SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

SHARJAH ISLAMIC BANK

Directors' Report

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of SHARJAH ISLAMIC BANK ("the Bank") and its subsidiaries ("the Group") for the year ended 31 December 2014.

Financial Highlights

The Group has reported a profit of AED 377.2 million for year ended 31 December 2014 compared to AED 307.1 million for the corresponding prior year, an increase of 22.8%.

Compared to December 2013, total assets increased by AED 4.3 billion to reach AED 26.0 billion, an increase of 19.7%, financing receivables and Ijarah receivable increased by 15.6% (AED 2.0 billion) to reach AED 14.5 billion and customer deposit increased by 22.6% (AED 2.7 billion) to reach AED 14.6 billion.

The Directors propose to the Shareholders a cash dividend of 10% of the par value of share (AED 0.10 per share) amounting to AED 242.6 million *(compared to cash dividend of AED 242.6 million AED 0.10 per share on 2013).*

The Directors propose the following appropriations for 2014:-

	AED million
1) Proposed cash dividend	**242.6**
2) Zakat	**53.5**
3) Proposed Directors' fees	**3.5**
Total	**299.6**

After proposed appropriations, total shareholders' funds will amount to AED 4.3 billion.

Directors:-

H.E. Abdul Rahman Mohammed Nasser Al Owais	Chairman
Mr. Ahmed Mohamed Obaid Al Shamsi	Vice Chairman
Mr. Othman Mohammed Sharif Zaman	Member
Mr. Ahmed Ghanim Al Suwaidi	Member
Mr. Ali Bin Salim Al Mazrou	Member
Mr. Emad Yousef Abdulla Saleh Al Monayea	Member
Mr. Mohammad N. Al Fouzan	Member

Auditors:-

KPMG were appointed as auditors of SHARJAH ISLAMIC BANK for the year 2014 at the Annual General Meeting held on 11 March 2014.

KPMG expressed their willingness for their re-appointment for the year ending 31 December 2015.

On behalf of the board

Abdul Rahman Mohammed Nasser Al Owais
Chairman
21 January 2015

KPMG

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Independent Auditors' Report

The Shareholders
Sharjah Islamic Bank PJSC

Report on the consolidated financial statements

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Independent Auditors' Report (continued)

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law no.8 of 1984 (as amended), Union Law no.10 of 1980 and the Articles of Association of the Bank; that proper financial records have been kept by the Bank; and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Bank's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2014, which may have had a material adverse effect on the business of the Bank or its financial position.

KPMG

KPMG Lower Gulf Limited
Muhammad Tariq
Registration No: 793
Date: 21 January 2015

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014
(Currency: Thousands of U.A.E. Dirham)

	Notes	2014	2013
Assets:			
Cash and balances with banks and financial institutions	6	**3,067,083**	2,260,757
International murabaha and wakalah with financial institutions	7	**3,214,863**	2,876,670
Financing receivables	8	**5,471,701**	3,961,401
Ijarah receivable	9	**9,002,953**	8,558,005
Investment securities	10	**1,581,167**	1,243,649
Investment properties	11	**445,490**	339,352
Properties held for sale	12	**1,430,465**	1,120,268
Other assets	13	**851,542**	461,992
Property and equipment	14	**947,624**	909,807
Total assets		**26,012,888**	21,731,901
Liabilities:			
Customers' deposits	15	**14,591,968**	11,901,007
Due to banks	16	**2,455,664**	1,306,433
Sukuk payable	17	**3,298,733**	3,295,889
Other liabilities	18	**956,453**	588,730
Zakat payable		**121,678**	103,935
Total liabilities		**21,424,496**	17,195,994
Shareholders' equity:			
Share capital	19	**2,425,500**	2,425,500
Legal reserve	22	**1,330,626**	1,330,233
Statutory reserve	22	**89,008**	89,008
Fair value reserve	22	**(68,698)**	(42,693)
Retained earnings		**811,956**	733,859
Total shareholders' equity:		**4,588,392**	4,535,907
Total liabilities and shareholders' equity		**26,012,888**	21,731,901

The consolidated financial statements were authorized for issue in accordance with a resolution of Directors on 21 January 2015 and signed on its behalf by:

Abdul RahmanMohammed Nasser Al Owais
Chairman

Mohammed Ahmed Abdullah
Chief Executive Officer

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 3 and 4.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

(Currency: Thousands of U.A.E. Dirham)

	Notes	2014	2013
Income from financing and leasing		**786,595**	692,879
Profit paid on sukuk		**(126,627)**	(110,496)
Investments, fees and other income	23	**497,219**	338,824
Total income		**1,157,187**	921,207
General and administrative expenses	24	**(427,769)**	(387,205)
Net operating income		**729,418**	534,002
Provisions - net of recoveries	25	**(246,469)**	(101,621)
Profit before distribution to depositors		**482,949**	432,381
Distribution to depositors	26	**(105,773)**	(125,313)
Profit for the year (Attributable to the equity holders of the Bank)		377,176	307,068
Earnings per share (U.A.E. Dirham)	27	**0.16**	0.13

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 3 and 4.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPERHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014
(Currency: Thousands of U.A.E. Dirham)

	2014	2013
Profit for the year (Attributable to the equity holders of the Bank)	377,176	307,068
Other comprehensive income		
Items that will not be reclassified to profit and loss		
Net change in fair value reserve	(25,108)	(15,826)
Total comprehensive income for the year (Attributable to the equity holders of the Bank)	352,068	291,242

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 3 and 4.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014
(Currency: Thousands of U.A.E. Dirham)

	2014	2013
Cash flows from operating activities:		
Profit for the year	377,176	307,068
Adjustments:		
Depreciation	33,034	27,998
Amortisations of sukuk issuance cost	2,844	2,848
Provision on customer receivables and ijarah receivable	233,082	118,684
Provision on subsidiaries	736	(17,033)
Provision for impairment on investment securities	12,804	-
Gain on Government grant	174,185	-
Revaluation gain on investment properties	(23,985)	(62,140)
Operating profit before changes in operating assets and liabilities	809,876	377,425
Changes in operating assets and liabilities:		
Change in reserve with Central Bank	(236,089)	(138,492)
Change in international murabaha and wakalah with financial institution	235,521	(231,832)
Change in financing receivables and ijarah receivable	(2,188,330)	(1,888,719)
Change in other assets, net	(390,286)	(50,578)
Change in customers' deposits	2,690,961	566,466
Change in due to banks	1,149,231	836,243
Zakat payable	17,743	24,169
Change in other liabilities	310,690	11,650
Net cash provided by /(used in) operating activities	2,399,317	(493,668)
Cash flows from investing activities:		
Acquisition of property and equipment	(70,851)	(83,978)
Acquisition in investment properties – net	(82,153)	(53,924)
Acquisition in properties held for sale – net	(484,382)	(37,234)
Change in investment securities - net	(375,430)	(402,794)
Net cash used in investing activities	(1,012,816)	(577,930)
Cash flows from financing activity:		
Proceeds from sukuk	-	1,828,584
Dividend paid	(242,550)	(145,530)
Net cash provided by financing activity	(242,550)	1,683,054
Net increase in cash and cash equivalents	1,143,951	611,456
Cash and cash equivalents, beginning of the year	3,566,961	2,955,505
Cash and cash equivalents, end of year (note 28)	4,710,912	3,566,961

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 3 and 4.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER2014
(Currency: Thousands of U.A.E. Dirham)

	ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK					
	Share capital	Legal reserves	Statutory reserves	Fair value reserve	Retained earnings	Total shareholders' equity
As at 1 January 2013	**2,425,500**	**1,328,226**	**89,008**	**(34,470)**	**635,634**	**4,443,898**
Total comprehensive income for the year						
Profit for the year	-	-	-	-	307,068	307,068
Other comprehensive income						
Net change in fair value reserve	-	-	-	(15,826)	-	(15,826)
Total comprehensive income for the year	-	-	-	(15,826)	307,068	291,242
Transactions with owners recorded directly in equity						
Fair value adjustment	-	-	-	7,603	(7,603)	-
Dividends paid (note 20)	-	-	-	-	(145,530)	(145,530)
Transfer to legal reserve	-	2,007	-	-	(2,007)	-
Zakat	-	-	-	-	(51,303)	(51,303)
Board of directors' fees-paid (note 21)	-	-	-	-	(2,400)	(2,400)
Total transactions with owners	-	2,007	-	7,603	(208,843)	(199,233)
As at 31 December 2013	**2,425,500**	**1,330,233**	**89,008**	**(42,693)**	**733,859**	**4,535,907**
As at 1 January 2014	**2,425,500**	**1,330,233**	**89,008**	**(42,693)**	**733,859**	**4,535,907**
Total comprehensive income for the year						
Profit for the year	-	-	-	-	377,176	377,176
Other comprehensive income						
Net change in fair value reserve	-	-	-	(25,108)	-	(25,108)
Total comprehensive income for the year	-	-	-	(25,108)	377,176	352,068
Transactions with owners recorded directly in equity						
Fair value adjustment	-	-	-	(897)	897	-
Dividends paid (note 20)	-	-	-	-	(242,550)	(242,550)
Transfer to legal reserve	-	393	-	-	(393)	-
Zakat	-	-	-	-	(53,533)	(53,533)
Board of directors' fees-paid(note 21)	-	-	-	-	(3,500)	(3,500)
Total transactions with owners	-	393	-	(897)	(299,079)	(299,583)
As at 31 December 2014	**2,425,500**	**1,330,626**	**89,008**	**(68,698)**	**811,956**	**4,588,392**

In accordance with the Ministry of Economy & Commerce interpretation of Article 118 of Commercial Law No. 8 of 1984, Directors' remuneration has been treated as an appropriation from equity.

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 3 and 4.

1. Legal status and activities

SHARJAH ISLAMIC BANK ("the Bank") was incorporated in 1975 as a public joint stock company by an Emiri Decree issued by His Highness the Ruler of Sharjah, United Arab Emirates and is listed in Abu Dhabi stock securities. The Bank is engaged in banking activities, financing and investing activities in accordance with its articles of incorporation, Islamic Shari'a principles and regulation of the Central Bank of UAE ("the CBUAE"), which are carried out through its 30 branches (2013 : 27 branches) established in United Arab Emirates.

At the extraordinary shareholders' meeting held on 18 March 2001 a resolution was passed to transform the Bank's activities to be in full compliance with the Islamic Shari'a rules and principles. The entire process was completed on 30 June 2002 ("the transformation date"). As a result the Bank transformed its conventional banking products into Islamic banking products during the 6-month period ended 30 June 2002 after negotiation and agreement with its customers.

The consolidated financial statements of the Group comprise the Bank and its fully owned subsidiaries incorporated in United Arab Emirates, Sharjah National Hotels (SNH), Sharjah Islamic Financial Service (SIFS), Contact Marketing and ASAS Real Estate (all together referred to as "the Group"). SNH through its divisions is engaged in operating hotels and resorts, catering and related services, whereas SIFS is involved in conducting intermediation in dealing in local market Shari'a compliant shares. Contact Marketing provides certain support services to the Bank. ASAS Real Estate is involved in the management of Bank's real estate portfolio.

The registered office of the Bank is Post Box No.4, Sharjah, United Arab Emirates.

2. Disclosure policy

The Group has laid down the disclosure policy to ensure compliance with all applicable laws concerning disclosure of material information, including International Financial Reporting Standards, the CBUAE (lead regulator), BASEL II Pillar 3 guidelines laid down by the CBUAE, Emirates Securities and Commodities Authority (ESCA) and Abu Dhabi Financial Market (ADX).

The following are the key features of the Group's disclosure policy concerning disclosure of financial information (consolidated basis):

Materiality thresholds

Information is considered material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions and/or any material information that might affect the share price. The Group, in order to ensure adequate disclosure lays down a materiality threshold, so that no material information is omitted or misstated; at the same time it does not jeopardize its competitive position.

Internal controls

In order to ensure true and fair disclosure, the Group has established controls including detailed procedures for finalization and review of accounting and financial disclosures. In addition the consolidated financial statements are subject to quarterly reviews and audit procedures by the Group's external auditors.

2. Disclosure policy (continued)

Frequency and medium of disclosure

Interim consolidated financial results are disclosed on a quarterly basis while complete consolidated financial statements complying with the requirements of IFRS, Basel II Pillar 3 and other guidelines from the CBUAE is made on an annual basis. Disclosures of material financial information are made by the Financial Control Department of the Group in coordination with Marketing Department through the following mediums:

- Sending reviewed quarterly and annual audited consolidated financial statements along with Directors' report to ADX and ESCA;
- Hosting quarterly and annual consolidated financial statements on the Group's website; and
- Publication of annual audited consolidated financial statements in Arabic newspapers after the approval in the Annual General Meeting (AGM)

3. Basis of preparation

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting standards ("IFRS") as issued by International Accounting Standard Board ("IASB"), and comply with the guidance of the CBUAE, Islamic Shari'a principles and applicable requirements of the Federal laws relating to Islamic Banks.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical basis except for the following that are measured at fair value:

i) financial assets at fair value through profit or loss (FVTPL);

ii) financial assets at fair value through other comprehensive income (FVTOCI); and

iii) investment properties

c. Functional and reporting currency

These consolidated financial statements of the Group have been prepared in UAE Dirham (AED), which is the Group's functional currency, rounded to the nearest thousand.

d. Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. In particular these estimates and judgments relate to impairment losses on financing receivables, Ijarah receivable and amortised cost, valuation of financial asset FVTPL and FVTOCI, provisions for doubtful debts and slow moving inventories (refer note 29).

4. Summary of significant accounting policies

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014. The changes did not have a material impact on the Group's financial statements.

i) Amendments to IAS 32 – *Offsetting Financial Assets and Financial* Liabilities

ii) IFRIC21- *Levies*

iii) Amendments to IFRS 10, IFRS 12 and IAS 27- amendments for investment entities

iv) Amendments to IAS 36 –Amendments arising from Recoverable Amount Disclosures for Non-Financial Asset

v) Amendments to IAS 39 Financial Instruments- Amendments for notation of derivatives

i) Amendment to IAS 32–*Offsetting Financial Assets and Financial Liabilities*

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

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

ii) IFRIC 21 – *Levies*

As a result of IFRIC 21 Levies, the Group has changed its accounting policy on accounting for a liability to pay a levy that is a liability in the scope of IAS 37 *Provisions Contingent Liabilities and Contingent Assets*.
The change did not have a material impact on the Group's financial statements.

Significant accounting policies are as follows:

a. Basis of consolidation

Subsidiaries

Subsidiaries' are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.
When the Group losses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest (NCI) and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

i) Funds management
The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's funds management is set out in note 33.

4. Summary of significant accounting policies (continued)

ii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gain arising from transactions with equity accounted investees is eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

iii) Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective such as the Islamic securitization of particular assets, or the execution of a specific financing transaction. The consolidated financial special purpose entities are included in the Group's consolidated financial statement where the substance of the relationship is the Group controls the special purpose entity.

b. Non-derivative financial instruments

i. Financial assets and liabilities

Financial assets at fair value through profit or loss (FVTPL)

Investments in equity instruments are classified as financial assets at fair value through profit or loss, unless the Group designates them as an investment that is not held for trading and are accordingly carried as at fair value through other comprehensive income (FVTOCI).

Financial assets measured at FVTPL are initially recognised and subsequently measured at fair value, with any gains or losses arising in re-measurement recognised in the consolidated statement of income. All transaction costs are charged to statement of income.

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

Financial assets at fair value through other comprehensive income (FVTOCI)

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

Financial assets measured at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income.

Dividends on these investments are recognised in the consolidated statement of income when Group's right to receive is established.

Financial assets measured at amortised costs

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

4. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments (continued)

i. Financial assets and liabilities (continued)

Financial assets measured at amortised costs (continued)

Financial assets measured at amortised costs are initially measured at fair value plus transaction costs. Subsequently, they are measured at amortised cost using their effective yield less any impairment, with profit recognised in the consolidated statement of income.

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

Financing receivables

Financing receivables are non - derivative financial assets with fixed or determinable payment that other than investment securities that are not held for trading. They arise when the Bank provides funds directly to a debtor with no intention of trading in the granted facilities. Financing receivables are initially measured at fair value and subsequently measured at their amortised cost. These are reported net of impairment provisions, if any, to reflect the estimated recoverable amounts. The financing receivables mainly comprise Murabaha, Istisna and Qard Hasan.

Murabaha is an agreement for sale of commodities purchased by the Bank based on the promise of the customer to buy the commodities on a cost plus the agreed profit basis.

Qard Hasan receivables are non-profit bearing financing receivables whereby the customer borrows funds for a period of time with an understanding that the same amount shall be repaid at the end of the agreed period.

Ijarah receivable ("Ijarah")

An Ijarah is classified as a finance lease, when the Bank transfers substantially all the risks and rewards incident to an ownership of the Ijarah receivable to the lessee. Ijarah receivable represent finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. The lease agreements provide that the lessor undertakes to transfer the leased property to the lessee upon receiving the final rental payment or the agreed price. Ijarah receivables are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

Impairment

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment for specific assets, or a group of similar assets. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of specific assets or a group of similar assets is calculated as the present value of the expected future cash flows.

Movement in provisions is recognised in the consolidated statement of income. Financial assets are written off only in circumstances where all reasonable restructuring and collecting activities have been exhausted.

ii. Recognition of financial instruments

Investments are recognised on the trade date which is the date on which the Group commits to purchase or sell the securities. Financing receivables and Ijarah are recognised when cash is advanced to the borrowers.
Financial liabilities are recognised on the date when the Bank becomes a party to the contractual provisions of the instrument.

4. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments (continued)

iii. Derecognition of financial instruments

The Group derecognises financial assets when the contractual right to the cash flows from the financial assets expires, or when it transfers the rights to receive the contractual cash flows on the financial assets in a transaction in which substantially all the risk and rewards of the ownership of the financial assets are transferred to other party.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

iv. Fair value measurement principles

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. Prior year's consolidated financial statements defined the basis of fair value measurement for comparatives.

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

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

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

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

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

Investments in unlisted funds and securities are fair valued internally by using valuation techniques. Where valuation techniques (such as models) are used to determine fair values these are tested before they are used and models are calibrated to ensure that outputs reflects actual data and comparative market prices.

iv. Measurement of financial instruments

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Subsequent to the initial recognition, financial assets at fair value through profit or loss and fair value at other comprehensive income are stated at their fair value. All other financial instruments are measured at amortised cost less impairment loss, if any.

4. Summary of significant accounting policies (continued)

c. Investment properties

Investment properties are stated at fair value determined regularly by an independent valuer. Any gain or loss arising from a change in fair value is recognised in the consolidated statement of income. Further the management assessed the fair values of investment properties internally to reflect the current market conditions.

Leases of assets under which the lessor effectively retains all risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in the consolidated statement of income on a straight-line basis over the term of the lease.

d. Properties held-for-sale

Properties held for sale are measured at a lower of cost and net realisable value (NRV) less impairment loss, if any.

NRV is the estimated selling price, less the estimated selling and other expenses necessary to complete the sale.

e. Revenue recognition

Murabaha

The profit on Murabaha is quantifiable and contractually determined at the commencement of the contract; profit is recognised as it accrues over the period of the contract on an effective yield basis on the balance outstanding at the reporting date.

Ijarah

Income from Ijarah receivable is recognised on an accrual basis on an effective yield basis.

Fees and commissions

Fees and commissions income relating to underwriting and financing activities is recognised as the related service is performed.

Rental income

Rental income from investment properties are recognised in the consolidated statement of income on a straight-line basis over the term of the leases.

Dividend income

Dividend income is recognised in the consolidated statement of income when the Group's right to receive income is established. Usually this is the ex-dividend date for equity securities.

Other income

Other income includes revenue from provision of accommodation, food, beverages and brokerage commission relating to the services provided by the subsidiaries.

Revenue from provision of accommodation, food, beverages and other services is recognised on an accrual basis as the services are rendered.

Commissions are accounted for on the completion of the brokerage deal.

4. Summary of significant accounting policies (continued)

f. Zakat

Zakat is computed in accordance with the Bank's Articles of Association and is approved by the Bank's Fatwa and Shari'a Supervisory Board. Zakat is calculated at 2.577% (to account for the difference between the Gregorian and Lunar calendar) on the Bank's reserves, retained earnings and provision for staff end of service benefits at the year end and it is the Bank's shareholders responsibility to pay the Zakat on their respective share in the Bank's capital and the distributed cash dividends.

g. Translation of foreign currencies

The accounting records of the Group are maintained in UAE Dirham. Transactions in foreign currencies are translated to UAE Dirham at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to UAE Dirham at the foreign exchange ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost, are translated to UAE Dirham at the foreign exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

h. Other assets

Other assets include profit and other receivables which are stated at amortised cost net of provision for impairment, if any.

i. Other liabilities

These include financial liabilities and other payables. Financial liabilities are measured at fair value on initial recognition. Fair value is determined by discounting the present value of expected future payments at the discount rate that reflects current market assessment of the time value of money for a liability of equivalent average duration.

Subsequent to initial recognition these financial liabilities are stated at amortised cost using the effective yield method.

Other payables are stated at cost and are recognised for amounts to be paid in the future for goods or services received, whether or not billed.

j. Provisions

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

k. Distribution of profit between holders of unrestricted investment deposit and the shareholders

The Bank is complied with Shari'a rules as set out below:

Net gains on all items of income and expenses at the end of each month are the net profit distributable between the shareholders and the holders of unrestricted investment deposits.

4. Summary of significant accounting policies (continued)

k. Distribution of profit between holders of unrestricted investment deposit and the shareholders (continued)

- The share of the holders of unrestricted investment deposits is calculated from the net profit on a daily basis after deducting the Bank's agreed upon and declared Mudaraba percentage.

- Due to the amalgamation of unrestricted investment funds with the Bank's funds for the purpose of investment, no priority has been given to either party in the appropriation of profit.

l. Provision for end-of-service benefits

Provision is made for end-of-service benefits payable to expatriate employees in accordance with the U.A.E. labor laws, calculated on the basis of the individual's period of service at the reporting date and included under "Other liabilities".

With respect to its UAE national employees, the Bank makes contributions to the pension fund established by the General Pension and Social Security Authority as percentage of the employees' salaries. The Bank's obligation is limited to these contributions, which are recognised in the consolidated statement of income.

m. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Except for freehold land, property and equipment are depreciated on a straight-line basis over their estimated useful lives, using annual rates of 5% to 33% depending on the type of asset involved.

n. Cash and cash equivalents

Cash and cash equivalents consist of cash and balances with the CBUAE (excluding statutory reserves), current accounts with other banks and financial institutions, international murabaha and wakalah arrangements with residual maturity up to three months from the reporting date.

o. Due to Banks

Amounts due to banks are initially recognised at the fair value of the consideration received, and are subsequently measured at amortised cost using the effective yield method.

p. Customers' deposits

The Bank accepts customer savings and time deposit on a Mudaraba basis, whereas current and other similar in nature deposits are accepted on a Qard Hassan (profit free loan) basis.

q. Offsetting

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

Income and expenses are presented on a net basis only when permitted by under IFRS.

r. Fiduciary activities

The Bank is involved in fiduciary activities in its capacity as a portfolio agent that results in the holding or placing of assets on behalf of customers in an equity portfolio. These assets and income arising thereon from the equity portfolio are excluded from these consolidated financial statements, as they are not assets of the Bank.

4. Summary of significant accounting policies (continued)

s. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary share. Basic EPS is calculated by dividing the profit or losses attributable to ordinary shareholders of the Bank by the weighted average number of ordinary share outstanding during the year. Diluted EPS is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

t. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is a person or group of persons that allocates resources and assesses the performance of the operating segments of an entity. The Bank has determined the Bank's management Committee as its chief operating decision maker. All transactions between business segments are conducted on an arm's length basis. Income and expenses directly associated with each segment are included in determining business segment performance.

u. New standards and interpretations not yet adopted

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

Standards	**Description**	**Effective for the periods after 1 January 2014**
IFRS 9	Financial Instruments (Phase II and Phase III)	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2017
IAS 19 (Amendment)	Defined Benefit Plans: Employee contribution	1 July 2014
IFSR 14	Regulatory Deferral Accounts	1 January 2015
IFRS 11 (Amendment)	Accounting for Acquisitions of Interest in Joint Operations	1 January 2016
IAS 16, IAS 38 (Amendment)	Clarification of Acceptable Methods of depreciation and amortisation	1 January 2016
IAS 16, IAS 38 (Amendment)	Proportionate restatement of accumulated depreciation / amortization on revaluation	1 July 2014
IAS 27 (Amendment)	Equity Method in Separate Financial Statements	1 January 2015
IFRS 10 and IAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2015
Amendment to IAS 40	Interrelationship between IFRS 3 and IAS 40	1 July 2014
Amendment to IAS 24	Related Party Disclosures – Management entities	1 July 2014
Amendment to IFRS 2	Share Based Payment – Definition of vesting condition	1 July 2014
Amendment to IFRS 8	Operating Segments – Aggregation of segments and reconciliations of segment assets	1 July 2014
Amendment to IFRS 3	Business Combination – Accounting for contingent consideration and scope exception for joint operation	1 July 2014

4. Summary of significant accounting policies (continued)

u. New standards and interpretations not yet adopted (continued)

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

The Group is still evaluating the potential effect of these standards.

5. Risk management

i. Risk management framework

The Board of Directors ('the Board") is responsible for the overall framework of the risk governance and management. The Board is responsible for determining risk strategy, setting the Group's risk limits and ensuring that risk exposure is monitored, controlled effectively and kept within set limits. It is also responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures, infrastructure and management of all risks related to the Group.

In order to effectively discharge this responsibility, the Board is assisted by three Board Committees and five Management Committees. The briefing about the role and function of each committee is as follows:

Executive Committee (EC)

EC acts as the Board's senior executive management assuring that the Board meets its strategic and operational objectives. EC consists of four members.

Audit Committee (AC)

The AC consists of Board members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the Group's financial reporting processes, maintaining accounting policies, reviewing and approving the financial information;
- Reviewing reports on the internal controls;
- Managing the relationship with the Group's external auditors; and
- Reviewing the internal audit reports and monitors control issues of major significance of the Group.

Risk Management Committee (RMC)

The RMC consists of Board Members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the risks inherent in the businesses of the Bank and the control processes with respect to such risks;
- Reviewing the risk profile of the Bank;
- Managing the Risk Management Compliance and control activities of the Bank;
- Providing a critical assessment of the organisation's business strategies and plans from an Enterprise risk perspective; and
- Ensuring that appropriate policies and procedures are in place for managing risks to which the bank is exposed.

5. Risk management (continued)

i. Risk management framework (continued)

Management Committee (MC)

The scope of management committee includes all cross functional issues that are not covered in the scope of other committees. Typically, MC covers the areas like strategic, policies, human resources, marketing and administrative processes. In addition, the MC is also responsible to liaise with all other units/divisions across the Group.

Investment Committee (IC)

The purpose of the Investments Committee, is to review the quality of the Bank's Investment portfolio on behalf of the Board of Directors, trends affecting the portfolio, the administration of investment related policies, as well as the approval of Investment proposals, including Sukuk and Syndicate Finance within the approval limit set by the BOD.

IT Steering Committee (ITSC)

The ITSC provides strategic and tactical guidance for managing the Group's overall technology systems in the long and short term, to ensure that Information Technology (IT) initiatives are consistent with the strategic business goals of the Group. The ITSC is charged with assisting the Board in:

- Providing guidance in the prioritization and implementation of technology initiatives and projects (including those related to infrastructure);
- Reviewing IT operations;
- Reviewing IT Security plans, policies and reports relating to the effectiveness of information security, their implementation and measures taken to address any residual risks;
- Reviewing Business Continuity plans, policies and reports relating to the effectiveness of business continuity, their implementation and measures taken to address any residual risks; and
- Reviewing the Group's IT development, strategic opportunities and plans.

Asset and Liability Committee (ALCO)

The objective of ALCO is to derive the most appropriate strategy for the Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of profit rate movements, liquidity constraints, and foreign exchange exposure and capital adequacy. The ALCO is also responsible to ensure that all strategies conform to the Group's risk appetite and levels of exposure as determined by the Board of Directors.

The roles of ALCO include the following:

- Develop an effective asset and liability management process and related procedures to oversee and monitor the Group's approved policies and procedures in relation to the management and control of the following risks:
  - Liquidity risk – being the risk from the Group's inability to meet obligations when they become due without incurring unacceptable losses because of an inability to liquidate assets or to obtain adequate funding;

5. Risk management (continued)

i. Risk management framework (continued)

Asset and Liability Committee (ALCO) (continued)

- Market risk – being the following risks;
  - The risk to earnings from adverse movements in profit rates, exchange rates and market volatility and;
  - The risk from changes in the value of portfolio of financial instruments;
- Statement of financial position risk - being the following risks:;
  - The risk to earnings from changes in profit rates and market volatility in retail and wholesale rates;
  - The risk to value and capital from changes in the value of assets and liabilities as a result of changes in profit rates and market volatility; and
  - The risk from material changes in global and domestic economic conditions generally.

Credit Committee (CC)

CC manages the credit risk of the Group by continuous review of credit limits, policies and procedures, the approval of specific exposures and work out situation, constant revaluation of the loans portfolio and the sufficiency of provisions thereof.

Human Resource Committee (HRC)

HRC manages the resources, performance and requirement of individuals required by Group on time to time basis.

- Risk management group (RMG)

In order to manage the credit, market, operational and IT security risks an RMD is in place. Its role includes the following:

- develop a strategy, policy and framework for risk management such that these are aligned with business requirements;
- provide support to the Group in implementation of the framework;
- bring together analysis of risk concentrations and sensitivities across the Group;
- act as a point of reference for risk and control matters, providing advice to management, sharing best practices and carrying out special reviews as directed by ALCO; and
- provide independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

5. **Risk management (continued)**

i. **Risk management framework (continued)**

Risk management group (continued)

- Compliance

The overall mission and role of compliance is to:

- ensure compliance risks are adequately identified, assessed, monitored and controlled in conjunction with Business and other control functions;
- ensure senior management is fully informed of significant compliance issues including "KYC" and "AML", and plans for their resolution;
- contribute to a "no surprise" compliance culture by educating and communicating compliance awareness throughout the Group;
- align annual compliance plans with business strategies and goals; and
- meet regulatory expectations.

- Internal audit

The role of the internal audit department within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures.

It is led by the head of internal audit who reports to the AC of the Board of Directors, with administrative reporting to the Chief Executive Officer(CEO).

To perform its role effectively, internal audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel.

- Internal control

The role of the internal control department is to ensure that the Group has a sound internal control system in place, meeting international standards and fulfilling the requirements of the Group's management and external regulatory bodies. The functions and responsibilities of the Internal control department include:

- Ensuring that the Group's operational policies, processes and controls are adhered to;
- Ensuring that proper internal controls are in place and that they are functioning as designed in a timely and effective manner;
- Periodic review of the Group's internal control system in order to identify areas where internal controls may be weak, not present and areas where there appear to be excessive controls resulting in operational inefficiency so as to suggest ways to rectify the same;
- Enable the management to conduct an annual review of the efficiency of the internal control system and report its findings; and
- Follow up of the operational activities from a preventive and detective angle and oversee operational controls being exercised to ensure that these are timely and effective.

5. Risk management (continued)

ii. Financial risk management

The Group has exposure to the following primary risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

Risk is inherent to the Group's business and activities. The Group's ability to identify, assess, monitor and manage each type of risk to which the Group is exposed is an important factor in its financial stability, performance and reputation.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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, products and services offered.

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

a. Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's financing receivables, ijarah receivable, balances with banks and financial institutions, international murabaha and wakalah with financial institutions, other assets and in debt securities.

The Group manages its credit risk exposure through diversification of its financing activities and investments to avoid concentration of risk with individuals or group of customers in specific location or business.

In addition, the Group manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

Regular audits of business units and Group credit processes are undertaken by internal audit division.

Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentration of credit risk by industrial sector for financing receivables and Ijarah receivable are presented in notes 8b and 9b.

Concentration of credit risk by geographical distribution of due from banks and international murabaha and wakalah arrangements with financial institutions is set out in note 6 and 7.

The Group measure its exposure to credit risk by reference to gross carrying amount of financial assets less amounts offset, profit suspended and impairment losses, if any.

5. Risk management (continued)

ii. Financial risk management (continued)

a. Credit risk (continued)

Collaterals and securities

The Group holds collateral and securities against financing receivable and Ijarah in the form of cash margins, personal guarantees, and mortgages over properties or other securities over assets. Estimates of credit risk mitigation relating to financing receivables and Ijarah are based on the value of collateral assessed at the time of financing, and are subsequently monitored on a periodic basis. A quantification of the extent to which collateral and other credit enhancements mitigate credit risk is shown below:

	Against neither past due nor impaired		Against past due but not impaired		Against individually impaired	
	2014	2013	**2014**	2013	**2014**	2013
Mortgage of property	**9,310,317**	5,463,436	**795,254**	1,834,603	**623,816**	554,453
Listed shares	**114,876**	249,025	**26,058**	82,303	**-**	-
Cash lien and others	**125,911**	154,501	**14,725**	2,882	**-**	-
Carrying amount	**9,551,104**	5,866,962	**836,037**	1,919,788	623,816	554,453

Impairment of financial Assets

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment for specific assets, or a group of similar assets. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of specific assets or a group of similar assets is calculated as the present value of the expected future cash flows.

Financial assets are written off only in circumstances where all reasonable restructuring and collecting activities have been exhausted. The Bank establishes an allowance for impairment losses that represents its estimate for incurring losses in its financing portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures after considering guidance provided by Central Bank, and a collective financing receivable and ijarah loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Financial assets with renegotiated terms

Financial assets with renegotiated terms are those that have been restructured due to deterioration in the borrower's financial position and where the Group has made concession that it would not otherwise consider.

5. Risk management (continued)

ii. Financial risk management (continued)

a. Credit risk (continued)

Credit exposure	Bank and financial institutions		Investment securities		Financing receivable and Ijarah receivable	
Individually impaired	**2014**	2013	**2014**	2013	**2014**	2013
Substandard	-	-	-	-	**390,029**	569,314
Doubtful	-	-	-	-	**261,312**	74,469
Loss	-	-	-	-	**66,848**	45,185
Individual impaired - gross	-	-	-	-	**718,189**	688,968
Specific allowance for impairment	-	-	-	-	**(406,830)**	(268,115)
Individually impaired - net	-	-	-	-	**311,359**	420,853
Past due but not impaired more than 90 days	-	-	-	-	**397,352**	535,035
Neither past due nor impaired	**4,128,035**	2,919,411	**1,119,199**	976,009	**13,929,947**	11,654,978
Collective allowance for impairment	-	-	-	-	**(164,004)**	(91,460)
Carrying amount	**4,128,035**	2,919,411	**1,119,199**	976,009	**14,474,654**	12,519,406

Bank and financial institutions exclude cash in hand and cash reserve deposits with the CBUAE.

The group also has the credit risk exposure in other assets amounting to AED 211.0 million (2013 : AED 199.0 million), out of which AED 119.6 million (2013 : AED 174.5 million) is impaired. Specific provision of AED 28.4 million (2013: AED 27.8 million) and profit in suspense of AED 62.2 million (2013: AED 104.6 million) are recognised in these consolidated financial statement against the impaired assets. The Group's exposure to credit risk relating to off balances sheet commitments are disclosed in note 31. These are neither past due nor impaired.

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by ensuring that a trade date is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit limits monitoring process. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group risk.

b. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It includes the risk of the inability to fund assets at appropriate maturities and rates and the inability to liquidate assets at reasonable prices and in an appropriate timeframe and inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

5. Risk management (continued)

ii. Financial risk management (continued)

b. Liquidity risk (continued)

The Group's approach to manage liquidity risk is to ensure that, management has diversified funding sources and closely monitors liquidity to ensure adequate funding.

All liquidity policies and procedures are subject to review and approval by ALCO.

Exposure to liquidity risk

The Group's contractual maturities of financial instruments are summarised in the table below based on the contractual repayment arrangements and does not take account of the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of financial instruments have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is to be maintained.

31 December 2014	Less than 3 months	3 months to 1 year	1-5 Year	Over 5 Year	Total
Assets					
Cash and balances with banks and financial institutions	2,267,083	800,000	-	-	3,067,083
International murabaha and wakalah with financial institutions	2,726,354	304,859	183,650	-	3,214,863
Financing receivables	1,292,606	995,471	2,567,353	616,271	5,471,701
Ijarah receivable	617,156	606,795	5,000,548	2,778,454	9,002,953
Investments securities	147,983	9,447	1,183,464	240,273	1,581,167
	7,051,182	2,716,572	8,935,015	3,634,998	22,337,767
Liabilities					
Customers' deposits	(11,532,880)	(3,059,088)	-	-	(14,591,968)
Due to banks	(2,455,664)	-	-	-	(2,455,664)
Sukuk payable	-	-	(3,298,733)	-	(3,298,733)
Other liabilities	(399,746)	(556,707)	(121,678)	-	(1,078,131)
	(14,388,290)	(3,615,795)	(3,420,411)	-	(21,424,496)

31 December 2013	Less than 3 months	3 months to 1 year	1-5 Year	Over 5 Year	Total
Assets					
Cash and balances with banks and financial institutions	1,160,757	1,100,000	-	-	2,260,757
International murabaha and wakalah with financial institutions	2,392,640	484,030	-	-	2,876,670
Financing receivables	180,033	360,356	2,304,861	1,116,151	3,961,401
Ijarah receivable	614,129	325,575	1,820,159	5,798,142	8,558,005
Investments securities	45,263	109,698	642,951	445,737	1,243,649
	4,392,822	2,379,659	4,767,971	7,360,030	18,900,482
Liabilities					
Customers' deposits	(9,779,492)	(2,121,515)	-	-	(11,901,007)
Due to banks	(1,306,433)	-	-	-	(1,306,433)
Sukuk payable	-	-	(3,295,889)	-	(3,295,889)
Other liabilities	(343,442)	-	(245,288)	-	(588,730)
	(11,429,367)	(2,121,515)	(3,541,177)	-	(17,092,059)

5. Risk management (continued)

ii. Financial risk management (continued)

b. Liquidity risk (continued)

Cash and balances with banks and financial institutions include mandatory deposits with the CBUAE (refer note 28). The Group's expected cash flows may vary from this analysis, for example, demand deposits from customers are expected to maintain a stable or increasing balance.

The residual maturity analysis has not been presented. The Group follows Shari'a principles and contractual returns are not guaranteed and are on profit or loss sharing basis.

c. Market risks

Market risk is the risk that the Group's income and / or value of a financial instrument will fluctuate because of changes in market prices such as profit rates, foreign exchange rates and market prices of equity.

Profit rate risk

Profit rate or pricing risk, comprising market and valuation risks, are managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value. Overall pricing or profit rate risk positions are managed by the ALCO.

The Bank is not significantly exposed to risk in terms of the re-pricing of its liabilities since primarily in accordance with Islamic Shari'a, the Bank does not provide a contractual rate of return to its depositors.

Currency risk

Currency risk is managed on the basis of limits determined by the Board of Directors and a continuous assessment of the Bank's open position and current and expected exchange rate movements. The Bank does not engage in foreign exchange trading and where necessary matches currency exposures inherent in certain assets with liabilities in the same or correlated currency.

The Board of Directors has set limits on positions by currency. Positions are closely monitored by ALCO to ensure positions are maintained within established limits.

At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

Currency Net position	2014	2013
US dollar	**(270,741)**	(479,089)
Sterling pound	**27**	(1)
Euro	**(10)**	(4,528)
Bahrani Dinar	**7,521**	7,454
Qatari Riyal	**(4,236)**	315
Saudi Riyals	**282**	277
Kuwaiti Dinar	**16,477**	40,123
Omani Riyal	**15,529**	15,602

The exchange rate of AED against US Dollar is pegged since November 1980 and the Group's exposure to currency risk is limited to that extent.

5. Risk management (continued)

ii. Financial risk management (continued)

c. Market risk (continued)

Equity price risk

Equity price risk arises from the change in fair value of equity instruments. The Group manages this risk through diversification of investment in terms of geographical distribution and industry concentration.
The table summarises the impact of change in equity prices by ±10% on profit and other comprehensive income of the Group.

	2014		2013	
	Effect on profit	Effect on other comprehensive income	Effect on profit	Effect on other comprehensive income
Financial assets at fair value through profit or loss	6,031	-	10,693	-
Financial assets at fair value through other comprehensive income	-	40,200	-	16,101

d. Operational risks

Operational risk is the risk of a direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage, to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Group has established a framework of policies and procedures to identify, assess, control, manage and report risks. The Risk Management Committee identify and manage operational risk to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Internal Audit Division. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

e. Capital management

Regulatory capital

The Group's lead regulator, the CBUAE, sets and monitors regulatory capital requirements. The Group's objectives when managing capital are as follows:

- Safeguard the Group's ability to continue as a going concern and increase returns for shareholders; and
- Comply with regulatory capital requirements set by the CBUAE.

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

5. Risk management (continued)

ii. Financial risk management (continued)

e. Capital management (continued)

The Group's regulatory capital adequacy ratio is set by the CBUAE. The Group has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the year. The Group has adopted a standardised approach for Credit risk and Market risk and a Basic Indicator approach for Operational Risk as a starting point and is working towards migrating to foundation internal rating based (IRB) and advanced IRB as per time line set by CBUAE.

- Tier 1 capital, which includes ordinary share capital, translation reserve and retained earnings
- Tier 2 capital, which includes fair value reserves relating to unrealised gains / losses on financial assets classified as FVTPL, FVTOCI and collective impairment provision.

The following limits have been applied for Tier 2 capital:

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

The table below summarises the composition of regulatory capital of the Group:

	Basel II	
	2014	2013
Tier 1 capital		
Ordinary share capital	**2,425,500**	2,425,500
Retained earnings	**789,328**	713,751
Statutory and special reserve	**89,008**	89,008
Legal Reserve	**1,330,626**	1,330,233
Total tier 1 capital base	**4,634,462**	4,558,492
Tier 2 capital		
Fair value reserve	**(68,698)**	(42,693)
Collective impairment provisions	**164,004**	91,460
Total tier 2 capital base	**95,306**	48,767
Total capital base	**4,729,768**	4,607,259
On balance sheet	**26,215,700**	21,902,330
Off balance sheet	**2,020,661**	1,144,517
Risk weighted assets:		
Credit risk	**18,208,143**	13,971,313
Market risk	**7,631**	33,995
Operational risk	**1,558,300**	855,848
Risk weighted assets	**19,774,074**	14,861,156
Tier 1 ratio	**23.44%**	30.67%
Capital adequacy **ratio**	**23.92%**	31.0%

5. Risk management (continued)

ii. Financial risk management (continued)

e. Capital management (continued)

Risk weighted capital requirement

The Group has adopted the standardised approach for credit risk, market risk and basic indicator approach for operational risk for regulatory reporting purposes. The Group's risk weighted capital requirement for credit, market and operation risk are given below:

Risk weights for credit risk

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard Portfolio approach mentioned under the CBUAE Basel II Capital Adequacy Framework. The descriptions of the counterparty classes along with the risk weights used to derive the risk weighted assets are as follows:

Claims on sovereigns
These pertain to exposures to governments and their central banks. Claims on central banks and sovereigns are risk weighted in accordance with their ratings from acceptable ECAIs, except that, for all GCC sovereigns a 0% weight has been applied.

Claims on public sector entities (PSEs)
Domestic currency claims on GCC non commercial PSE were treated as claims on GCC sovereign if their central bank or monetary authority treats them as such. Foreign currency claims on GCC PSE were treated one grade less favorable than its sovereign i.e. 20% risk weight were applied. Claims on other foreign noncommercial PSE were treated one grade less favorable than its sovereign. Claims on commercial PSE were treated as claims on corporate.

Claims on multilateral development banks (MDBs)
All MDBs are risk weighted in accordance with the banks credit rating except for those members listed in the World Bank Group which are risk weighted at 0%.

Claims on banks
Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims denominated in local currency were assigned more favorable risk weighting. No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

Claims on corporate portfolio
Claims on corporate are risk weighted in accordance with ratings from acceptable ECAIs. Risk weightings for unrated corporate claims are assigned at 100%.

Claims on regulatory retail exposures
Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due loans), if it meets the criteria mentioned in the CBUAE BASEL-II guidelines.

Claims secured by residential property
A preferential risk weight of 35% was applied on claims that did not exceed AED 10 million and the claim was secured by residential property with LTV of up to 85%. Other claims secured on residential property were risk weighted 100%.

Claims secured by commercial property
100% risk weight was applied on claims secured by commercial property.

5. Risk management (continued)

ii. Financial risk management (continued)

e. Capital management (continued)

Past due exposures

The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk weighted as follows:

- 150% risk weight when specific provisions are less than 20% of the outstanding amount of the financing; and
- 100% risk weight when specific provisions are greater than 20% of the outstanding amount of the financing.

Equity portfolios

0% risk weight was applied on equity in trading book. Equity in banking book was risk weighted at 100%. The risk weighted at 100% for other exposures.

Risk weighted assets as per standardised approach is set out below:

31 December 2014

Assets classes (on net basis)	On balance sheet - net	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assets
			Exposure before CRM	CRM	After CRM	
Claims on sovereigns	4,356,299	77,170	4,433,469	-	4,433,469	90,707
Claims on non-central government public sector entities (PSES)	2,090,140	25	2,090,165	-	2,090,165	28,638
Claims on banks	4,564,826	110,105	4,674,931	-	4,674,931	2,176,107
Claims on corporate	5,072,807	1,771,041	6,843,848	(27,625)	6,816,223	6,203,306
Claims included in the regulatory retail portfolio	5,429,440	30,469	5,459,909	(19)	5,459,890	5,051,667
Claims secured by residential property	17,916	-	17,916	-	17,916	14,739
Claims secured by commercial real estate	51,447	-	51,447	-	51,447	51,447
High risk categories	11,539	-	11,539	-	11,539	17,309
Past due financing receivables	708,711	31,851	740,562	(27,147)	713,415	933,181
Other assets	3,912,575	-	3,912,575	-	3,912,575	3,641,042
Total claims	26,215,700	2,020,661	28,236,361	(54,791)	28,181,570	18,208,143
Total credit risk						18,208,143

5. Risk management (continued)

ii. Financial risk management (continued)

e. Capital management (continued)

31 December 2013

Assets classes (on net basis)	On balance sheet - net	Off balance sheet	Credit risk mitigation (CRM) Exposure before CRM	CRM	After CRM	Risk weighted assets
Claims on sovereigns	4,450,902	76,979	4,527,881	(25)	4,527,856	61,827
Claims on non-central government public sector entities (PSES)	2,788,920	22	2,788,942	-	2,788,942	345,306
Claims on banks	3,184,115	10,047	3,194,162	-	3,194,162	1,248,194
Claims on corporate	3,057,771	982,659	4,040,430	(28,123)	4,012,307	4,039,484
Claims included in the regulatory retail portfolio	3,981,405	53,803	4,035,208	(19)	4,035,189	3,758,967
Claims secured by residential property	25,148	-	25,148	-	25,148	20,700
Claims secured by commercial real estate	72,300	-	72,300	-	72,300	72,300
High risk categories	11,539	-	11,539	-	11,539	17,309
Past due financing receivables	947,555	21,007	968,562	(46,126)	922,436	1,297,940
Other assets	3,382,675	-	3,382,675	-	3,382,675	3,109,286
Total claims	21,902,330	1,144,517	23,046,847	(74,293)	22,972,554	13,971,313
Total credit risk						13,971,313

Risk weights for market risk

Capital requirement for market risk is calculated using the standardised approach. The capital requirement for market risk is analysed into capital requirement for profit rate risk, equity risk, foreign exchange risk.

A summary of the capital requirement for market risk under standardised approach under Basel II is set out below:

	2014	2013
Equity position risk	**73**	2,632
Foreign currency risk	**842**	31,363
	915	33,995

Risk weight for operational risk

The capital requirement for operation risk is calculated using the basic indicator approach. The total capital requirement is calculated as 15% of last three years average income which amounts to AED 1,558.3 million *(2013: AED 855.8 million)*.

6. Cash and balances with banks and financial institutions:

	2014	2013
Cash	**271,386**	271,580
Deposits with CBUAE	**1,882,525**	1,946,436
Due from banks (Note 6.1)	**913,172**	42,741
	3,067,083	2,260,757

6.1 Due from banks - by geographical distribution

GCC countries	**518,126**	31,429
Europe	**186,301**	6,964
USA	**201,718**	3,385
North America	**6,144**	363
Others	**883**	600
	913,172	42,741

7. International murabaha and wakalah with financial institutions:

International murabaha and wakalah represent transactions with local and international banks with residual maturity less than one year from the reporting date.

Wakala arrangements	**3,210,929**	2,559,071
International murabaha	**3,934**	317,599
	3,214,863	2,876,670

International murabaha and wakalah with financial institutions by geographical distribution:

Within UAE	**2,313,444**	**2,252,260**
GCC countries	**717,769**	**440,760**
Others	**183,650**	**183,650**
	3,214,863	**2,876,670**

8. Financing receivables :

Financing receivables are secured by acceptable forms of collateral to mitigate the related credit risk. Financing receivables comprise the following:

a) By type

Vehicle murabaha	**389,264**	**391,713**
Goods murabaha	**3,835,671**	**2,577,649**
Real estate murabaha	**333,907**	**136,151**
Other murabaha receivable	**510,509**	**546,025**
Syndicate murabaha	**556,180**	**377,919**
Syndicate musharaka	**150,000**	**-**
Qard hasan	**62,306**	**98,327**
Visa receivables	**36,408**	**35,969**
Istisna	**18,375**	**23,228**
Provision for impaired financing receivables	**(420,919)**	**(225,580)**
	5,471,701	**3,961,401**

8. Financing receivables (continued)

b) By sector

	2014	2013
Government departments and authorities	**49,875**	96,533
Construction	**516,000**	354,262
Manufacturing	**264,755**	222,406
Transportation	**130,372**	132,044
Real estate	**285,314**	7,827
Trading	**931,529**	764,925
Financial institutions	**219,395**	156,996
Other services	**170,797**	110,114
Individual	**3,318,503**	2,316,569
Others	**6,080**	25,305
Provision for impaired financing receivables	**(420,919)**	(225,580)
	5,471,701	3,961,401

c) Impairment provision for financing receivables

Balance, beginning of the year	**225,580**	179,693
Written off during the year	**(13,465)**	(8,137)
Additional provision for the year	**217,001**	70,542
Recoveries and write-backs during the year	**(8,197)**	(16,518)
	420,919	225,580

9. Ijarah receivable

Ijarah receivable are finance leases, which comprise the following:

a) Net investment

Gross investment	**9,152,867**	8,692,000
Provision for impaired ijarah receivable	**(149,914)**	(133,995)
	9,002,953	8,558,005

b) By sector

Government departments and authorities	**4,651,526**	4,787,066
Construction	**409,837**	454,824
Manufacturing	**239,538**	223,042
Transportation	**128,721**	159,605
Real estate	**356,660**	208,540
Trading	**217,705**	338,868
Other services	**363,370**	261,621
Individual	**2,776,566**	2,248,212
Financial institutions	**8,945**	10,222
Provision for impaired Ijarah receivable	**(149,915)**	(133,995)
	9,002,953	8,558,005

9. Ijarah receivable (continued)

c) Impairment provision for Ijarah receivable

	2014	2013
Balance, beginning of the year	133,995	68,588
Additional provision for the year	65,615	73,407
Recoveries and write-backs during the year	(49,696)	(8,000)
	149,914	133,995

d) The net investment in Ijarah receivable comprises:

Less than one year	1,223,951	939,704
Between one and five years	5,000,548	1,820,159
More than five years	2,778,454	5,798,142
	9,002,953	8,558,005

10. Investments securities:

Investments comprise the following:

- Financial assets at fair value through profit or loss	90,194	190,343
- Financial assets at fair value through other comprehensive income	401,653	340,655
- Financial assets measured at amortised cost	1,089,320	712,651
	1,581,167	1,243,649

Investments securities – by category

Debt securities	1,119,199	976,009
Equities and funds	461,968	267,640
	1,581,167	1,243,649

Investments securities – by geographical distribution

- Financial assets at fair value through profit or loss:		
Domestic	56,535	89,054
International	33,659	101,289
	90,194	190,343
- Financial assets at fair value through other comprehensive income		
Domestic	111,713	187,242
International	289,940	153,413
	401,653	340,655
- Financial assets measured at amortised cost		
Domestic	767,617	358,937
International	321,703	353,714
	1,089,320	712,651

10. Investments securities (continued)

Investments securities – by quoted / unquoted

	2014	2013
- Financial assets at fair value through profit or loss:		
Quoted	87,830	137,589
Unquoted	2,364	52,754
	90,194	190,343
-Financial assets at fair value through other comprehensive income		
Quoted	289,433	187,242
Unquoted	112,220	153,413
	401,653	340,655
- Financial assets measured at amortised cost		
Quoted	876,517	678,229
Unquoted	212,804	34,422
	1,089,321	712,651

11. Investment properties

	Completed properties	Properties – under construction	Total
Balance as at 1 January 2014	325,093	14,259	339,352
Additions	88,738	176	88,914
Transfer	13,451	(13,451)	-
Revaluation gain	17,224	-	17,224
As at 31 December 2014	444,506	984	445,490
Balance as at 1 January 2013	220,550	2,738	223,288
Additions	42,403	11,521	53,924
Revaluation gain	62,140	-	62,140
As at 31 December 2013	325,093	14,259	339,352

	2014	2013
- Investment properties by geographical distribution:		
Domestic	439,288	333,150
International	6,202	6,202
	445,490	339,352

The carrying amount of investment property is the fair value of the property as determined by an independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valuedand is reviewed by the Board of Directors on a yearly / annual basis. Fair values were determined based on open market value basis significant assumption taken by the valuer are mentioned on note 29.

12. Properties held for sale

	Completed Properties	Properties held for sale – under construction	Total
Balance as at 1 January 2014	**932,489**	**187,779**	**1,120,268**
Addition	**241,899**	**259,372**	**501,271**
Disposal	**(26,696)**	**(171,139)**	**(197,835)**
Revaluation gain	**6,761**	**-**	**6,761**
As at 31 December 2014	**1,154,453**	**276,012**	**1,430,465**
Balance as at 1 January 2013	1,020,463	62,571	1,083,034
Addition	24,293	126,208	150,501
Disposal	(112,267)	(1,000)	(113,267)
As at 31 December 2013	932,489	187,779	1,120,268

13. Other assets

Prepaid expenses	**61,459**	36,105
Profit receivable – net	**155,640**	143,648
Sundry debtors	**166,614**	73,240
Assets available for sale - murabaha assets	**20,501**	15,798
Others	**47,582**	72,177
Reimbursements under acceptances	**399,746**	121,024
	851,542	461,992

14. Property and equipment:

	Freehold land & buildings	Equipment, furniture &fittings	Computer equipment	Motor vehicles	Capital - work in progress	Total
Cost – 2014						
As at 1 January 2014	**899,554**	**124,335**	**58,491**	**4,623**	**40,248**	**1,127,251**
Additions	**23,683**	**8,293**	**1,443**	**1,863**	**36,034**	**71,316**
Transfer to investment properties	**-**	**-**	**-**	**-**	**-**	**-**
Disposals	**(3,924)**	**(11,453)**	**(4,881)**	**(914)**	**-**	**(21,172)**
Capitalised	37,977	2,579	**2,802**	**-**	**(43,358)**	**-**
As at 31 December 2014	957,290	123,754	57,855	5,572	32,924	1,177,395
Accumulated depreciation - 2014						
As at 1 January 2014	**93,406**	**83,989**	**37,300**	**2,749**	**-**	**217,444**
Additions	**12,832**	**10,624**	**8,783**	**795**	**-**	**33,034**
Disposals	**(3,653)**	**(11,628)**	**(4,876)**	**(550)**	**-**	**(20,707)**
As at 31 December 2014	**102,585**	**82,985**	**41,207**	**2,994**	**-**	**229,771**
Net book value						
As at 31 December 2014	**854,705**	**40,769**	**16,648**	**2,578**	**32,924**	**947,624**
As at 31 December 2013	806,148	40,346	21,191	1,874	40,248	909,807

15. Customers' deposits

	2014	2013
Current accounts	4,955,863	4,063,641
Saving accounts	1,696,577	1,445,706
Watany / call accounts	689,145	383,262
Time deposits	7,018,474	5,812,295
Margins	231,909	196,103
	14,591,968	11,901,007

16. Due to banks

	2014	2013
On demand	7,379	111,597
Term deposit	2,448,285	1,194,836
	2,455,664	1,306,433

17. Sukuk payable

Name of issuer	Maturity date	31 December 2014		31 December 2013	
		Carrying value	Profit rate	Carrying value	Profit rate
SIB Sukuk Company II Limited	25 May 2016	1,467,227	4.715%	1,465,840	4.715%
SIB Sukuk Company III Limited	15April 2018	1,831,506	2.95%	1,830,049	2.95%
Total		3,298,733		3,295,889	

The Bank through a Shari'a compliant Sukuk financing arrangements raised two Sukuk of US$ denominated medium term finance amounting to: US$ 400 million (AED 1.46 billion) on 24 May 2011; and US$ 500 million (AED 1.83 billion) on 14 April 2013. These Sukuk are listed in London Stock exchange and Irish Stock exchange respectively.

The terms of the arrangement include transfer of certain Ijarah receivable of the Bank (the "Co-owned assets") basis to SIB Sukuk Company II Limited and SIB Sukuk Company III Limited, collectively called as ("the Issuers"), special purpose vehicles formed for issuance of Sukuk. In substance, the co-owned assets remain in control of the Bank, accordingly these assets continue to be recognised by the Bank. In case of any default, the Bank has provided an undertaking to make good all losses to the Sukuk holders.

The Issuers will pay the semiannual distribution amount from the returns received in respect of the leased assets. Such proceeds are expected to be sufficient to cover the semiannual distribution amount payable to Sukuk holders on each semiannual distribution date. Upon maturity the Bank has undertaken to repurchase the assets at the exercise price of US$ 400 million (AED 1.46 billion) and US$ 500 million (AED 1.83 billion).

18. Other liabilities

	2014	2013
Depositors' profit payable	48,329	47,450
Accrual and provision	10,181	7,877
Accounts payable	111,941	78,315
Provision for staff benefits	43,858	38,212
Profit Reserve	28,807	29,183
Managers' cheques	43,558	51,489
Obligations under acceptances	399,746	121,024
Sundry creditors	269,377	212,573
Others	656	2,607
	956,453	588,730

19. Share capital

The Bank's issued and fully paid share capital comprises 2,425,500,000 shares of AED 1.0 each.

	2014		2013	
	No. of shares	Value	No. of shares	Value
Share capital	2,425,500,000	2,425,500	2,425,500,000	2,425,500

20. Proposed cash dividend and Bonus Share

The Directors propose to the Shareholders a cash dividend of 10% of the par value of share (AED 0.10 per share) amounting to AED 242.6 million *(2013: cash dividend of AED 242.6 million (AED 0.10 per share) for 2013).*

21. Proposed directors' remuneration

In accordance with the Ministry of Economy & Planning interpretation of Article 118 of Commercial Companies Law No. 8 of 1984, the proposed directors' remuneration of AED 3.5 million *(2013: AED 3.5 million)* has been treated as a as an appropriation from equity and is included in retained earnings.

22. Reserves

In accordance with the Bank's Articles of Association and Article (82) of Union Law No. 10 of 1980, the Bank transfers 10% of annual profits, if any, to the legal reserve until it equals 50% of the share capital. Also, in accordance with its Articles of Association, 10% of annual profits, if any, maybe transferred to a statutory reserve until it is suspended by an ordinary general meeting upon a proposal by the Board of directors. The Statutory reserve can be utilised for the purposes determined by the ordinary general meeting upon recommendations of the Board of Director. The movements in reserves are as follows:

	Legal reserve	Statutory reserve	Fair value reserve
Balance at 1 January 2014	1,330,233	89,008	(42,693)
Transfer to reserve	393	-	(897)
Fair value adjustment	-	-	-
Change in fair value of financial assets	-	-	(25,108)
Balance at 31 December 2014	1,330,626	89,008	(68,698)

The fair value reserve comprises the cumulative net change in fair values of financial assets through other comprehensive income.

23. Investments, fees and other income:

	Note	2014	2013
Fees and commissions		141,670	132,980
Net gains from dealing in foreign currencies		19,682	18,452
Income from investments securities		67,322	26,393
Income from sale of properties held for sale		9,357	38,919
Revaluation gain on investment properties		23,985	62,140
Rent income		14,684	10,857
Income from subsidiary companies		45,061	33,499
Other operating income	(i)	175,458	15,584
		497,219	338,824

(i) During the year ended 31 December 2014, the Bank was granted a plot of land in Sharjah from the Government of Sharjah, the market value of which amounts to AED 174 million.

24. General and administrative expenses

	2014	2013
Staff costs	289,207	258,366
Depreciation	33,034	27,998
Other general and administrative expenses	105,528	100,841
	427,769	387,205

25. Provision - net of recoveries

	2014	2013
a) provision for customer receivables – net of recoveries		
Provision made during the year	(285,010)	(143,948)
Recoveries during the year	51,928	25,264
	(233,082)	(118,684)
b) Other provision – net of recoveries		
Impairment provision – investment securities	(12,804)	-
Impairment Provision - customer receivables – SIFS , net	(736)	17,033
	(13,540)	17,033
c) Other recoveries		
Other recoveries during the year	153	30
Total provision - net of recoveries	(246,469)	(101,621)

26. Distribution to depositors:

The distribution of profit between depositor and shareholders is made in accordance with the methods approved by the Bank's Fatwa and Shari'a Supervisory Board effective from 1 July 2002. The Bank has adopted the "Common Pool Method" for distribution of profit between depositors and shareholders. The application of the above method resulted in:

	2014	2013
Appropriation to depositors	106,148	114,263
Transfer (from) / to profit equalisation reserve	(375)	11,050
	105,773	125,313

27. Basic and diluted earnings per share

The calculation of earnings per share is based on earnings of AED 377.2 million *(2013 : AED* 307.1 *million)* for the year divided by the number of shares outstanding during the year. There is no dilution impact on basic earnings per share.

28. Cash and cash equivalents

Cash and cash equivalents comprise of:		
Cash and balances with banks and financial institutions	**3,067,083**	2,260,757
Wakala arrangements with financial institutions	**2,726,354**	2,152,640
	5,793,437	4,413,397
Less cash reserves with CBUAE	**(1,082,525)**	(846,436)
Cash and cash equivalents	**4,710,912**	3,566,961

Cash reserves with CBUAE are non-profit bearing and not available to fund day-to-day operations of the Bank.

29. Key accounting estimates, and judgments in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year and the resultant provisions and fair value. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In particular, considerable judgment is required by management in respect of the following:

Impairment losses on financing receivables, Ijarah and other assets

The Group reviews its portfolios of financing receivables and ijarah receivable to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio within financing receivables and ijarah receivable before the decrease can be identified with an individual receivable in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss. Experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Valuation of financial instruments

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable 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 in which all significant inputs are directly or indirectly observable from market data.

29. Key accounting estimates, and judgments in applying accounting policies (continued)

Valuation of financial instruments (continued)

Level 3: inputs that are unobservable. This category includes all instruments for which 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 for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark profit rates, credit spreads in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group has an established control framework with respect to the measurement of fair values. This framework includes a valuation function, which is independent of front office management and reports to the Investment Committee, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements.

Specific controls include:

- verification of observable pricing;
- re-performance of model valuations ;
- a review and approval process for new models and changes to models involving valuation function;
- calibration and back-testing of models against observed market transactions at regular intervals;
- analysis and investigation of significant valuation movements; and
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month, by Investment Committee.

Significant valuation issues are reported to the Investment Committee.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

29. Key accounting estimates, and judgments in applying accounting policies (continued)

Valuation of financial instruments (continued)

	Note	Level 1	Level 2	Level 3	Total
31 December 2014					
Financial assets					
Investment securities - FVTPL	10	87,830	-	2,364	90,194
Investment securities – FVTOCI		289,433	-	112,220	401,653
Total		377,263	-	114,584	491,847
Non-financial assets					
Investment properties		-	-	445,490	445,490
31 December 2013					
Financial assets					
Investment securities - FVTPL	10	137,589	-	52,754	190,343
Investment securities – FVTOCI		187,242	-	153,413	340,655
Total		324,831	-	206,167	530,998
Non-financial assets					
Investment properties		-	-	339,352	339,352

There has been no transfer between any level during the year.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the hierarchy for investment securities:

	2014		2013	
	FVTPL	FVTOCI	FVTPL	FVTOCI
Balance as at 1 January	52,754	153,413	53,117	171,876
losses	(663)	(700)	(363)	(10,625)
Addition	-	-	-	-
Disposals	(49,727)	(40,493)	-	(7,838)
Balance as at 31 December	2,364	112,220	52,754	153,413

Non-financial assets

	2014	2013
Balance as at 1 January	339,352	223,288
Revaluation	17,224	62,140
Additions	88,914	53,924
Balance at 31 December	445,490	339,352

Unobservable inputs used in measuring fair value

The investment banking division constantly monitors the progress of its investments by conducting its own valuation assessment along with information provided by the fund manager. Depending on the nature of the underlying asset, quantitative methods are used such as residual value, DCF/scenario analysis or comparable market valuation. Qualitative methods which involve taking into consideration the market & economic outlook are also employed.

29. Key accounting estimates, and judgments in applying accounting policies (continued)

The effect of unobservable input on fair value measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects.

	Effect on profit or loss		Effect on OCI	
31 December 2014	Favorable	Unfavorable	Favorable	Unfavorable
	44,785	**(44,785)**	**11,222**	**(11,222)**

	Effect on profit and loss		Effect on OCI	
31 December 2013	Favorable	Unfavorable	Favorable	Unfavorable
	39,210	(39,210)	15,341	(15,341)

Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
31 December 2014					
Financial assets					
Cash and balances with banks and financial institutions	-	3,067,083	-	3,067,083	3,067,083
International murabaha and wakalah with financial institutions	-	3,214,863	-	3,214,863	3,214,863
Financing receivables	-	-	5,471,701	5,471,701	5,471,701
Ijarah receivables	-	-	9,002,953	9,002,953	9,002,953
Financial assets measured at amortised cost	910,735	-	212,804	1,123,539	1,089,321
Other assets	-	790,083	-	790,083	790,083
Total	910,735	7,072,029	14,687,458	22,670,222	22,636,004
Financial Liabilities					
Customers' deposits	-	14,591,968	-	14,591,968	14,591,968
Due to banks	-	2,455,664	-	2,455,664	2,455,664
Sukuk payable	3,298,733	-	-	3,298,733	3,298,733
Other liabilities	-	956,453	-	956,453	956,453
Total	3,298,733	18,004,085	-	21,302,818	21,302,818

29. Key accounting estimates, and judgments in applying accounting policies (continued)

Financial instruments not measured at fair value (continued)

1. In respect of those financial assets and financial liabilities measured at amortised cost, which are of short term nature (up to 1 year), management believes that carrying amount is equivalent to its fair value.

2. In respect of investments in sukuk, management has used the quoted price for disclosure of their fair values.

3. Financing to customers are fair valued based on discounted cash flow which takes into account original underlying cash borrower credit grading and expected prepayments. These features are used to estimate expected cash flows and discounted at risk-adjusted rates. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.

4. Fair values of customer deposits and due to banks is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

Valuation of investment property

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Group's investment property portfolio annually.

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment properties, as well as the significant unobservable inputs used.

The Group has taken the highest and best use fair values for the fair value measurement of its investment properties.

Valuation technique	**Significant unobservable inputs**	**Interrelationship between key unobservable inputs and fair value measurements**
		The estimated fair value increase / decrease if:
Open market value	Expected market rental growth rate	Expected market rental growth rate were higher
	Risk adjusted discount rates	The risk adjusted discount rates were lower / higher
	Free hold property	The property is not free hold
	Free of covenants, third party rights and obligations	The property is subject to any covenants, rights and obligations
	Statutory and legal validity	The property is subject to any adverse legal notices / judgment
	Condition of the property	The property is subject to any defect / damages

30. Segment reporting

The Bank's activities comprise the following main business segments:

a. Government and corporate

Within this business segment the Bank provides companies, institutions and government departments with a range of Islamic financial products and services.

b. Retail

The retail segment provides a wide range of Islamic financial services to individuals.

c. Investment and treasury

This segment mainly includes income on investments of the Bank and other money market activities.

d. Subsidiaries

SNH through its divisions is engaged in operating hotels and resorts, catering and related services and Sharjah Islamic Financial service which is offering brokerage services for trading in Islamic Sharia'a compliant shares.

	Corporate and government	Retail	Investment and treasury	Hospitality and brokerage	Total
Consolidated statement of income:					
For the year ended 31 December 2014 :					
Income from murabaha and leasing	391,761	340,890	53,944	-	786,595
Profit paid on sukuk	-	-	(126,627)	-	(126,627)
Investments, fees and other income	75,620	52,945	128,367	-	256,932
Income for subsidiaries	-	-	-	45,061	45,061
Unallocated income	-	-	-	-	195,226
Total income	467,381	393,835	55,684	45,061	1,157,187
General and administrative expenses	-	-	-	(38,113)	(38,113)
General and administrative expenses – unallocated	-	-	-	-	(389,656)
Net operating income	467,381	393,835	55,684	6,948	729,418
Provisions- net of recoveries	(30,061)	(188,737)	(26,935)	(736)	(246,469)
Profit before distribution to depositors	437,320	205,098	28,749	6,212	482,949
Distribution to depositors	(66,109)	(38,118)	(1,546)	-	(105,773)
Profit for the year	371,211	166,980	27,203	6,212	377,176
Consolidated statement of financial position:					
As at 31 December 2014:					
Assets					
Segment assets	9,120,615	5,889,897	9,365,332	682,097	25,057,941
Unallocated assets	-	-	-	-	954,947
Total assets	9,120,615	5,889,897	9,365,332	682,097	26,012,888
Liabilities					
Segment liabilities	9,048,192	5,956,929	5,741,743	72,738	20,819,602
Unallocated liabilities	-	-	-	-	604,894
Total liabilities	9,048,192	5,956,929	5,741,743	72,738	21,424,496

30. **Segment reporting (continued)**

	Corporate and government	Retail	Investment and treasury	Hospitality and brokerage	Total
Consolidated statement of income:					
For the year ended 31 December 2013:					
Income from murabaha and leasing	382,576	250,692	59,611	-	692,879
Profit paid on Sukuk	-	-	(110,496)	-	(110,496)
Investments, fees and other income	74,785	42,117	188,160	-	305,062
Income for subsidiaries	-	-	-	33,499	33,499
Unallocated income	-	-	-	-	263
Total income	457,361	292,809	137,275	33,499	921,207
General and administrative expenses	-	-	-	(35,066)	(35,066)
General and administrative expenses – unallocated	-	-	-	-	(352,139)
Net operating income	457,361	292,809	137,275	(1,567)	534,002
Provisions- net of recoveries	(24,481)	(93,062)	(1,111)	17,033	(101,621)
Profit before distribution to depositors	432,880	199,747	136,164	15,466	432,381
Distribution to depositors	(77,325)	(47,288)	(700)	-	(125,313)
Profit for the year	355,555	152,459	135,464	15,466	307,068
Consolidated statement of financial position:					
As at 31 December 2013:					
Assets					
Segment assets	7,959,594	4,681,058	7,595,136	705,016	20,940,804
Unallocated assets	-	-	-	-	791,097
Total assets	7,959,594	4,681,058	7,595,136	705,016	21,731,901
Liabilities					
Segment liabilities	6,571,526	5,546,898	4,602,321	19,764	16,740,509
Unallocated liabilities	-	-	-	-	455,485
Total liabilities	6,571,526	5,546,898	4,602,321	19,764	17,195,994

(Currency: Thousands of U.A.E. Dirham)

30. Segment reporting (continued)

Assets 2014	Total	GCC	Other Arab Countries	North America	USA	Europe	Asia	Other
Cash and balances with banks and financial institutions	3,067,083	2,672,038	475	6,144	201,717	186,301	183	225
International murabaha and wakalah with financial institutions	3,214,863	3,031,213	-	-	-	183,650	-	-
Financing receivables	5,471,701	5,391,662	-	-	-	80,039	-	-
Financing ijarah	9,002,953	9,002,953	-	-	-	-	-	-
Investments securities	1,581,167	1,306,223	8,865	-	2,236	149,980	95,498	18,365
Investment properties	445,490	439,288	6,202	-	-	-	-	-
Properties held for sale	1,430,465	1,430,465	-	-	-	-	-	-
Other assets	851,542	851,542	-	-	-	-	-	-
Property and equipment	947,624	947,624	-	-	-	-	-	-
Total assets	26,012,888	25,073,008	15,542	6,144	203,953	599,970	95,681	18,590
Liabilities 2014								
Customers' deposits	14,591,968	14,569,525	3,715	3	55	13,429	4,608	633
Due to banks	2,455,664	2,372,798	-	-	-	-	82,866	-
Sukuk payable	3,298,733	1,549,979	73,339	12,867	19,300	784,127	833,388	25,733
Other liabilities and zakat payable	1,078,131	1,078,131	-	-	-	-	-	-
Shareholders' Equity	4,588,392	4,588,392	-	-	-	-	-	-
Total liabilities and shareholder's equity	26,012,888	24,158,825	77,054	12,870	19,355	797,556	920,862	26,366

30. Segment reporting (continued)

Assets 2013	Total	GCC	Other Arab Countries	North America	USA	Europe	Asia	Other
Cash and balances with banks and financial institutions	2,260,757	2,249,445	417	363	3,385	6,964	183	-
International murabaha and wakalah with financial institutions	2,876,670	2,693,020	-	-	-	183,650	-	-
Financing receivables	3,961,401	3,839,413	-	-	-	107,669	14,319	-
Financing ijarah	8,558,005	8,558,005	-	-	-	-	-	-
Investments securities	1,243,649	999,390	-	-	10,329	152,858	73,293	7,779
Investment properties	339,352	333,150	6,202	-	-	-	-	-
Properties held for sale	1,120,268	1,120,268	-	-	-	-	-	-
Other assets	461,992	461,992	-	-	-	-	-	-
Property and equipment	909,807	909,807	-	-	-	-	-	-
Total assets	21,731,901	21,164,490	6,619	363	13,714	451,141	87,795	7,779
Liabilities 2013								
Customers' deposits	11,901,007	11,876,876	4,394	-	-	10,951	8,768	18
Due to banks	1,306,433	1,303,445	-	-	-	2,228	728	32
Sukuk payable	3,295,889	1,548,643	73,276	12,856	19,283	783,451	832,669	25,711
Other liabilities and zakat payable	692,665	692,665	-	-	-	-	-	-
Shareholders' Equity	4,535,907	4,535,907	-	-	-	-	-	-
Total liabilities and shareholder's equity	21,731,901	19,957,536	77,670	12,856	19,283	796,630	842,165	25,761

31. Contingencies and commitments

The Bank provides financial guarantees and letter of credit to meet the requirements of the Bank's customers. These agreements have fixed limits and expirations and are not concentrated in any period.

The amounts reflected for guarantees represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

These contingent liabilities have off balance-sheet credit risk as only the related fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Many of the contingent liabilities will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

	2014	2013
a)Letter of credit - by sector:		
Corporate	**261,866**	179,550
	261,866	179,550
b)Letter of guarantee – by sector:		
Government of sharjah	**75,095**	76,999
Corporate	**1,275,342**	923,880
Retail and others	**20,637**	49,303
	1,371,074	1,050,182

Others

The Bank has issued a financial commitment of AED 50 million *(2013: AED 50 million)* to the Real Estate Department of UAE/Sharjah against under construction building of ASAS Tower, till the completion of project.

The Bank has also issued a financial commitment of AED 5 million *(2013: AED 5 million)* to the Department of Economic Development against real estate leasing and management license to ASAS real estate.

In addition a financial commitments of AED 230.0 Million which comprises of AED 100.0 million issued to Abu Dhabi securities exchange, AED 100.0 million to Dubai Financial Market and AED 30.0 million to UAE Central Bank against conducting brokerage operations for Sharjah Islamic Financial Services*(2013 : AED 230.0 million)*.

32. Related parties

The Bank has transactions in the ordinary course of business with directors, staff of the Bank and entities of which they are principal owners.

The significant balances outstanding at 31st December in respect of related parties included in the consolidated financial statements are as follows:

Government of Sharjah receivables	**1,600,000**	1,718,247
Government departments and authorities receivables	**2,823,497**	2,836,138
Other financing receivables and investing activities	**820,578**	915,239
Government of Sharjah deposits	**193,371**	31,759
Government department & authority deposits	**1,521,903**	1,566,573
Other deposits	**471,656**	269,728
Contingent liabilities	**211,527**	173,264
Income from financing and investing activities	**294,765**	291,037
Depositors' share of profit	**14,045**	19,093

32. Related parties(continued)

Key management compensation includes salaries and other short term benefits of AED 18.0 million in 2014 *(2013 : AED 16.6 million)* and post-employment benefits of AED 4.0 million in 2014 *(2013 : AED 0.9 million)*.

No impairment loss has been recognised against balances outstanding with key management personnel and other related parties.

33. Fiduciary activities

The Bank has launched a sharia'a compliant investment fund 'Tharwa Islamic Equity Portfolio' ("the fund") during 2005. The Bank in its capacity as a portfolio agent of the fund is responsible for certain fiduciary activities on behalf of customers investing in the fund. At the reporting date, the net assets value per unit of the fund was AED 18.5 million *(2013: AED 11.7 million)*.

34. Comparatives figures

Certain prior year comparatives have been reclassified in order to conform to current year's presentation. The comparatives set out in these consolidated financial statements represent the activities of the Group.