Al Khaliji France S.A.
United Arab Emirates Branches

Independent auditor's report
and financial statements
for the year ended 31 December 2014

Al Khaliji France S.A. - United Arab Emirates Branches

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INDEPENDENT AUDITOR'S REPORT

The Head Office
Al Khaliji France S.A.
United Arab Emirates Branches
United Arab Emirates

Report on the Financial Statements

We have audited the accompanying financial statements of **Al Khaliji France S.A., United Arab Emirates Branches** (the "Branches"), which comprise the statement of financial position as at 31 December 2014 and the statements of income, comprehensive income, changes in head office equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Cont'd....

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INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Al Khaliji France S.A., United Arab Emirates Branches** as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, proper books of accounts are maintained by the Branches. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. (8) of 1984, as amended, which might have a material effect on the financial position of the Branches or its financial performance. Further, as required by the UAE Union Law No. (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

Deloitte & Touche (M.E.)

ديلويت اند توش
Deloitte & Touche

Anis F. Sadek
Registration No. 521
22 March 2015

Statement of financial position
As of 31 December 2014

	Notes	2014 AED'000	2013 AED'000
ASSETS			
Cash and balances with U.A.E. Central Bank	5	**557,664**	282,162
Due from related parties	6	**231,100**	245,878
Due from banks and financial institutions	7	**81,485**	184,946
Financial investments	8	**236,758**	283,642
Loans and advances to customers	9	**2,309,078**	1,759,372
Customers' liability under acceptances		**131,658**	131,751
Other assets	10	**40,745**	12,743
Property and equipment	11	**1,988**	1,826
Intangibles	12	**3,982**	3,017
Total Assets		**3,594,458**	2,905,337
LIABILITIES AND HEAD OFFICE EQUITY			
Liabilities			
Due to banks and financial institutions	13	**96,893**	11,806
Customers' deposits	14	**2,694,010**	1,862,724
Due to related parties	6	**35,253**	386,603
Liability under acceptances		**131,658**	131,751
Other liabilities	15	**117,788**	51,608
Total liabilities		**3,075,602**	2,444,492
Head Office Equity			
Assigned capital	16(a)	**335,000**	284,850
Statutory reserve	16(b)	**46,720**	41,512
Fair value reserve		**-**	-
Retained earnings		**137,136**	134,483
Total Head Office Equity		**518,856**	460,845
Total Liabilities and Head Office Equity		**3,594,458**	2,905,337

....
Gilles Dermaux
General Manager

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

Statement of income
for the year ended 31 December 2014

	Notes	2014 AED'000	2013 AED'000
Interest income		**129,289**	104,812
Interest expense		**(25,581)**	(20,094)
Net interest income		**103,708**	84,718
Fee and commission income		**39,775**	34,774
Fee and commission expense		**(1,251)**	(790)
Net fee and commission income		**38,524**	33,984
Net gain from foreign currency transactions		**5,798**	5,709
Gain on sale of investments		**-**	7,569
Operating income for the year		**148,030**	131,980
General and administrative expenses	17	**(46,585)**	(40,901)
Impairment losses on loans, net of recoveries	18	**(31,504)**	(10,751)
Net operating expenses		**(78,089)**	(51,652)
Profit before tax		**69,941**	80,328
Income tax expense	19	**(17,857)**	(15,793)
Profit for the year		**52,084**	64,535

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

Statement of comprehensive income
for the year ended 31 December 2014

	2014 AED'000	2013 AED'000
Profit for the year	**52,084**	64,535
Other comprehensive loss:		
Items that will be reclassified subsequently to profit or loss:		
Realised gain on sale of available for sale financial investments	-	(8,038)
Other comprehensive loss for the year	-	(8,038)
Total comprehensive income for the year	**52,084**	56,497

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

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

	Assigned capital AED'000	Statutory reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000
Balance at 31 December 2012	284,850	35,059	8,038	109,900	437,847
Profit for the year	-	-	-	64,535	64,535
Other comprehensive loss for the year	-	-	(8,038)	-	(8,038)
Total comprehensive income for the year	-	-	(8,038)	64,535	56,497
Profits transferred to Head Office	-	-	-	(33,499)	(33,499)
Transfer to statutory reserve	-	6,453	-	(6,453)	-
Balance at 31 December 2013	284,850	41,512	-	134,483	460,845
Profit for the year	-	-	-	52,084	52,084
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-		52,084	52,084
Profits transferred to Head Office	-	-	-	(44,223)	(44,223)
Increase in assigned capital	50,150	-	-	-	50,150
Transfer to statutory reserve	-	5,208	-	(5,208)	-
Balance at 31 December 2014	**335,000**	**46,720**	-	**137,136**	**518,856**

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

Statement of cash flows
for the year ended 31 December 2014

	2014 AED'000	2013 AED'000
Cash flows from operating activities		
Profit before tax	**69,941**	80,328
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment losses on loans, net of recoveries	**31,504**	10,751
Gain on sale of available-for-sale investments	-	(7,569)
Depreciation and amortization	**2,181**	1,325
Operating profit before changes in operating assets and liabilities	**103,626**	84,835
Increase in cash reserve with the U.A.E. Central Bank	**(27,829)**	(12,165)
Increase in loans and advances	**(581,210)**	(510,600)
(Increase)/decrease in other assets	**(28,002)**	1,077
Increase in customers' deposits	**831,286**	453,314
Increase in other liabilities	**64,433**	2,138
Cash generated from operations	**362,304**	18,599
Tax paid	**(16,110)**	(14,797)
Net cash from operating activities	**346,194**	3,802
Cash flows from investing activities		
Purchase of property and equipment	**(1,106)**	(1,062)
Purchase of intangibles	**(2,202)**	(977)
Purchase of investments	**(86,892)**	(154,488)
Proceeds from maturity/sale of investments	**133,776**	232,388
Net cash from investing activities	**43,576**	75,861
Cash flows from financing activities		
Increase in assigned capital	**50,150**	-
Profits transferred to Head Office	**(44,223)**	(33,499)
Net cash from/(used in) financing activities	**5,927**	(33,499)
Net increase in cash and cash equivalents	**395,697**	46,164
Cash and cash equivalents, at the beginning of the year	**211,213**	165,049
Cash and cash equivalents, at the end of the year (Note 20)	**606,910**	211,213

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

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

1. Status and activities

Al Khaliji France S.A. is a French registered bank with its Head Office in Paris, France. It commenced its operations in the United Arab Emirates in 1973 as a retail bank and currently has four branches, one in each of Dubai, Abu Dhabi, Ras Al Khaimah and Sharjah. The ultimate parent and controlling party is Al Khalij Commercial Bank, Doha, Qatar.

The Bank's regional office in Dubai is responsible for managing the operations of the United Arab Emirates Branches. The regional office's registered address is P.O. Box 4207, Dubai, United Arab Emirates.

These financial statements reflect the activities of the branches of Al Khaliji France S.A. in the United Arab Emirates only (the "Branches") and exclude all transactions, assets and liabilities of the Head Office and Ultimate Parent's branches.

2. Application of new and revised International Financial Reporting Standards (IFRS)

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

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

- Amendments to IAS 32 *Financial Instruments: Presentation* relating to application guidance on the offsetting of financial assets and financial liabilities.

- Amendments to IAS 36 *Recoverable Amount Disclosures*:

  The amendments restrict the requirements to disclose the recoverable amount of an asset or cash generating unit (CGU) to the period in which an impairment loss has been recognised or reversed. They also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal.

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement, Novation of Derivatives and Continuation of Hedge Accounting*

  The amendment allows the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met.

- Amendments to IFRS 10, IFRS 12 and IAS 27 - *Guidance on Investment Entities*

  On 31 October 2012, the IASB published a standard on investment entities, which amends IFRS 10, IFRS 12, and IAS 27 and introduces the concept of an investment entity in IFRS.

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

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

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

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

New and revised IFRS	Effective for annual periods beginning on or after
• Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
• IFRS 7 *Financial Instruments: Additional hedge accounting disclosures* (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied
• IFRS 9 Financial Instruments (2009) issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 Financial Instruments (2010) revised in October 2010 includes the requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 Financial Instruments (2013) was revised in November 2013 to incorporate a hedge accounting chapter and permit the early application of the requirements for presenting in other comprehensive income the own credit gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of IFRS 9. Finalised version of IFRS 9 (IFRS 9 Financial Instruments (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. IFRS 9 (2009) and IFRS 9 (2010) were superseded by IFRS 9 (2013) and IFRS 9 (2010) also superseded IFRS 9 (2009). IFRS 9 (2014) supersedes all previous versions of the standard. The various standards also permit various transitional options. Accordingly, entities can effectively choose which parts of IFRS 9 they apply, meaning they can choose to apply: (1) the classification and measurement requirements for financial assets: (2) the classification and measurement requirements for both financial assets and financial liabilities: (3) the classification and measurement requirements and the hedge accounting requirements provided that the relevant date of the initial application is before 1 February 2015.	1 January 2018
• IFRS 15 *Revenue from Contracts with Customers*: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.	1 January 2017

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

2. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

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

New and revised IFRS	Effective for annual periods beginning on or after
• Annual Improvements to IFRSs 2012 - 2014 Cycle that include amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.	1 January 2016
• Amendments to IAS 16 and IAS 38 to clarify the acceptable methods of depreciation and amortization.	1 January 2016
• Amendments to IFRS 11 to clarify accounting for acquisitions of Interests in Joint Operations.	1 January 2016
• Amendments to IAS 16 and IAS 41 require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16.	1 January 2016
• Amendments to IFRS 10 and IAS 28 clarify that the recognition of the gain or loss on the sale or contribution of assets between an investor and its associate or joint venture depends on whether the assets sold or contributed constitute a business.	1 January 2016
• Amendments to IAS 27 allow an entity to account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IAS 39/IFRS 9 or using the equity method in an entity's separate financial statements.	1 January 2016
• Amendments to IFRS 10, IFRS 12 and IAS 28 clarifying certain aspects of applying the consolidation exception for investment entities.	1 January 2016
• Amendments to IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports.	1 January 2016
• Annual Improvements to IFRSs 2010 - 2012 Cycle that includes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24.	1 July 2014
• Annual Improvements to IFRSs 2011 - 2013 Cycle that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.	1 July 2014
• Amendments to IAS 19 *Employee Benefits* clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.	1 July 2014

Management anticipates that these new standards, interpretations and amendments will be adopted in the Branches' financial statements for the period beginning 1 January 2015 or as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9 and IFRS 15, may have no material impact on the financial statements of the Branches in the period of initial application.

2. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

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

Management anticipates that IFRS 15 and IFRS 9 will be adopted in the Branches' financial statements for the annual period beginning 1 January 2017 and 1 January 2018 respectively. The application of IFRS 15 and IFRS 9 may have significant impact on amounts reported and disclosures made in the Branches' financial statements in respect of revenue from contracts with customers and the Branches' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Branches perform a detailed review.

3. Significant accounting policies

Statement of compliance

The financial statements of the Branches are prepared in accordance with International Financial Reporting Standards (IFRS) and Central Bank of the United Arab Emirates requirements as related to the impairment of loans and advances and calculation of the capital adequacy ratio.

Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets, goods and services.

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

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

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

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

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

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

The principal accounting policies are set out below:

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

3. Significant accounting policies (continued)

Revenue and expense recognition

The Branches recognize interest income and interest expense in the statement of income for all interest bearing financial instruments classified as held to maturity, available for sale and loans and receivables using the effective interest method.

Interest income on non-performing loans and advances is suspended when realization of such interest or the principal amount becomes doubtful. Recoveries in respect of loans fully provided for are accounted for on a cash receipt basis.

Fees and commission income and expenses are generally recognized in the statement of income on accrual basis as the related services are provided except those that are integral to the effective interest rate calculations. Fees and commission included in the effective interest rate calculation are those that are incremental and directly attributable to the origination of the product and which are integral to the yield of the product.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Branches have retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

Foreign currency transactions

The Branches' financial statements are presented in the U.A.E. Dirham (AED) which is the Branches' functional and presentation currency.

Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

Foreign currency translation differences on monetary items classified as available-for-sale, such as foreign currency bonds designated as available-for-sale, are recognized as a translation gain or loss in the statement of income when incurred. Translation differences on non-monetary items, classified as available for sale, such as equities are included in the fair value reserve in head office equity when incurred.

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

3. Significant accounting policies (continued)

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment loss, if any. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. Depreciation is determined using the straight-line method over the estimated useful life as follows:

	Years
Office equipment	3 - 5
Furniture and fittings	5
Leasehold improvements	5
Vehicles	3

The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its useful economic life.

The useful lives, methods and the residual values underlying the calculation of depreciation of items of property and equipment are reviewed at each reporting date to take account of any change in circumstances.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of income.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income in the expense category consistent with the function of the intangible asset.

Impairment of tangible and intangible assets

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

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

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets (continued)

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

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

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

Financial instruments

Financial assets and financial liabilities are recognised when the Branches become a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in the statement of income.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on the trade date basis where the purchase or sale of financial assets that require delivery of the assets within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets designated at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified as 'available for sale' financial assets, held to maturity investments' and 'loans and advances.' The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Available for sale financial assets

Available for sale financial investments are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale financial investments are initially recognized at fair value plus directly related incremental transaction costs and are subsequently carried at fair value. Unrealized gains or losses arise from changes in the fair values are recognized directly in equity in the available-for-sale reserve, except for impairment losses or foreign exchange gains or losses related to debt securities, which are recognized immediately in the statement of income.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity is included in the statement of income for the year.

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in head office equity.

Held to maturity financial assets

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Branches have the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Branches with fixed or determinable payments. Loans and advances are initially recognized when cash is advanced to borrowers at the fair value on the commitment date plus directly attributable incremental transaction costs. They are subsequently carried at amortized cost using the effective interest method less any amounts written off and allowance for impairment.

Allowance for impairment is made against loans and advances when their full recovery as per contracted terms is in doubt taking into consideration IFRS requirements for fair value measurement and Central Bank of the U.A.E. guidelines.

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits with the U.A.E. Central Bank (except mandatory cash reserves) and due from banks and financial institutions. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

Effective interest method

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Impairment of loans and advances measured are assessed by the Branches as follows:

Individually assessed loans

These represent mainly corporate loans which are assessed individually by the Branches' Credit Department in order to determine whether there exists any objective evidence that a loan is impaired.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price, if available, or at the fair value of the collateral if the recovery is entirely collateral dependent.

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

Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances on:

Performing commercial and other loans

Where individually assessed loans are evaluated and no evidence of loss is present or has been identified, there may be losses based upon risk rating and expected migrations, product or industry characteristics.

Impairment covers losses which may arise from individual performing loans that are impaired at the reporting date but were not specifically identified as such until sometime in the future.

The estimated impairment is calculated by the Branches' management for each identified portfolio and based on historical experience, credit rating and expected migrations in addition to the assessed inherent losses which are reflected by the economic and credit conditions and taking into account the requirements of the Central Bank of the U.A.E.

Retail loans with common features which are rated on a portfolio basis and where individual loan amounts are not significant

Impairment of retail loans is calculated by applying a formulaic approach whereby a provision of 25% of loan balance is made when it is past due by more than 90 days and a provision of 50% of loan balance is made when it is past due by more than 120 days. All loans that are past due by more than 180 days are provided in full.

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of available for sale investments

A significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognized directly in equity is removed from equity and recognized in the statement of income. In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as all other financial assets. Reversals of impairment of debt instruments are recognized in the statement of income. Reversals of impairment of equity shares are not recognized in the statement of income, increases in the fair value of equity shares after impairment are recognized directly in equity.

De-recognition of financial assets

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

Financial liabilities and equity instruments issued by the Branches

Classification as debt or equity

Debt and equity instruments issued by the Branches are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Branches are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as other financial liabilities which include borrowings and customer deposits, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments issued by the Branches (continued)

Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Branches are initially measured at their fair values and, if not designated at fair values, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Any increase in the liability relating to financial guarantees is recorded in the statement of income. The premium received is recognised in the statement of income in fees and commission income on a straight line basis over the life of the guarantee.

De-recognition of financial liabilities

The Branches derecognize financial liabilities when, and only when, the Branches' obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in statement of income.

Fair values

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

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and
- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

3. Significant accounting policies (continued)

Financial instruments (continued)

Offsetting of financial assets and liabilities

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

Derivative financial instruments and hedge accounting

The Branches use derivative financial instruments, including forward foreign exchange contracts to hedge certain currency, interest and other market risks.

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

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

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in statement of income as they arise.

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

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

Fair Value Hedge

Gains and losses from re-measuring derivatives, which meet the criteria for fair value hedge accounting, to their fair value are recognized in the statement of income.

Hedge accounting is discontinued when the Branches revoke the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to statement of income from that date.

3. Significant accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)

Cash Flow Hedge

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under Head Office equity and the ineffective portion, if any, is recognized in the statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the statement of income in the same period in which the hedged transaction affects the statement of income. Where the hedged forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognized, the associated gains or losses that had previously been recognized in other reserves are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other reserves is retained in Head Office equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the statement of income for the year.

Embedded Derivatives

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

Employees' end of service benefits

Provision for employees' end of service indemnity is made based on current remuneration and cumulative years of service at the end of each reporting period. The provision is made in accordance with the Branches' policy which is not less than the liability arising under the U.A.E. labour laws.

Pension and national insurance contributions for U.A.E. citizens are made by the Branches in accordance with Federal Law No.7 of 1999.

Operating leases

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Where the Branches is the lessee and the leased assets are not recognized on reporting period, rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases.

Taxation

Income tax represents 20% of the taxable income of all Branches excluding Ras Al Khaimah Branch, where income tax does not apply.

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

3. Significant accounting policies (continued)

Provisions

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

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

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

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Branches have a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Acceptances

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

Documentary credits

Documentary Credits, issued on behalf of the clients of the Branches, are contracts whereby the Branches guarantee to pay on behalf of the client money to the holder for goods supplied to the client. The payment would be made only on submission of documents as prescribed in the credit by the holder through his bank.

The income received for the issue of the credit and subsequent handling of the bills under the credit is recognized as fee income as and when received.

Commitments to extend credit

These are firm commitments made by the Branches to its clients to extend credit as per the terms of the agreement and are considered as an off balance sheet liability.

4. Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Branches' accounting policies, which are described in Note 3, management is required to use certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

Impairment of loans

The Branches' accounting policy for allowances in relation to impaired loans and advances is described in Note 3. Impairment is calculated on the basis of discounted estimated future cash flows and the UAE Central Bank guidelines.

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

Individually assessed loans

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

The following factors are considered when determining impairment losses on individually assessed accounts:

1. The customer's aggregate borrowings.
2. The customer's risk rating, i.e. ability to perform profitable business and generate sufficient cash to repay the borrowed amount.
3. The value of the collateral and the probability of successful repossession.
4. The cost involved to recover the debts.

The Branches' policy requires regular review of the level of impairment allowances on individual facilities.

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

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

Impairment of loans (continued)

Collectively assessed loans

The management of the Branches assess, based on historical experience and the prevailing economical and credit conditions, the magnitude of loans and advances which may be impaired but not identified as of the reporting date.

These portfolio allowances are reassessed on a periodical basis and allowances are adjusted accordingly based on the judgement of management and guidance received from the Central Bank of the UAE.

Collectively assessed allowances are also made in respect of losses incurred in portfolios of retail loans with common features and where individual loan amounts are not significant.

Impairment of retail loans is calculated by applying a formulaic approach whereby a provision of 25% of loan balance is made when it is past due by more than 90 days and a provision of 50% of loan balance is made when is past due by more than 120 days and less than 180 days. All loans that are past due by more than 180 days are provided in full.

5. Cash and balances with U.A.E. Central bank

	2014 AED'000	2013 AED'000
Cash on hand	**12,628**	13,245
Current account with U.A.E. Central Bank	**88,843**	165,553
Statutory cash ratio requirements	**131,193**	103,364
Certificates of deposit with U.A.E. Central bank	**325,000**	-
	557,664	282,162

The Branches are required to maintain statutory deposits with U.A.E. Central Bank which are not available for use in the day-to-day operations.

6. Related party transactions

The Branches enter into transactions with entities that fall within the definition of a related party in accordance with International Accounting Standard 24: *Related Party Disclosures*. Related parties comprise Head Office and ultimate parent and controlling party outside the U.A.E. The Branches' management decides on the terms and conditions of such related party transactions.

The Branches maintain certain deposits with the Head Office in Paris (the "Head Office") and the ultimate parent and controlling party and conducts banking transactions with them as part of its normal activities.

The Head Office provides administrative and management support to the Branches (Note 17) for which the Branches were charged a fee for the year ended 31 December 2014 of AED 1.10 million (2013: AED 0.65 million).

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

6. Related party transactions (continued)

	2014 AED'000	2013 AED'000
Due from related parties comprise:		
Current accounts		
Ultimate Parent Company	**65,102**	4,236
Head office	**124,482**	20,986
Term deposits		
Ultimate Parent Company	-	127,283
Head office	**41,516**	93,373
	231,100	245,878
Due to related parties comprise:		
Current accounts		
Ultimate Parent Company	**3,911**	4,099
Head office	**31,006**	15,204
Term deposits		
Head office	-	-
Entity under common management/control		
Qatar Capital Limited, State of Qatar	**336**	367,300
	35,253	386,603

Profit for the year includes related party transactions as follows:

	2014 AED'000	2013 AED'000
Interest income	**783**	718
Commission income	**1,015**	359
Interest expense	**109**	454
Commission expense	**1,188**	788
Key management personnel compensation:		
Compensation accrued during the year to key management personnel	**7,201**	6,477

Interest income from related parties includes an amount of AED 34,000 (2013: AED 43,000) received from key management personnel.

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

7. Due from banks and financial institutions

	2014 AED'000	2013 AED'000
Due from banks and financial institutions outside the U.A.E.	**80,819**	744
Due from banks and financial institutions in the U.A.E.	**666**	184,202
	81,485	184,946

8. Financial investments

	2014 AED'000	2013 AED'000
Available for sale	**5,190**	5,222
Held to maturity	**231,568**	278,420
	236,758	283,642

	2014 AED'000	2013 AED'000
Investments by geographic concentration are as follows:		
- Within U.A.E.	**138,709**	203,966
- Outside U.A.E.	**98,049**	79,676
	236,758	283,642

The analysis of financial investments by industry sector is as follows:

	2014 AED'000	2013 AED'000
Government and Public Sector	**143,899**	209,188
Financial Institutions	**92,859**	74,454
Total	**236,758**	283,642

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

9. Loans and advances to customers

a) Loans and advances comprise:

	2014 AED'000	2013 AED'000
Loans and advances	**2,373,452**	1,805,154
Less: Allowance for impairment	**(64,374)**	(45,782)
	2,309,078	1,759,372

At 31 December 2014, the fair value of collateral held against loans and advances to customers was AED 1,449 million (2013: AED 906 million) an analysis of which is provided in Note 26.

b) The movement of the allowances against the loans and advances to customers is as follows:

	2014 AED'000	2013 AED'000
Balance at the beginning of the year	**45,782**	35,213
Allowance for the year	**35,295**	13,958
Write-offs during the year	**(16,075)**	(3,147)
Recoveries during the year	**(628)**	(242)
Balance at the end of year	**64,374**	45,782

Allowance for the year includes AED 3.30 million of suspended interest (2013: AED 2.97 million) and recoveries during the year includes AED 134,000 of suspended interest (2013: Nil).

	2014 AED'000	2013 AED'000
Specific impairment	**18,658**	21,731
Collective impairment	**45,716**	24,051
	64,374	45,782

c) Analysis of gross loans and advances to customers by class:

	2014 AED'000	2013 AED'000
Corporate lending	**1,943,911**	1,580,356
Small business lending	**149,104**	111,996
Retail lending	**280,437**	112,802
	2,373,452	1,805,154

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

9. Loans and advances to customers (continued)

d) Gross loans and advances by geographical area were as follows:

	2014 AED'000	2013 AED'000
Within U.A.E.	**2,307,864**	1,795,428
Outside U.A.E.	**65,588**	9,726
	2,373,452	1,805,154

e) Gross loans and advances by industry group were as follows:

	2014 AED'000	2013 AED'000
Wholesale and retail trade	**934,571**	705,092
Personal loans	**299,618**	110,115
Manufacturing	**470,309**	411,326
Transport and communication	**64,695**	56,654
Construction	**471,043**	211,178
Services	**133,216**	310,789
	2,373,452	1,805,154

10. Other assets

	2014 AED'000	2013 AED'000
Interest receivable	**14,040**	10,191
Prepaid expenses	**3,472**	2,390
Other	**23,233**	162
	40,745	12,743

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

11. Property and equipment

	Office equipment AED'000	Furniture and fittings AED'000	Vehicles AED'000	Leasehold improvements AED'000	Capital work in progress AED'000	Total AED'000
Cost						
At 31 December 2012	4,770	1,131	138	4,677	-	10,716
Additions during the year	666	5	-	298	93	1,062
Disposals during the year	(372)	-	-	(243)	-	(615)
At 31 December 2013	5,064	1,136	138	4,732	93	11,163
Additions during the year	297	21	425	38	325	1,106
Trasnfers	364	-	-	-	(364)	-
Disposals during the year	(1,306)	-	(138)	-	-	(1,444)
At 31 December 2014	**4,419**	**1,157**	**425**	**4,770**	**54**	**10,825**
Accumulated depreciation						
At 31 December 2012	4,165	938	138	4,054	-	9,295
Charge for the year	379	58	-	220	-	657
Disposals during the year	(372)	-	-	(243)	-	(615)
At 31 December 2013	4,172	996	138	4,031	-	9,337
Charge for the year	556	53	118	217	-	944
Disposals during the year	(1,306)	-	(138)	-	-	(1,444)
At 31 December 2014	**3,422**	**1,049**	**118**	**4,248**	-	**8,837**
Carrying amount						
At 31 December 2014	**997**	**108**	**307**	**522**	**54**	**1,988**
At 31 December 2013	892	140	-	701	93	1,826

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

12. Intangibles

	Software AED'000	Intangibles work in progress AED'000	Total AED'000
Cost			
At 31 December 2012	9,177	147	9,324
Additions during the year	875	102	977
Disposals during the year	(212)	-	(212)
At 31 December 2013	9,840	249	10,089
Additions during the year	862	1,340	2,202
Transfers	1,493	(1,493)	-
At 31 December 2014	**12,195**	**96**	**12,291**
Accumulated depreciation			
At 31 December 2012	6,616	-	6,616
Charge for the year	668	-	668
Disposals during the year	(212)	-	(212)
At 31 December 2013	7,072	-	7,072
Charge for the year	1,237	-	1,237
At 31 December 2014	**8,309**	-	**8,309**
Carrying amount			
At 31 December 2014	**3,886**	**96**	**3,982**
At 31 December 2013	2,768	249	3,017

13. Due to banks and financial institutions

	2014 AED'000	2013 AED'000
Due to banks and financial institutions outside the U.A.E.	**96,565**	11,549
Due to banks and financial institutions in the U.A.E.	**328**	257
	96,893	11,806

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

14. Customers' deposits

	2014 AED'000	2013 AED'000
Current accounts	**695,178**	535,953
Saving accounts	**15,116**	13,156
Time deposits	**1,771,717**	1,137,253
Margin accounts	**211,999**	176,362
	2,694,010	1,862,724

Time deposits held under lien as security for loans and advances (funded and unfunded) as at 31 December 2014 amounted to AED 557 million (2013: AED 464 million).

15. Other liabilities

	2014 AED'000	2013 AED'000
Income tax provision (Note 19)	**17,540**	15,793
Provision for employees' end of service indemnity	**19,871**	18,419
Interest payable	**7,770**	4,901
Banker's draft and others	**72,607**	12,495
	117,788	51,608

16. Assigned capital and statutory reserve

(a) Assigned capital

During the year, the Branches increased the assigned capital from AED 285 million to AED 335 million after obtaining approval from the Central Bank of the United Arab Emirates.

(b) Statutory reserve

In accordance with Article (82) of Union Law No. 10 of 1980, Federal Commercial Companies Law, the Branches have established a statutory reserve by appropriation of 10% of net profit for each year until the reserve equals 50% of the share capital. This reserve is not available for distribution.

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

17. General and administrative expenses

	2014 AED'000	2013 AED'000
Payroll	**34,706**	31,665
Depreciation and amortization	**2,181**	1,325
Head office charges (Note 6)	**1,072**	645
Other	**8,626**	7,266
	46,585	40,901

18. Impairment losses on loans, net of recoveries

	2014 AED'000	2013 AED'000
Impairment losses on loans	**31,998**	10,993
Recoveries during the year	**(494)**	(242)
Impairment losses on loans, net of recoveries	**31,504**	10,751

The impairment losses on loans, net of recoveries stated above excludes suspended interest of AED 3.30 million (2013: AED 2.97 million).

19. Taxation

The Branches are subject to taxation at the rate of 20% of the taxable income for the year in the Emirates of Abu Dhabi, Dubai and Sharjah. The taxable income is calculated after adding back certain provisions to the net profit before taxation, which management believes are likely to be disallowed as deductions by the tax authorities:

	2014 AED'000	2013 AED'000
Balance, at the beginning of the year	**15,793**	14,797
Current year charges	**17,857**	15,793
Paid during the year	**(16,110)**	(14,797)
Balance, at the end of the year (Note 15)	**17,540**	15,793

20. Cash and cash equivalents

	2014 AED'000	2013 AED'000
Cash and balances with U.A.E. Central Bank	**101,471**	178,798
Cash reserves and certificates of deposit with U.A.E. Central Bank	**456,193**	103,364
Due from related parties	**231,100**	245,878
Due from banks and financial institutions outside UAE	**80,819**	744
Due from banks and financial institutions in the U.A.E.	**666**	184,202
	870,249	712,986
Due to related parties	**(35,253)**	(386,603)
Due to banks and financial institutions	**(96,893)**	(11,806)
Cash reserves with U.A.E. Central Bank	**(131,193)**	(103,364)
Total cash and cash equivalents	**606,910**	211,213

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

21. Concentrations of assets, liabilities, equity and off balance sheet items

	31 December 2014			31 December 2013		
	Assets AED'000	**Liabilities and equity AED'000**	**Off balance sheet items AED'000**	Assets AED'000	Liabilities and equity AED'000	Off balance sheet items AED'000
Geographic regions						
U.A.E.	**3,118,288**	**3,367,341**	**1,611,344**	2,568,718	2,794,370	1,491,435
Other Middle East countries	**179,230**	**122,476**	**17,041**	221,931	24,402	27,736
O.E.C.D.	**168,385**	**76,760**	**87**	114,688	67,021	87
Other	**128,555**	**27,881**	**-**	-	19,544	-
Total	**3,594,458**	**3,594,458**	**1,628,472**	2,905,337	2,905,337	1,519,258
Industry Sector						
Government and Public Sector	**688,935**	**668,059**	**-**	541,834	225,037	-
Commercial and Business	**2,136,240**	**1,570,409**	**1,589,942**	1,711,082	1,205,031	1,462,763
Personal	**304,496**	**543,276**	**1,134**	116,312	525,771	1,030
Financial Institutions	**405,444**	**176,070**	**37,396**	505,278	437,045	55,465
Other	**59,343**	**636,644**	**-**	30,831	512,453	-
Total	**3,594,458**	**3,594,458**	**1,628,472**	2,905,337	2,905,337	1,519,258

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

22. Classification of financial assets and liabilities

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

	Available-for-sale investments AED'000	Loans and advances (including cash and cash equivalents) AED'000	Other amortised cost AED'000	Carrying amount AED'000
Financial assets				
Cash and balances with U.A.E. Central Bank	-	557,664	-	557,664
Due from related parties	-	231,100	-	231,100
Due from banks and financial institutions	-	81,485	-	81,485
Financial investments	5,190	-	231,568	236,758
Loans and advances to customers	-	2,309,078	-	2,309,078
Other assets	-	-	37,273	37,273
Total	5,190	3,179,327	268,841	3,453,358
Financial liabilities				
Due to banks and financial institutions	-	-	96,893	96,893
Customer deposits	-	-	2,694,010	2,694,010
Due to related parties	-	-	35,253	35,253
Other liabilities	-	-	80,377	80,377
Total	-	-	2,906,533	2,906,533

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

22. Classification of financial assets and liabilities (continued)

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

	Available-for-sale investments AED'000	Loans and advances (including cash and cash equivalents) AED'000	Other amortised cost AED'000	Carrying amount AED'000
Financial assets				
Cash and balances with U.A.E. Central Bank	-	282,162	-	282,162
Due from related parties	-	245,878	-	245,878
Due from banks and financial institutions	-	184,946	-	184,946
Financial investments	5,222	-	278,420	283,642
Loans and advances to customers	-	1,759,372	-	1,759,372
Other assets	-	-	10,353	10,353
Total	5,222	2,472,358	288,773	2,766,353
Financial liabilities				
Due to banks and financial institutions	-	-	11,806	11,806
Customer deposits	-	-	1,862,724	1,862,724
Due to related parties	-	-	386,603	386,603
Other liabilities	-	-	17,396	17,396
Total	-	-	2,278,529	2,278,529

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

23. Liquidity profile

	Less than 3 months AED'000	3 Months to 1 year AED'000	Over 1 year AED'000	Total AED'000
2014				
Assets				
Cash and balances with U.A.E. Central Bank	557,664	-	-	557,664
Due from related parties	231,100	-	-	231,100
Due from banks and financial institutions	8,025	73,460	-	81,485
Financial investments	5,190	-	231,568	236,758
Loans and advances to customers	1,290,575	411,155	607,348	2,309,078
Customers' liability under acceptances	102,657	29,001	-	131,658
Other assets	38,359	1,939	447	40,745
Property and equipment	-	-	1,988	1,988
Intangibles	-	-	3,982	3,982
Total Assets	2,233,570	515,555	845,333	3,594,458
Liabilities and Head Office Equity				
Due to banks and financial institutions	5,068	-	91,825	96,893
Customers' deposits	2,169,718	424,292	100,000	2,694,010
Due to related parties	35,253	-	-	35,253
Liability under acceptances	102,657	29,001	-	131,658
Other liabilities	97,951	-	19,837	117,788
Head Office equity	-	-	518,856	518,856
Total Liabilities and Head Office Equity	2,410,647	453,293	730,518	3,594,458

Maturities of assets and liabilities have been determined on the basis of the remaining periods at the end of each reporting period with the loans and advances maturities being determined based on contractual obligations.

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

23. Liquidity profile (continued)

	Less than 3 months AED'000	3 Months to 1 year AED'000	Over 1 year AED'000	Total AED'000
2013				
Assets				
Cash and balances with U.A.E. Central Bank	282,162	-	-	282,162
Due from related parties	245,878	-	-	245,878
Due from banks and financial institutions	184,946	-	-	184,946
Financial investments	5,222	128,694	149,726	283,642
Loans and advances to customers	893,304	365,650	500,418	1,759,372
Customers' liability under acceptances	95,091	36,660	-	131,751
Other assets	11,264	1,380	99	12,743
Property and equipment	-	-	1,826	1,826
Intangibles	-	-	3,017	3,017
Total Assets	1,717,867	532,384	655,086	2,905,337
Liabilities and Head Office Equity				
Due to banks and financial institutions	11,806	-	-	11,806
Customers' deposits	1,464,950	397,774	-	1,862,724
Due to related parties	386,603	-	-	386,603
Liability under acceptances	95,091	36,660	-	131,751
Other liabilities	33,223	-	18,385	51,608
Head Office equity	-	-	460,845	460,845
Total Liabilities and Head Office Equity	1,991,673	434,434	479,230	2,905,337

Maturities of assets and liabilities have been determined on the basis of the remaining periods at the end of each reporting period with the loans and advances maturities being determined based on contractual obligations.

24. Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Branches are a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Fair value of the financial assets that are measured at fair value on a recurring basis

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

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

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

24. Fair value of financial instruments (continued)

Fair value of the financial assets that are measured at fair value on a recurring basis (continued)

	31 December 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Financial assets measured at fair values				
Available-for-sale financial assets				
- Debt securities	-	**5,190**	-	**5,190**
Total	-	**5,190**	-	**5,190**

	31 December 2013			
	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
Financial assets measured at fair values				
Available-for-sale financial assets				
- Debt securities	-	5,222	-	5,222
Total	-	5,222	-	5,222

Transfers between Level 1 and Level 2:

There were no transfers between Level 1 and 2 during the years ended 31 December 2014 and 2013.

All gain and losses included in other comprehensive income relate to available for sale financial investments held at the end of the reporting period and are reported as changes of 'Fair value reserve'.

Fair value of financial instruments measured at amortised cost

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

	Carrying	**Fair value**			
	Amount	**Level 1**	**Level 2**	**Level 3**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**
2014					
Financial assets					
Held to maturity investments	**231,568**	**233,101**	-	-	**233,101**
2013					
Financial assets					
Held to maturity investments	278,420	280,479	-	-	280,479

25. Capital management

Regulatory capital

The Central Bank of the U.A.E. sets and monitors capital requirements for the Branches.

The Central Bank of the U.A.E. adopted Basel II capital regime in November 2009. The Branches calculate the Capital Adequacy Ratio in line with guidelines issued by the Central Bank of the U.A.E. The minimum capital ratio prescribed by the Central Bank is 12% of Risk Weighted Assets (RWA) calculated as per the guidelines issued by them.

The Branches' regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, statutory reserve after deductions for intangible assets, if any.

- Tier 2 capital, which includes collective impairment subject to the limit of 1.25% of RWA and the element of the fair value reserve (up to a minimum of 45% of the excess of market value over the net book value) relating to unrealised gains on financial investments classified as available for sale.

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed 67% of tier 1 capital; and qualifying term subordinated loan capital may not exceed 50% of tier 1 capital. The Tier One Capital must be a minimum of 8% of RWA.

The Branches' RWA are weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. The Branches are following the standardized measurement approach for credit, market and operational risk, as per Pillar 1 of Basel 2.

The Branches have complied with all externally imposed capital requirements throughout the year. There have been no material changes in the Branches' management of capital during the year.

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

25. Capital management (continued)

The Branches' regulatory capital position is as follows:

	2014 AED'000	2013 AED'000
Tier 1 capital		
Assigned capital	**335,000**	284,850
Statutory reserve	**46,720**	41,512
Retained earnings	**137,136**	134,483
Less: Intangibles - Software	**(3,982)**	(3,017)
	514,874	457,828
Tier 2 capital		
Collective provision for impairment	**40,902**	24,051
	40,902	24,051
Total capital base (a)	**555,776**	481,879
Risk-weighted assets		
Credit risk:		
On balance sheet	**2,126,246**	1,538,790
Off balance sheet	**903,916**	775,103
	3,030,162	2,313,893
Market risk	**1,332**	927
Operational risk	**240,700**	150,611
Total risk-weighted assets (b)	**3,272,194**	2,465,431
Capital adequacy ratio **= [a/b x 100]**	**16,.98%**	19.55%

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Branches to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Branches' longer term strategic objectives. The Branches' policies in respect of capital management and allocation are reviewed regularly.

26. Risk management

The Branches have set up a strong risk management infrastructure supported by adoption of certain practices in the field of risk management to manage and monitor the following major risks arising out of its day to day operations:

- Credit risk
- Liquidity risk
- Market risk
- Interest rate risk
- Operational risk

The Head Office of the Branches has overall responsibility for the oversight of the risk management frame work. It has established detailed policies and procedures in this regard along with senior management committees to ensure adherence to the approved policies and close monitoring of different risks within the Branches.

The Credit Committee and Management Committee work under the mandate of the Head Office to set up risk limits and manage the overall risk in the Branches.

These committees are responsible for developing credit, market and operational risk policies. Highly experienced and trained managers have delegated authority within the risk management framework to approve credit risk transactions and monitor market and operational risk.

Credit risk management

Policies relating to credit are reviewed and approved by the Branches' Credit Committee. All credit lines are approved centrally for the Branches. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Branches further limit risk through diversification of its assets by industry sectors.

All credit facilities are administered and monitored by the Credit Administration Department. Periodic reviews are conducted by Credit Examination teams from the Audit, Review and Compliance and facilities are risk graded based on criterion established in the Credit Policy Manual.

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

Different credit underwriting procedures are followed for retail and commercial lending as described below.

26. Risk management (continued)

Credit risk management (continued)

Retail lending

Each retail credit application is considered for approval according to a product program, which is devised in accordance with guidelines set out in the product policy approved by the Branches' Credit Committee. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans/credits under product programs. Each product program contains detailed credit criteria (such as customer demographics and income eligibility) and regulatory, compliance and documentation requirements, as well as other operating requirements.

Commercial lending

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

All credit lines or facilities extended by the Branches are made subject to prior approval pursuant to a set of delegated credit authority limits approved by the Branches' Head Office.

Credit review procedures and loan classification

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

If a credit is overdue for 90 days or more, interest is suspended and is not credited to income. Specific allowance for impairment of classified assets is made based on recoverability of outstanding and risk ratings of the assets.

The Branches also comply with IFRS, in accordance with which it assesses the need for any impairment losses on its loan portfolio by calculating the net present value of the expected future cash flows for each loan or its recoverability based either on collateral value or the market value of the asset where such price is available.

26. Risk management (continued)

Impaired loans and advances

Impaired loans and advances are loans and advances for which the Branches determine that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/advances agreement(s). These loans are graded fair, OLEM, substandard, doubtful or loss in the Branches' internal credit risk grading system.

Past due but not impaired loans

Loans and advances where contractual interest or principal payments are past due but the Branches believe that impairment is not appropriate on the basis of the level of security/collateral available and / or the stage of collection of amounts owed to the Branches.

Allowances for impairment

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

Write-off policy

The Branches write off a loan (and any related allowances for impairment losses) when Branches Credit Committee determines that the loans are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

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

26. Risk management (continued)

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of impaired assets by risk grade.

	Due from banks		Loans and advances		Financial investments	
	2014	2013	**2014**	2013	**2014**	2013
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Impaired						
Substandard	-	-	**26,732**	7,268	-	-
Doubtful	-	-	**7,785**	3,183	-	-
Loss	-	-	**5,098**	15,709	-	-
Gross amount	-	-	**39,615**	26,160	-	-
Interest suspended	-	-	**(2,829)**	(7,085)	-	-
Specific allowance for impairment	-	-	**(15,829)**	(14,646)	-	-
	-	-	**20,957**	4,429	-	-
Past due but not impaired						
Retail loans by less than 180 days	-	-	**64**	-	-	-
Past due retail loans less than 30 days	-	-	**6,581**	-	-	-
	-	-	**6,645**			-
Neither past due nor impaired						
Gross amount	**81,485**	184,946	**2,327,192**	1,778,994	**236,758**	283,642
Collective allowance for impairment	-	-	**(45,716)**	(24,051)	-	-
	81,485	184,946	**2,281,476**	1,754,943	**236,758**	283,642
Carrying amount	**81,485**	184,946	**2,309,078**	1,759,372	**236,758**	283,642

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

26. Risk management (continued)

The Branches hold collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to Branches. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2014 or 2013.

At 31 December, the fair value of collateral held was as follows:

	Loans and advances to customers	
	2014 AED'000	2013 AED'000
Against impaired		
Property	**10,075**	-
Debt securities	-	-
Equities	-	-
Cash	-	-
Others	-	-
Against past due but not impaired		
Property	**9,400**	-
Debt securities	-	-
Equities	-	-
Cash	-	-
Others	-	-
Against neither past due nor impaired		
Property	**1,086,205**	636,335
Debt securities	-	-
Equities	-	-
Cash	**330,343**	239,838
Others	**12,502**	29,958
Total	**1,448,525**	906,131

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

26. Risk management (continued)

The distributions by geographical concentration of impaired loans and advances and impairment allowance for credit losses are as follows:

	U.A.E. AED'000	Middle East countries AED'000	O.E.C.D AED'000	Other countries AED'000	Total AED'000
2014					
Non-performing loans	**39,615**	-	-	-	**39,615**
Impairment allowance for credit losses	**15,829**	-	-	-	**15,829**
Interest in suspense	**2,829**	-	-	-	**2,829**
2013					
Non-performing loans	26,160	-	-	-	26,160
Impairment allowance for credit losses	14,646	-	-	-	14,646
Interest in suspense	7,085	-	-	-	7,085

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

26. Risk management (continued)

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement as at 31 December 2014:

Interest Rate Sensitivity Gap:

	Within 3 months AED'000	From 3 to 6 months AED'000	From 6 to 12 months AED'000	Over one year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with U.A.E. Central Bank	325,000	-	-	-	232,664	557,664
Due from related parties	208,094	-	-	-	23,006	231,100
Due from banks and financial institutions	74,720	-	-	-	6,765	81,485
Financial investments	5,190	-	-	231,568	-	236,758
Loans and advances to customers	1,654,420	201,408	97,877	352,331	3,042	2,309,078
Customers' liability under acceptances	-	-	-	-	131,658	131,658
Other assets	-	-	-	-	40,745	40,745
Property and equipment	-	-	-	-	1,988	1,988
Intangibles	-	-	-	-	3,982	3,982
Total assets	2,267,424	201,408	97,877	583,899	443,850	3,594,458
Liabilities and Head Office equity						
Due to banks and financial institutions	91,825	-	-	-	5,068	96,893
Customers' deposits	1,301,130	363,825	60,467	100,000	868,588	2,694,010
Due to related parties	6,826	-	-	-	28,427	35,253
Liability under acceptances	-	-	-	-	131,658	131,658
Other liabilities	-	-	-	-	117,788	117,788
Head Office Equity	-	-	-	-	518,856	518,856
Total liabilities and head office equity	1,399,781	363,825	60,467	100,000	1,670,385	3,594,458
On Balance Sheet gap	867,643	(162,417)	37,410	483,899	(1,226,535)	-
Cumulative interest rate sensitivity gap	867,643	705,226	742,636	1,226,535	-	-

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

26. Risk management (continued)

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement as at 31 December 2013:

Interest Rate Sensitivity Gap:

	Within 3 months AED'000	From 3 to 6 months AED'000	From 6 to 12 months AED'000	Over one year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with U.A.E. Central Bank	-	-	-	-	282,162	282,162
Due from related parties	229,891	-	-	-	15,987	245,878
Due from banks and financial institutions	183,951	-	-	-	995	184,946
Financial investments	5,222	128,694	-	149,726	-	283,642
Loans and advances to customers	1,005,408	253,530	92,863	403,140	4,431	1,759,372
Customers' liability under acceptances	-	-	-	-	131,751	131,751
Other assets	-	-	-	-	12,743	12,743
Property and equipment	-	-	-	-	1,826	1,826
Intangibles	-	-	-	-	3,017	3,017
Total assets	1,424,472	382,224	92,863	552,866	452,912	2,905,337
Liabilities and Head Office equity						
Due to banks and financial institutions	2,732	-	-	-	9,074	11,806
Customers' deposits	811,786	350,874	46,900	-	653,164	1,862,724
Due to related parties	2,797	-	-	-	383,806	386,603
Liability under acceptances	-	-	-	-	131,751	131,751
Other liabilities	-	-	-	-	51,608	51,608
Head Office Equity	-	-	-	-	460,845	460,845
Total liabilities and head office equity	817,315	350,874	46,900	-	1,690,248	2,905,337
On Balance Sheet gap	607,157	31,350	45,963	552,866	(1,237,336)	-
Cumulative interest rate sensitivity gap	607,157	638,507	684,470	1,237,336	-	-

26. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Branches will encounter difficulty in meeting obligations from its financial liabilities at a point of time.

Management of liquidity risk

The Branches' approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Branches' reputation.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Branches.

The daily liquidity position is monitored regularly and liquidity stress testing is conducted covering both normal and more severe market conditions. Liquidity policies and procedures are subject to review and approval by Head Office. Reports of the Branches liquidity positions are reviewed daily. A summary report including any exceptions and remedial action taken is also reviewed daily.

The key measure used by the Branches for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Branches' compliance with the liquidity limit established by the Branches' lead regulator. The other indicators closely monitored on regular basis are Advances to Deposit Ratio, Utilization of funds to stable resources and stress testing of liquid funds against unexpected withdrawal of liabilities.

Market risk management

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

The Branches carry a limited amount of market risk as a policy preference and it is continuously monitored. Foreign exchange for the account of the Branches is managed properly.

26. Risk management (continued)

Market risk - Non Trading or Banking Book

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

i) Interest rate risk management

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

The Branches use monitoring tools to periodically measure and monitor interest rate sensitivity. The results are analyzed and monitored by Local Management Committee. Since a portion of the Branches' assets and liabilities have floating rates, deposits and loans generally repriced simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Branches' assets and liabilities are repriced within one year, thereby further limiting interest rate risk. The following paragraphs depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Branches' statement of income or head office equity. The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2014, including the effect of hedging instruments. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in AED million.

The impact of 1% sudden movement in benchmark interest rate on net income over a 12 months period as on 31 December 2014 would have been a decrease in net income by -10.12% (in case of decrease of interest rate) and would have been an increase in net income by +10.12% (in case of increase of interest rate) [2013: -7.29% and +7.29%] respectively.

The effective interest rate on bank placements, financial institutions, investments and certificates of deposits with Central Bank was 0.90% (2013: 1.61%), on loans and advances 5.73% (2013: 5.98%), on customer deposits 1.06% (2013: 1.13%) and on bank borrowings 0.77% (2013: 0.56%).

ii) Currency risk

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

The Branches' assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. The Branches' manage exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Branches' Head Office sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Branches' had the following significant net exposures denominated in foreign currencies:

26. Risk management (continued)

Market risk management (continued)

ii) Currency risk (continued)

	Net spot position AED'000	Forward position AED'000	Total 2014 AED'000	Total 2013 AED'000
Euro	**528**	-	**528**	25
Sterling Pounds	**6**	-	**6**	7
Swedish Kroners	**3**	-	**3**	2
Lebanese Pounds	**696**	-	**696**	496
Kuwaiti Dinars	**56**	-	**56**	31
South African Rand	**4**	-	**4**	3
Japanese Yens	**2**	-	**2**	298
Canadian Dollars	**6**	-	**6**	6
Swiss Francs	**3**	-	**3**	23
Australian Dollars	**14**	-	**14**	22
Jordanian Dinars	**12**	-	**12**	12
Danish Kroners	**2**	-	**2**	2
Total	**1,332**	-	**1,332**	927

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

Operational risk

The Branches' manage and undertake to minimise operational losses as follows:

Identify and assess the operational risk inherent in all material products, activities, processes and systems, and ensure that before new products, activities, processes and systems are introduced or undertaken, the inherent operational risk in them is subject to adequate assessment procedures.

Implement a process to monitor operational risk profiles and material exposures to losses on a regular basis.

Establish and implement policies, processes and procedures to mitigate and/or control material operational risks. Periodically review organizational risk limitation and control strategy and adjust its operational risk profile using appropriate strategies in the context of the Branches' overall risk appetite and profile.

Ensure contingency and business continuity plans are in place to ensure the Branches' ability to operate on an ongoing basis and to limit losses in the event of severe business interruption, disruption or loss.

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

27. Contingent liabilities and commitments

	2014 **AED'000**	2013 AED'000
a) Contingent liabilities		
Guarantees	**1,477,914**	1,218,519
Letters of credit	**150,558**	300,739
	1,628,472	1,519,258

The outstanding unutilised facilities as of 31 December 2014 amounted to AED 2,019 million (2013: AED 1,591 million).

The outstanding unused portion of commitments can be revoked unilaterally at any time by the Branches provided there are reasonable grounds as per contract terms.

b) Contingent liabilities- maturity profile

The maturity profile of the Branches' contingent liabilities was as follows:

	Within 3 months AED'000	**From 3 to 6 months AED'000**	**From 6 to 12 months AED'000**	**Over 1 year AED'000**	**Total AED'000**
2014					
Guarantees	**926,832**	**191,335**	**243,616**	**116,131**	**1,477,914**
Letters of credit	**136,097**	**14,461**	**-**	**-**	**150,558**
	1,062,929	**205,796**	**243,616**	**116,131**	**1,628,472**
2013					
Guarantees	720,887	136,597	205,262	155,773	1,218,519
Letters of credit	261,937	30,480	8,322	-	300,739
	982,824	167,077	213,584	155,773	1,519,258

The analysis of commitments and contingencies by industry sector is shown in Note 21.

28. Approval of financial statements

The financial statements were approved by the Board of Directors of the Head Office and authorised for issue on 22 March 2015.