amount of AED 120.3 million (2013: AED 7.6 million) has been recognised in the revaluation reserve under "other comprehensive income" and an amount of AED 276.8 million (2013: AED 54.9 million) has been recognised in the income statement, which represents reversal of impairment loss on land and buildings previously recognised in the income statement.

10 Property and equipment (continued)

	Land AED'000	Buildings AED'000	Leasehold improvements AED'000	Vehicles AED'000	Computer and office equipment AED'000	Capital work in progress AED'000	Total AED'000
Cost / fair value							
At 1 January 2013	573,453	103,616	35,273	1,670	149,973	6,534	870,519
Revaluation surplus	47,739	14,819	-	-	-	-	62,558
Additions during the year	-	-	967	325	4,498	11,161	16,951
Transfers	-	-	10	-	5,734	(5,744)	-
Disposals and write-offs	-	-	-	(250)	-	(8)	(258)
At 31 December 2013	621,192	118,435	36,250	1,745	160,205	11,943	949,770
Accumulated depreciation							
At 1 January 2013	-	13,614	14,639	806	128,167	-	157,226
Charge for the year	-	4,539	3,592	283	15,481	-	23,895
Disposals and write-offs	-	-	-	(250)	-	-	(250)
At 31 December 2013	-	18,153	18,231	839	143,648	-	180,871
Net book value							
At 31 December 2013	621,192	100,282	18,019	906	16,557	11,943	768,899

10 Property and equipment (continued)

(i) Buildings are located at Emaar Square, Dubai, and are used as the Bank's Head Office premises;

(ii) Land comprises certain vacant plots granted by the Government of Dubai to the Bank at various locations in Dubai. During the year ended 31 December 2014, the Bank transferred all plots of land to investment properties since it no longer intends to use these plots of land for its own use (Refer note 8).

11 Customer deposits

	2014 AED'000	2013 AED'000
Wakalah – term	11,515,775	12,438,696
Qard-E-Hasan - demand	4,962,400	2,960,924
Mudarabah – savings	6,947,933	2,923,730
Mudarabah- term	212,345	304,713
Margin accounts	212,502	35,518
	23,850,955	18,663,581

12 Wakalah term deposits

During the year ended 31 December 2014, the Bank prepaid the Wakalah term deposit of AED 771 million which was received from the Ministry of Finance (MoF) during the year ended 31 December 2008. Pursuant to an agreement with the MoF, the Bank had converted this Wakalah term deposit into Tier II capital effective 31 December 2009 for the purpose of regulatory capital calculations and this deposit was amortised to AED 463 million at 31 December 2013. This Wakalah term deposit was due for maturity on 31 December 2016 and had an anticipated profit rate for each year until maturity.

As at 31 December 2014, Wakalah term deposits comprise Tier II deposits obtained from local financial institutions (including related parties – see Note 25) in the UAE. These deposits have maturity tenures of 10 years from the date of the respective agreements and carry an expected profit rate for each year until maturity but can be repaid by the Bank either in full or part on any profit payment date any time after 5 years from the date of the agreement. The undrawn portion of these deposits amounted to AED 165 million as of 31 December 2014. The Central Bank of UAE has approved to consider the Wakalah term deposits as Tier II capital for regulatory capital calculations effective from the date of the agreement.

13 Due to banks

	2014 AED'000	2013 AED'000
Investment deposits	240,585	576,661
Current accounts	301,638	276,557
	542,223	853,218

14 Other liabilities

	2014 AED'000	2013 AED'000
Accrued expenses	126,401	100,466
Sundry disbursements payable	281,983	66,637
Accrued depositors' share of profit	72,393	62,896
Managers cheques	107,858	57,549
Employees' end of service benefits (Note 23)	23,076	17,612
Deferred income from Islamic financing and sukuk	38,875	11,120
Late payment amount collected (Note (i) below)	7,439	5,589
Switch fee payable	5,083	4,133
Sundry collection accounts	33,896	24,159
Promise to buy or sell currency (Note (ii) below)	11,897	641
Other payables	93,459	69,715
	802,360	420,517

(i) Late payment amount collected pertains to the delay in payments by customers. The Fatwa and Shari'a Supervisory Board decides on an amount allowable to be taken by the Bank to cover the actual cost due to the delay in payment by the customers. The remaining amount and any such additional income received, which the Fatwa and Shari'a Supervisory Board determines to be non-sharia compliant, is donated to charity under its supervision.

(ii) Represents mark-to-market fair valuation of Promise to buy or sell currency contracts held by the Bank for its currency risk management purposes. The outstanding commitments on such contracts amounted to AED 3.1 billion at 31 December 2014 (31 December 2013: AED 2.7 billion).

15 Share capital

	2014 AED'000	2013 AED'000
Authorised, issued and fully paid up share capital:		
3,307.9 million shares (2013: 3,307.9 million shares) of AED 1 each	3,307,895	3,307,895
Subscribed share capital (refer note (i) below)	50,000	-
	3,357,895	3,307,895

(i) The subscribed share capital at 31 December 2014 had been subscribed to by NIG at par value. The subscribed share capital is fully paid up and approved by the Board of Directors of the Bank and the UAE Central Bank. The statutory share capital of the Bank will be increased in 2015 after completion of the necessary administrative and legal formalities.

(ii) During the year ended 31 December 2013, the subscribed share capital that had been subscribed to by NIG (Note 1) at par value in 2012 has been converted into the statutory share capital of the Bank upon completion of the necessary administrative and legal formalities.

(iii) The Board of Directors of the Bank have proposed dividends of 10% for the year ended 31 December 2014 (2013: nil).

16 Statutory reserve

The UAE Federal Law No. 8 of 1984 (as amended), and the UAE Union Law No. 10 of 1980 (as amended) and the Articles of the Bank, require that 10% of the net profit for the year should be transferred to a statutory reserve until such time as the balance in the reserve equals 50% of the issued share capital. Accordingly, an amount of AED 67.8 million (2013: AED 25.5 million) has been transferred to the statutory reserve for the year ended 31 December 2014. This reserve is not available for distribution.

17 Income from Islamic financing and sukuk

	2014 AED'000	2013 AED'000
Wakalah	23,005	19,525
Ijarah	153,497	120,465
Murabahah	626,165	457,310
	802,667	597,300
Profit income on Islamic sukuk	92,498	81,386
Total income from Islamic financing and sukuk	895,165	678,686

18 Depositors' share of profit

	2014 AED'000	2013 AED'000
Wakalah - term	220,044	256,762
Mudarabah - savings	15,498	9,832
Mudarabah - term	2,871	4,336
	238,413	270,930

19 Fee and other income, net of charges

	2014 AED'000	2013 AED'000
Facility arrangement and processing fees	115,379	94,362
Transactional & deposit related fees	64,392	33,789
Net foreign exchange income	53,634	36,988
Trade services related fees	52,429	33,590
Fees from credit cards	9,208	10,800
Other income	1,531	2,117
	296,573	211,646

20 Gain on investments in Islamic sukuk

	2014 AED'000	2013 AED'000
Held for trading	10,215	5,957
Available-for-sale – realised gains	20,775	1,354
	30,990	7,311

21 Staff costs

	2014 AED'000	2013 AED'000
Salaries and allowances	286,661	214,474
Provision for employees' end of service benefits (Note 23)	7,090	4,487
Outsourced staff cost	25,874	-
Others	20,382	16,017
	340,007	234,978

22 General and administrative expenses

	2014 AED'000	2013 AED'000
Facilities management	49,003	34,564
IT related expenses	24,439	22,425
Marketing and advertisement	17,054	39,759
Legal and professional	12,382	11,571
Communication costs	4,411	3,797
Printing and stationery	7,603	5,592
Travelling expenses	2,754	1,522
Other expenses	9,624	10,161
	127,270	129,391

23 Provision for employees' end of service benefits

	2014 AED'000	2013 AED'000
At 1 January	17,612	13,662
Provided during the year	7,090	4,487
Paid during the year	(1,626)	(537)
At 31 December	23,076	17,612

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at the reporting date, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using a discount rate of 4.27% (2013: 4.48%). Management has assumed average annual increment/promotion costs of 3.0 % (2013: 3.0 %). The present value of the obligation as at 31 December 2014 is not materially different from the provision computed in accordance with the UAE Labour Law.

24 Fiduciary assets

At 31 December 2014, the Bank held Islamic sukuk with a market value of AED 764 million (2013: AED 684 million) in a fiduciary capacity on behalf of customers' without recourse to itself. Accordingly, then Islamic sukuk are not included as part of the Bank's own Islamic sukuk portfolio (Note 7).

25 Related party balances and transactions

The Bank, in the normal course of business, enters into transactions with individuals and other business enterprises that fall within the definition of a related party as defined in IAS 24, Related party Disclosures. Significant balances and transactions with related parties are as follows:

	31 December 2014 AED'000	31 December 2013 AED'000
Related party balances:		
Investment in Islamic financing instruments:		
- Shareholders and other related parties (including certain Government related entities)	730,629	3,956,570
- Key management personnel	12,703	4,894
	743,332	3,961,464
Customer deposits:		
- Shareholders and other related parties	256,595	777,489
- Key management personnel	62,802	36,928
	319,397	814,417
Wakalah term deposits (refer note 12)	34,000	-
Due from related parties and other assets	42,834	36,189
Due to related parties and other liabilities	2,000	-
Accrued income from Islamic financing instruments	484	13,936
Accrued depositors' share of profit	8,531	7,479

	Year ended 31 December	
	2014 AED'000	2013 AED'000
Related party transactions:		
Income from Islamic financing and sukuk	26,237	76,082
Depositor's share of profit	6,282	5,725
Staff costs recharged	87,686	65,969
Remuneration to key management personnel	21,600	20,190
Fee and other income	9,539	1,466

The Bank has reassessed the criteria it had adopted in identifying related party relationships and has excluded certain relationships which were previously disclosed on a voluntary basis although such relationships would qualify for exemption from the definition of related parties under IAS 24.

26 Commitments and contingent liabilities

(a) Contingent liabilities

	2014 AED'000	2013 AED'000
Letters of credit	739,612	641,678
Guarantees	2,797,214	2,134,249
Undrawn credit commitments – Revocable	4,537,927	3,360,605
Undrawn credit commitments – Irrevocable	598,529	370,523
Total	8,673,282	6,507,055

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as financings. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Undrawn credit commitments represent unused portions of authorisations to extend credit in the form of financing, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss for an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers' maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of finance authorisations being drawn by the customer and, second, from these drawings subsequently not being paid as due. The Bank monitors the term to maturity of the credit commitments because longer term commitments generally have a greater degree of credit risk than the shorter term commitments. The total outstanding contractual amount of the commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

(b) Capital commitments

At 31 December 2014, the bank has capital commitments of AED 10 million (2013: AED 35 million mainly relating to purchase of office units) mainly relating to purchase of furniture, fixtures, computer equipment and development/up-gradating of software.

27 Risk management

The Bank takes financial risk under the following categories in its day to day operations:
- Credit risk
- Liquidity risk
- Market risks
- Operational risk

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

Risk management philosophy and framework

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

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, emerging best practices and products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the following committees, which are responsible for overseeing, developing and monitoring the Bank`s risk management policies in their specified areas:

Executive Committee

The Executive Committee is responsible for ensuring that the Bank has an adequate and appropriate system of risk management and internal controls with the support of the Audit Committee and Risk Committee.

Risk Committee

The Risk Committee is responsible for providing an oversight on the health of the Bank's credit portfolio as well as for compliance with overall risk management policies and procedures established within the Bank. The Risk Committee comprises of at least three members (including at least one non-executive director and one 'risk expert' as determined by the Board of Directors) and the Chief Risk Officer is a permanent invitee.

27 Risk management (continued)

Risk management philosophy and framework (continued)

Audit Committee

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, compliance with laws and regulations, compliance with code of conduct and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit Committee

The Credit Committee is responsible for taking credit decisions, recommending credit policies, and the future direction of the credit activities in the Bank. The Board of Directors has delegated its authority to Credit Committee to approve, sub-delegate, direct, monitor and review the Bank's financing activities, and to ensure that the credit policies are adhered to, and credit operations are conducted in the most effective manner.

Operational Risk Committee

The Operational Risk Committee is responsible for overseeing, managing and ensuring that all aspects of Operational Risk policies and standards are effectively implemented, and the framework to monitor and report Operational Risk issues is functioning effectively to protect the interests of the Bank and promotes high level Operational Risk management culture in the Bank.

Management Committee

The Management Committee is responsible for overseeing and managing day-to-day business to attain sustained performance excellence, by conscientiously taking into account the prevalent and future risk environment, consistent with the Bank's vision, mission and strategy in accordance with good corporate governance principles, and in line with the significant stakeholders' expectations.

Asset Liability Committee ("ALCO")

The responsibility of ALCO is to actively monitor and manage committed and outstanding assets and liabilities, and to recommend appropriate funding, investment, and hedging strategies. In addition, the ALCO is also responsible for ensuring continuous liquidity required for growth while complying with the regulatory requirements.

27 Risk management (continued)

27.1 Credit risk

Credit risk is the risk emanating when a counter party of the Bank does not fulfil its contractual obligation or the quality of an issuer deteriorates. It arises principally from financing, trade finance and treasury activities. The credit process is consistent for all forms of credit risk to a single obligor. Overall exposure is evaluated on an ongoing basis to ensure a broad diversification of credit risk. Potential concentrations by country, product, industry, and risk grade are regularly reviewed to avoid excessive exposure and ensure a broad diversification.

The Bank's total credit portfolio and therefore the maximum exposure to credit risk before collateral held or other credit enhancements is as follows:

	2014 AED'000	2013 AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from banks	2,992,166	2,340,657
Investments in Islamic financing instruments	18,036,859	14,345,215
Investment in Islamic sukuk	2,881,263	1,811,289
Other assets (excluding prepayments & advances)	215,220	173,779
	24,125,508	18,670,940
Credit risk exposures relating to off-balance sheet items are as follows:		
Contingencies and commitments	4,135,355	3,146,450

The above table excludes revocable commitments and represents a worst case scenario of credit risk exposure of the Bank at the reporting date without taking into account any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position at the reporting date.

At 31 December 2014, 75% (2013: 77%) of the total maximum exposure arises from investments in Islamic financing instruments for which credit quality and risk concentration are disclosed in Note 6. Balances due from banks are held with reputable organisations within and outside UAE, where the risk of default is considered low.

27 Risk management (continued)

27.1 Credit risk (continued)

The table below presents an analysis of the investment in Islamic sukuk based on ratings obtained from external rating agencies:

	2014 AED'000	2013 AED'000
AAA to AA-	283,923	5,727
A+ to BBB-	1,918,266	1,256,886
BB+ & below	153,793	72,063
Unrated	525,281	476,613
Total	2,881,263	1,811,289

The unrated investment in Islamic sukuk is mostly with the Government of Dubai and local reputed companies.

Following are the risk management policies adopted by the Bank to ensure credit quality and minimise the risk of concentration.

(a) Credit rating and measurement

The risk rating system is the basis for determining the credit risk of the Bank's asset portfolio (except the consumer assets) and thus asset pricing, portfolio management, determining finance loss provisions and reserves and the basis for credit approval authority delegation. A standard numeric credit risk-grading system is being used by the Bank which is based on the Bank's internal estimate of probability of default, with customers or portfolios assessed against a range of quantitative and qualitative factors, including taking into account the counterparty's financial position, past experience and other factors.

Performing clients are rated on a scale of NRR1 to NRR7, each grade being associated with a Probability of Default ("PD"). Non-performing clients are rated NP-1, NP-2 and NP-3, corresponding to the Substandard, Doubtful and Loss classifications as per *Clarifications and Guidelines Manual for Circular No. 28/2012* issued by the UAE Central bank. The Bank's internal credit grades have also been mapped to external agency ratings for better comparison (Refer Note 6).

(b) Credit approval

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Bank's Credit Committee ("CC") within the authorities delegated by the Board of Directors.

27 Risk management (continued)

27.1 Credit risk (continued)

(c) Credit monitoring

The Bank regularly monitors credit exposures and external trends which may impact risk management outcomes. Internal risk management reports are presented to the Chief Risk Officer and Board Risk Committee, containing information on key variables; portfolio delinquency and financing impairment performance.

All Corporate exposures accounts are monitored carefully for performance and reviewed formally on an annual basis or earlier. Bank has robust policies for client visits and monitoring of accounts to make sure that any concerns on the quality of the accounts are addressed well in time. An exposure is categorised as watch list or non-performing as per UAE Central Bank guidelines.

All non-performing accounts are monitored closely by the Remedial Management Unit of the Bank directly reporting to the Chief Risk Officer. Such accounts are re-evaluated and remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account etc.

With respect to the Bank's consumer portfolio, asset quality is monitored closely with 30/60/90/ days past due accounts and delinquency trends are monitored continuously for each Consumer Product of the Bank. Individual customer behaviour is also tracked which forms an input for future financing decisions. Accounts which are past due are subject to collection process, managed independently by the risk function. Write-off and provisioning of the Consumer portfolio is done strictly as per the UAE Central Bank guidelines.

(d) Credit mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools. Additional support in the form of collateral and guarantee is obtained where required. The reliance that can be placed on these credit mitigation resources is carefully assessed in light of issues such as legal enforceability, market value and counterparty risk of the guarantor. Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit etc. Risk mitigation policies control the approval of collateral types.

Collateral is valued in accordance with the Bank's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Collateral held against impaired financings is maintained at fair value.

27 Risk management (continued)

27.1 Credit risk (continued)

(d) Credit mitigation (continued)

Collateral and other credit enhancements possessed or called upon

During the year, the Bank obtained assets by taking possession of collateral as follows:

	31 December 2014			31 December 2013		
	Retail AED'000	Corporate and SME AED'000	Total AED'000	Retail AED'000	Corporate and SME AED'000	Total AED'000
Property	47,611	-	47,611	21,895	124,910	146,805
Vehicles	719	-	719	1,270	-	1,270
	48,330	-	48,330	23,165	124,910	148,075

Repossessed collateral is disposed of as per the Bank's approved policy.

(e) Offsetting financial instruments

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

27.2 Liquidity risk

Liquidity risk is the risk to the Bank's earnings or capital arising from its inability to meet its obligations as they fall due, without incurring significant costs or losses. A bank's ability to withstand either temporary or longer-term disruptions in its ability to fund some or all of its activities in a timely manner and at a reasonable cost depends on the adequacy of its liquidity contingency plans. The Bank's Asset Liability Committee ("ALCO") actively monitors and manages all committed and outstanding assets and liabilities, to recommend appropriate funding, investment and hedging strategies. In addition to that, ALCO ensures adequate liquidity exists to sustain the growth while complying with regulatory requirements.

27 Risk management (continued)

27.2 Liquidity risk (continued)

a) *The following table presents the cash flow analysis of remaining contractual maturities of Bank's financial liabilities on an undiscounted basis, relating to both principal and profit payments:*

At 31 December 2014	Carrying amount AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Total AED'000
Customer deposits	23,850,955	13,958,179	8,018,677	2,020,858	-	23,997,714
Wakalah term deposits	544,192	-	30,423	121,692	696,306	848,421
Due to banks	542,223	485,332	57,100	-	-	542,432
Other liabilities	763,485	740,409	-	-	23,076	763,485
	25,700,855	15,183,920	8,106,200	2,142,550	719,382	26,152,052
At 31 December 2013						
Customer deposits	18,663,581	10,584,996	7,963,250	325,600	-	18,873,846
Wakalah term deposits	770,921	-	-	811,394	-	811,394
Due to banks	853,218	487,443	-	378,484	-	865,927
Other liabilities	409,397	391,785	-	-	17,612	409,397
	20,697,117	11,464,224	7,963,250	1,515,478	17,612	20,960,564

At 31 December 2014, Customer deposits include an amount of AED 7.6 billion received from five customers (2013: AED 5.6 billion from five customers). At 31 December 2014 customer deposits due for maturity within 3 months include Escrow account balances of AED 1.76 billion and lien marked Qard-E-Hasan (demand) balances of AED 1.78 billion as at 31 December 2014. These deposits are expected to be drawn down after 1 year. Remaining Customer deposits, although contractually short term in nature, tend to be renewed on maturity and expected to remain with the Bank for a longer term.

27 Risk management (continued)

27.2 Liquidity risk (continued)

b) Maturity profile of financial assets and financial liabilities

At 31 December 2014	Up to 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	More than 5 years AED'000	Total AED'000
Assets					
Cash and balances with the UAE Central Bank	2,891,684	500,000	-	-	3,391,684
Due from banks	2,196,139	743,377	52,650	-	2,992,166
Investments in Islamic financing instruments	4,082,553	3,208,127	6,466,152	4,280,027	18,036,859
Investments in Islamic sukuk	308,738	614,865	1,311,130	646,530	2,881,263
Other assets	186,690	-	-	28,530	215,220
Total	9,665,804	5,066,369	7,829,932	4,955,087	27,517,192
Liabilities					
Customer deposits	13,922,577	7,922,809	2,005,569	-	23,850,955
Wakalah term deposits	-	-	-	544,192	544,192
Due to banks	485,290	56,933	-	-	542,223
Other liabilities	740,409	-	-	23,076	763,485
Total	15,148,276	7,979,742	2,005,569	567,268	25,700,855
Net liquidity gap	(5,482,472)	(2,913,373)	5,824,363	4,387,819	1,816,337
Cumulative gap	(5,482,472)	(8,395,845)	(2,571,482)	1,816,337	-

27 Risk management (continued)

27.2 Liquidity risk (continued)

b) Maturity profile of financial assets and financial liabilities

At 31 December 2013	Up to 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	More than 5 years AED'000	Total AED'000
Assets					
Cash and balances with the UAE Central Bank	2,688,884	803,012	-	-	3,491,896
Due from banks	2,014,369	326,288	-	-	2,340,657
Investments in Islamic financing instruments	1,782,923	3,082,841	5,903,449	3,576,002	14,345,215
Investments in Islamic sukuk	1,484,185	146,376	180,728	-	1,811,289
Other assets	147,249	-	-	26,530	173,779
Total	8,117,610	4,358,517	6,084,177	3,602,532	22,162,836
Liabilities					
Customer deposits	10,508,636	7,051,348	1,103,597	-	18,663,581
Wakalah term deposits	-	-	770,921	-	770,921
Due to banks	485,918	-	367,300	-	853,218
Other liabilities	391,785	-	-	17,612	409,397
Total	11,386,339	7,051,348	2,241,818	17,612	20,697,117
Net liquidity gap	(3,268,729)	(2,692,831)	3,842,359	3,584,920	1,465,719
Cumulative gap	(3,268,729)	(5,961,560)	(2,119,201)	1,465,719	-

27 Risk management (continued)

27.3 Market risk

Market risk is the potential impact of adverse price movements such as benchmark rates, foreign exchange prices and commodity prices on the earnings/economic value of an asset held by the Bank. The exposure to market risk occurs throughout the contract which may negatively affect the earnings and capital of the Bank. The market risk unit is responsible for monitoring and reporting this risk in the Bank.

(a) Profit rate risk

The following table summarises the financial assets and liabilities of the Bank, which are subject to profit rate risk, at carrying amounts categorised by the earlier of contractual re-pricing or maturity dates. The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amount of assets and liabilities that mature or re-price in a given period:

At 31 December 2014	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Non-profit bearing	Total	Profit rate
Assets	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	%
Cash and balances with the UAE Central Bank	550,000	500,000	-	-	2,341,684	3,391,684	0.19
Due from banks	1,634,307	633,185	52,650	-	672,024	2,992,166	1.87
Investments in Islamic financing instruments	9,915,833	5,707,315	2,194,932	218,779	-	18,036,859	4.64
Investments in Islamic sukuk	418,916	621,432	1,213,114	627,801	-	2,881,263	3.94
	12,519,056	7,461,932	3,460,696	846,580	3,013,708	27,301,972	
Liabilities							
Customer deposits	7,892,506	7,275,399	245,467	-	8,437,583	23,850,955	1.10
Wakalah term deposits	-	-	-	544,192	-	544,192	5.51
Due to banks	183,652	56,933	-	-	301,638	542,223	0.27
	8,076,158	7,332,332	245,467	544,192	8,739,221	24,937,370	
Net position on balance sheet	4,442,898	129,600	3,215,229	302,388	(5,725,513)	2,364,602	

The impact of 1% change in profit rate's would impact AED 27 million (2013: AED 29 million) on the Bank's income statement for the year ended 31 December 2014. The analysis is based on the assumptions that all other variables will remain constant and income simulation for 1 year forecast.

Similarly, an impact of 1% change in profit rate's would impact AED 110 million (2013: AED 98 million) on the Banks equity for the year ended 31 Dec 2014. The analysis is based on the assumptions that all other variables will remain constant for full maturity horizon.

27 Risk management (continued)

27.3 Market risk (continued)

(a) Profit rate risk (continued)

At 31 December 2013	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Non-profit bearing	Total	Profit rate
Assets	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	%
Cash and balances with the UAE Central Bank	100,000	-	-	-	3,391,896	3,491,896	0.08
Due from banks	1,843,179	326,288	-	-	171,190	2,340,657	1.83
Investments in Islamic financing instruments	7,353,088	4,243,867	1,287,793	1,460,467	-	14,345,215	4.53
Investments in Islamic sukuk	-	234,175	1,506,077	71,037	-	1,811,289	2.88
	9,296,267	4,804,330	2,793,870	1,531,504	3,563,086	21,989,057	
Liabilities							
Customer deposits	7,509,149	7,051,347	1,103,597	-	2,999,487	18,663,581	1.34
Wakalah term deposits	-	770,921	-	-		770,921	5.25
Due to banks	296,424	-	367,300	-	189,494	853,218	1.49
	7,805,573	7,822,268	1,470,897	-	3,188,981	20,287,720	
Net position	1,490,694	(3,017,938)	1,322,973	1,531,504	374,105	1,701,337	

27 Risk management (continued)

27.3 Market risk (continued)

(b) Foreign currency risk

Foreign currency risk represents the risk of change in the fair value of Islamic financing instruments due to changes in foreign exchange rates. The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows through setting limits on the level of exposure by currency. At the end of the year, the Bank had the following significant net foreign currency exposures:

	Balances in Foreign Currency					Balances in local currency	Total
	US$	QAR	EUR	Others	Sub-total		
At 31 December 2014	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets							
Cash and balances with the UAE Central Bank	275,236	-	-	-	275,236	3,116,448	3,391,684
Due from banks	1,322,094	467,183	59,208	75,666	1,924,151	1,068,015	2,992,166
Investments in Islamic financing instruments	2,482,763	-	13,622	305,434	2,801,819	15,235,040	18,036,859
Investments in Islamic sukuk	2,867,877	-	-	-	2,867,877	13,386	2,881,263
Other assets	50,655	255	687	6,072	57,669	157,551	227,839
	6,998,625	467,438	73,517	387,172	7,926,752	19,590,440	27,529,811
Liabilities							
Customer deposits	1,984,812	-	790,084	141,216	2,916,112	20,934,843	23,850,955
Wakalah term deposits	110,192	-	-	-	110,192	434,000	544,192
Due to banks	245,409	-	-	-	245,409	296,814	542,223
Other liabilities	37,450	-	210	-	37,660	725,825	763,485
	2,377,863	-	790,294	141,216	3,309,373	22,391,482	25,700,855
Net on-balance sheet foreign currency exposure	4,620,762	467,438	(716,777)	245,956	4,617,379		
Net FX position on account of FX contracts	(3,733,126)	-	780,441	(172,990)	(3,125,675)		
Net FX open position	887,636	467,438	63,664	72,966	1,491,704		

The impact of an 1% increase/decrease in the foreign exchange rates of the Bank's net on-balance sheet items is AED 1.9 million on the Bank's income statement for the year ended 31 December 2014 (2013: AED 1.57 million). The analysis is based on the assumptions that all other factors will remain constant.

27 Risk management (continued)

27.3 Market risk (continued)

(b) Foreign currency risk (continued)

	Balances in foreign currency					Balances in local currency	
	US$	QAR	EUR	Others	Sub-total		Total
At 31 December 2013	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets							
Cash and balances with the UAE Central Bank	136,579	-	-	-	136,579	3,355,317	3,491,896
Due from banks	1,680,897	163,765	255,761	25,468	2,125,891	214,766	2,340,657
Investments in Islamic financing instruments	1,445,795	-	885	-	1,446,680	12,898,535	14,345,215
Investments in Islamic sukuk	1,783,360	-	-	-	1,783,360	27,929	1,811,289
Other assets	107,545	26	1,557	-	109,128	64,651	173,779
	5,154,176	163,791	258,203	25,468	5,601,638	16,561,198	22,162,836
Liabilities							
Customer deposits	1,420,464	2,017	311,570	43,130	1,777,181	16,886,400	18,663,581
Wakalah term deposits	-	-	-	-	-	770,921	770,921
Due to banks	663,353	-	26	-	663,379	189,839	853,218
Other liabilities	21,862	-	49,116	311	71,289	338,108	409,397
	2,105,679	2,017	360,712	43,441	2,511,849	18,185,268	20,697,117
Net on-balance sheet foreign currency exposure	3,048,497	161,774	(102,509)	(17,973)	3,089,789		
Net FX position on account of FX contracts	(3,067,998)	201,740	103,552	21,938	(2,740,768)		
Net FX open position	(19,501)	363,514	1,043	3,965	349,021		

27 Risk management (continued)

27.3 Market risk (continued)

(c) Price risk

The Bank is exposed to price risk arising from publicly traded investments in Islamic sukuk.

A present value one basis point (PVBP) increase/decrease in the prices will have an impact of AED 0.95 million on the Bank's investment portfolio for the year ended 31 December 2014 (2013: AED 0.5 million). The analysis is based on the assumptions that all other variables will remain constant.

27.4 Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in an active market for identical financial instruments.
- Level 2 – Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

27 Risk management (continued)

27.4 Fair value hierarchy (continued)

The financial instruments and non-financial assets measured at fair value as per the hierarchy are disclosed in the table below:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
As at 31 December 2014			
Financial assets at fair value			
Investments in Islamic sukuk			
- Classified as AFS	1,853,507	-	-
- Classified as Held for Trading	292,807	-	-
	2,146,314	-	-
Financial liabilities			
Promise to buy or sell currency	-	11,987	-
As at 31 December 2013			
Financial assets at fair value			
Investments in Islamic sukuk			
- Classified as AFS	1,270,574	-	-
- Classified as Held for Trading	213,611	-	-
	1,484,185	-	-
Financial liabilities			
Promise to buy or sell currency	-	641	-

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
As at 31 December 2014			
Non-financial assets at fair value			
Investment properties	-	1,266,567	-
Buildings	-	149,939	-
		1,416,506	
As at 31 December 2013			
Non-financial assets at fair value			
Investment properties	-	213,800	-
Land and buildings	-	721,474	-
		935,274	

27 Risk management (continued)

27.4 Fair value hierarchy (continued)

The different levels for fair values of non-financial assets have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). For investment properties and land and buildings, the fair values have been derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot. (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

At 31 December 2014, the carrying value of the Bank's other assets and liabilities measured at amortised cost, approximate their fair values. There have been no transfers of financial assets and non-financial assets between level 1 and Level 2 during the years ended 31 December 2014 or 31 December 2013.

27.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed processes, technology and infrastructure within the Bank, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory compliance requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation, assets and personnel with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;

27 Risk management (continued)

27.5 Operational risk (continued)

- training and professional development of employees for operational risk awareness;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with Bank's operational risk standards is supported by a programme of periodic reviews undertaken by Internal Audit and a dedicated Operational Risk Team. The results of their reviews are discussed with the management of the business unit to which they relate and senior management of the Bank.

27.6 Capital management and capital adequacy as per Basel II requirement

The Bank manages its capital considering both regulatory and economic capital. The Bank calculates its risk asset ratio in accordance with requirements and guidelines established by the UAE Central Bank prescribing the ratio of total capital to total risk-weighted assets which is currently set at a minimum of 12 % (2013: 12%). This is in line with the assessment and reporting of capital adequacy ratio in accordance with the Basel II Accord as follows:

	2014 AED'000	2013 AED'000
Tier I Capital		
Share capital	3,307,895	3,307,895
Legal reserves	156,917	63,566
Accumulated losses	(349,535)	(934,270)
Less: Other equity investments	(12,500)	-
	3,102,777	2,437,191
Tier II Capital		
Subordinated term investment (Note 12)	544,192	462,553
General provision	245,334	206,428
Asset revaluation reserve	(19,984)	(1,525)
Less: Other equity investments	(12,500)	-
	757,042	667,456
Deductions from Tier I & Tier II Capital		
Investment in other equity investments (Note 9)	-	(25,000)
Total regulatory capital	3,859,819	3,079,647
Risk weighted assets		
Credit risk	19,672,421	16,514,205
Market risk	277,666	85,143
Operational risk	1,373,236	932,890
Risk weighted assets	21,323,323	17,532,238
Capital adequacy ratio on regulatory capital	18.10%	17.57%
Risk asset ratio on Tier I capital	14.55%	13.90%

27 Risk management (continued)

27.6 Capital management and capital adequacy as per Basel II requirement (continued)

Asset classes in 2014	On balance sheet gross outstanding AED'000	Off balance sheet net exposure after credit conversion factors (CCF) AED'000	Credit risk mitigation (CRM) Exposure before CRM AED'000	CRM AED'000	After CRM AED'000	Risk weighted assets AED'000
Claims on sovereigns	4,218,086	-	4,218,086	-	4,218,086	389,375
Claims on non-central government public sector entities	77,734	-	77,734	-	77,734	855
Claims on banks	4,124,664	214,981	4,339,645	(123,429)	4,216,215	1,615,716
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	13,188,019	3,919,563	17,107,582	(2,990,755)	14,116,827	12,323,934
Claims included in the regulatory retail portfolio	2,653,969	-	2,653,969	(223,544)	2,430,425	1,869,835
Claims secured by residential property	2,529,909	110,211	2,640,120	-	2,640,121	1,154,437
Claims secured by commercial real estate	319,449	-	319,449	-	319,449	319,449
Past due financing	1,479,476	19,853	1,499,329	-	1,499,329	362,917
Other assets	2,201,278	-	2,201,278	-	2,201,278	1,635,903
	30,792,584	4,264,608	35,057,192	(3,337,728)	31,719,464	19,672,421

The total collateral held by the Bank as CRM includes AED 3.1 billion as cash collateral (2013: AED 1.4 billion as cash collateral). The Bank has rearranged its asset classes during 2013 in accordance with the UAE Central Bank circular no: 3823/2012. Therefore, at 31 December 2014, certain figures have been regrouped or reclassified to conform to the new circular requirements.

27 Risk management (continued)

27.6 Capital management and capital adequacy as per Basel II requirement (continued)

Asset classes in 2013	Off balance sheet		Credit risk mitigation (CRM)			
	On balance sheet gross outstanding AED'000	net exposure after credit conversion factors (CCF) AED'000	Exposure before CRM AED'000	CRM AED'000	After CRM AED'000	Risk weighted assets AED'000
Claims on sovereigns	3,976,912	-	3,976,912	-	3,976,912	229,794
Claims on non-central government public sector entities	5,583,976	-	5,583,976	-	4,850,220	4,727,047
Claims on banks	3,020,459	125,845	3,146,304	(18,502)	3,127,802	1,824,660
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	5,749,317	1,553,206	7,302,523	(1,504,395)	5,798,128	5,705,342
Claims included in the regulatory retail portfolio	1,345,833	-	1,345,833	-	1,345,833	1,010,417
Claims secured by residential property	1,590,413	7,003	1,597,416	-	1,597,416	823,588
Claims secured by commercial real estate	494,001	-	494,001	-	494,001	494,001
Past due financing	1,527,705	-	1,527,705	-	1,527,705	432,233
Other assets	1,562,920	-	1,562,920	-	1,562,920	1,267,123
	24,851,536	1,686,054	26,537,590	(1,522,897)	25,014,693	16,514,205

27 Risk management (continued)

27.6 Capital management and capital adequacy as per Basel II requirement (continued)

The capital requirement for market risk under the standardised approach is as follows:

	2014		2013	
	Risk weighted assets AED'000	Capital charge AED'000	Risk weighted assets AED'000	Capital charge AED'000
Profit rate risk	207,877	24,945	83,676	10,041
Foreign exchange risk	69,789	8,375	1,467	176
	277,666	33,320	85,143	10,217

Capital charge for year ended 31 December 2014 has been calculated at 12% (2013: 12%).

28 Comparative figures

Certain comparative figures have been reclassified where appropriate to conform to the presentation adopted in the financial statements.