



mashreq
al islami



المشرق
الإسلامي

WE MAKE POSSIBLE

2014

Annual Report

Mashreq Al-Islami Finance Company

Islamic Banking Made Innovative



**Mashreq Al-Islami Finance Company (P.J.S.C.)
Dubai - United Arab Emirates**

**Report and financial statements
for the year ended 31 December 2014**

Mashreq Al-Islami Finance Company (P.J.S.C.)

Contents	Pages
Independent auditor's report	1 & 2
Statement of financial position	3
Income statement	4
Statement of comprehensive income	5
Statement of changes in shareholders' equity	6
Statement of cash flows	7
Notes to the financial statements	8 - 35

INDEPENDENT AUDITOR'S REPORT

The Shareholders
Mashreq Al-Islami Finance Company (P.J.S.C.)
Dubai
United Arab Emirates

Report on the Financial Statements

We have audited the accompanying financial statements of **Mashreq Al-Islami Finance Company (P.J.S.C.), Dubai** (the "Company"), which comprise the statement of financial position as at 31 December 2014, and the income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

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...

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Mashreq Al-Islami Finance Company (P.J.S.C.), Dubai** as at 31 December 2014, and its financial performance and 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, the Company has maintained proper books of accounts. We obtained all the information and explanations which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984 (as amended), or of the Company's Articles of Association which might have materially affected the financial position of the Company or its financial performance.

Deloitte & Touche (M.E.)



Anis Sadek
Registration No. 521
18 March 2015

**Statement of financial position
as at 31 December 2014**

	Notes	2014 AED	2013 AED
ASSETS			
Cash and cash equivalents	5	10,207	80,010,197
Islamic financing products measured at amortised cost	8	1,030,556,810	784,213,760
Other financial assets measured at amortised cost	6	8,089,457	14,474,482
Other receivables and assets	9	183,161	201,425
Property and equipment	10	176,054,063	171,544,197
Total assets		1,214,893,698	1,050,444,061
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to a bank	7	558,613,966	444,915,590
Other payables	11	591,555	1,070,027
Total liabilities		559,205,521	445,985,617
Shareholders' equity			
Issued and paid up share capital	12	500,000,000	500,000,000
Statutory reserve	13	15,025,241	9,902,268
Retained earnings		140,662,936	94,556,176
Total shareholders' equity		655,688,177	604,458,444
Total liabilities and shareholders' equity		1,214,893,698	1,050,444,061



 Tooran Asif
 Chief Executive Officer



 Ali Raza Khan
 Head of Corporate Affairs

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

**Income statement
for the year ended 31 December 2014**

	Notes	2014 AED	2013 AED
Income			
Income from Murabaha		33,691,524	25,158,352
Income from Ijara		24,228,371	20,271,351
Income from Mudaraba deposits	7	185,186	743,267
Income from investment in Sukuk	6	124,732	198,024
Fees and commission income	14	10,779,018	11,020,615
Total income		69,008,831	57,391,609
Expenses			
General and administrative expenses	15	(915,660)	(389,758)
Allowance for impairment, net	16	(16,863,438)	(33,529,262)
Total expenses		(17,779,098)	(33,919,020)
Profit for the year		51,229,733	23,472,589

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

**Statement of comprehensive income
for the year ended 31 December 2014**

	2014 AED	2013 AED
Profit for the year	51,229,733	23,472,589
Other comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Changes in fair value of other financial assets measured at fair value through other comprehensive income (FVTOCI)	-	333,617
Total other comprehensive income for the year	-	333,617
Total comprehensive income for the year	51,229,733	23,806,206

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

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

	Issued and paid up share capital AED	Statutory reserve AED	Investments revaluation reserve AED	Retained earnings AED	Total AED
Balance at 1 January 2013	500,000,000	7,555,009	8,059,163	65,038,066	580,652,238
Profit for the year	-	-	-	23,472,589	23,472,589
Other comprehensive income for the year	-	-	333,617	-	333,617
Total comprehensive income for the year	-	-	333,617	23,472,589	23,806,206
Transferred to statutory reserve	-	2,347,259	-	(2,347,259)	-
Transfer from investment revaluation reserve to retained earnings	-	-	(8,392,780)	8,392,780	-
Balance at 31 December 2013	500,000,000	9,902,268	-	94,556,176	604,458,444
Profit for the year	-	-	-	51,229,733	51,229,733
Total comprehensive income for the year	-	-	-	51,229,733	51,229,733
Transferred to statutory reserve	-	5,122,973	-	(5,122,973)	-
Balance at 31 December 2014	500,000,000	15,025,241	-	140,662,936	655,688,177

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

**Statement of cash flows
for the year ended 31 December 2014**

	2014 AED	2013 AED
Cash flows from operating activities		
Profit for the year	51,229,733	23,472,589
Adjustments for:		
Allowance for impairment, net	16,863,438	33,529,262
Operating cash flows before changes in operating assets and liabilities	<u>68,093,171</u>	<u>57,001,851</u>
Increase in Islamic financing products measured at amortised cost	(263,078,691)	(295,581,604)
Decrease in other receivables and assets	18,264	136,718
Decrease in other payables	(478,472)	(2,581,767)
Net cash used in operating activities	<u>(195,445,728)</u>	<u>(241,024,802)</u>
Cash flows from investing activities		
Purchase of property and equipment	(2,877,420)	-
Decrease in other financial assets measured at amortised cost	4,624,782	4,625,036
Proceeds on disposal of other financial assets measured at FVTOCI	-	41,919,051
Net cash generated from investing activities	<u>1,747,362</u>	<u>46,544,087</u>
Cash flows from financing activities		
Increase in due to a bank	113,698,376	104,707,506
Net cash generated from financing activities	<u>113,698,376</u>	<u>104,707,506</u>
Net decrease in cash and cash equivalents	<u>(79,999,990)</u>	<u>(89,773,209)</u>
Cash and cash equivalents at 1 January	80,010,197	169,783,406
Cash and cash equivalents at 31 December (Note 5)	<u><u>10,207</u></u>	<u><u>80,010,197</u></u>

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

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

1. General information

Mashreq Al-Islami Finance Company (P.J.S.C.) (the “Company”) is a private joint-stock company and is a subsidiary of Mashreqbank psc, Dubai (the “Parent Company”). The Company was incorporated in the United Arab Emirates under a trade license issued by the Department of Economic Development of the Government of Dubai.

The address of the registered office of the Company is P.O. Box 1250, Dubai, United Arab Emirates.

The Company carries out financing activities through various Islamic instruments, in accordance with Islamic Shari’a principles which include prohibition of usury.

Shari’a Supervisory Board

The Company’s business activities are subject to the supervision of the Shari’a Supervisory Board which is entrusted with the duty of reviewing and directing the activities of the Company in accordance with the Islamic Shari’a rules and principles.

2. Application of new and revised International Financial Reporting Standards (“IFRSs”)

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> • Amendments to IAS 32 <i>Financial Instruments: Presentation</i> relating to application guidance on the offsetting of financial assets and financial liabilities. 	1 January 2014
<ul style="list-style-type: none"> • Amendments to IAS 36 <i>Recoverable Amount Disclosures</i>: <p>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.</p>	1 January 2014
<ul style="list-style-type: none"> • Amendments to IFRS 10, IFRS 12 and IAS 27 <i>Guidance on Investment Entities</i>: 	1 January 2014

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

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

**2 Application of new and revised International Financial Reporting Standards (“IFRSs”)
(continued)**

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> • Finalised version of IFRS 9 (IFRS 9 <i>Financial Instruments</i> (2014)) was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model. <p>A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.</p> <p>A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.</p>	1 January 2018
<ul style="list-style-type: none"> • IFRS 14 <i>Regulatory Deferral Accounts</i> issued in January 2014 specifies the financial reporting requirements for ‘regulatory deferral account balance’ that arise when an entity provides good or services to customers at a price or rate that is subject to rate regulation. 	1 January 2016
<ul style="list-style-type: none"> • IFRS 15 <i>Revenue from Contracts with Customers</i>: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. 	1 January 2017
<ul style="list-style-type: none"> • Annual Improvements to IFRSs 2012 - 2014 Cycle that include amendments to IFRS 5, IFRS 7 and IAS 19. 	1 July 2016
<ul style="list-style-type: none"> • Amendments to IAS 16 and IAS 38 to clarify the acceptable methods of depreciation and amortisation. 	1 January 2016
<ul style="list-style-type: none"> • Amendments to IFRS 11 to clarify accounting for acquisitions of <i>Interests in Joint Operations</i>. 	1 January 2016
<ul style="list-style-type: none"> • Amendments to IAS 16 and IAS 41 require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16. 	1 January 2016

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

**2. Application of new and revised International Financial Reporting Standards (“IFRSs”)
(continued)**

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

New and revised IFRSs	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> • 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
<ul style="list-style-type: none"> • 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
<ul style="list-style-type: none"> • Amendments to IFRS 10, IFRS 12 and IAS 28 clarifying certain aspects of applying the consolidation exception for investment entities. 	1 January 2016
<ul style="list-style-type: none"> • Amendments to IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. 	1 January 2016
<ul style="list-style-type: none"> • 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
<ul style="list-style-type: none"> • Annual Improvements to IFRSs 2011 - 2013 Cycle that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40. 	1 July 2014
<ul style="list-style-type: none"> • Annual Improvements to IFRSs 2012 - 2014 Cycle that include amendments to IFRS 5, IFRS 7 and IAS 19. 	1 July 2016
<ul style="list-style-type: none"> • Amendments to IAS 19 <i>Employee Benefits</i> 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 Company’s financial statements for the period beginning 1 January 2015 or as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, may have no material impact on the financial statements of the Company in the period of initial application.

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

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

3. Significant accounting policies

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the Shari'a rules and principles as determined by the Company's Shari'a Supervisory Board to the extent that those are compatible with IFRS and applicable requirements of U.A.E. laws (including Central Bank of the U.A.E. requirements as related to impairment of financial assets).

3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies adopted are set out below.

3.3 Revenue recognition

Income from Islamic financing products

The Company's policy for recognition of income from Islamic financing products is described in Note 3.11 (iii).

Fee and commission income and expenses

Fee and commission income and expenses are accounted for on the date the transaction arises.

3.4 Leasing

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

The Company as lessee

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

**Notes to the financial statements
for the year ended 31 December 2014 (continued)****3. Significant accounting policies (continued)****3.5 Foreign currencies**

These financial statements are presented in United Arab Emirates Dirham (AED) since that is the currency of the country in which the Company is domiciled.

Transactions denominated in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing at the end of the reporting period. Gains and losses arising from foreign currency transactions are included in the income statement.

3.6 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any, except for land which is measured at cost less accumulated impairment loss, if any. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement when incurred.

The estimated useful lives, residual values and depreciation method are reviewed at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement for that period.

3.7 Impairment of tangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible 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 asset 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 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 (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in income statement.

**Notes to the financial statements
for the year ended 31 December 2014 (continued)****3. Significant accounting policies (continued)****3.7 Impairment of tangible assets (continued)**

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in income statement.

3.8 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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 reporting date, taking into account the risks and uncertainties surrounding the obligation. Where 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, the 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.

3.9 Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes 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 income statement.

3.9.1 Financial assets

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

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

Classification of financial assets

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

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

3. Significant accounting policies (continued)

3.9 Financial instruments (continued)

3.9.1 Financial assets (continued)

Classification of financial assets (continued)

Financial assets measured at amortized cost, including Islamic financing products, are measured at amortised cost if both of the following conditions are met:

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

All other financial assets are subsequently measured at fair value.

Amortised cost and effective profit method

The effective profit method is a method of calculating the amortised cost of a financial asset measured at amortized cost and of allocating profit over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financial asset measured at amortized cost, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Profit is recognised on an effective profit basis for financial asset measured subsequently at amortised cost. Profit is recognised in the income statement.

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

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

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

Dividends on these investments in equity instruments are recognised in the income statement when the Company's right to receive the dividends is established in accordance with IAS 18 *Revenue*, unless the dividends clearly represent a recovery of part of the cost of the investment.

**Notes to the financial statements
for the year ended 31 December 2014 (continued)****3. Significant accounting policies (continued)****3.9 Financial instruments (continued)**

3.9.1 Financial assets (continued)

Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore, for financial assets that are designated as at FVTOCI, any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated financial asset measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the income statement.

Impairment of financial assets measured at amortized cost

Financial assets measured at amortized cost are assessed for indicators of impairment at each reporting date. Financial assets measured at amortized cost are impaired where there is an objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset measured at amortized cost, the estimated future cash flows of the investment have been impacted. For financial assets measured at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective profit rate.

The carrying amount of the financial asset measured at amortized cost is reduced by the impairment loss directly with the exception of Islamic financing products and other financial assets measured at amortised cost where the carrying amount is reduced through the use of an allowance account. When advance receivable is 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 recognized in the income statement.

Impairment of retail Islamic financing products is calculated by applying a formulaic approach whereby a provision of 25% of net exposure is made when it is past due by more than 90 days, a provision of 50% of net exposure is made when it is past due by more than 120 days. All loans that are past due by more than 180 days are written off or are fully provided for net of collateral held.

Derecognition of financial assets

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

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

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

**Notes to the financial statements
for the year ended 31 December 2014 (continued)****3. Significant accounting policies (continued)****3.9 Financial instruments (continued)****3.9.2 Financial liabilities and equity instruments****Classification as liability or equity**

Liability and equity instruments issued by the Company 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 Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective profit rate method.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantee contracts issued by the Company, and commitments issued by the Company to extending finance at below-market profit rate are measured in accordance with the specific accounting policies set out below.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective profit method.

The effective profit method is a method of calculating the amortised cost of a financial liability. The effective profit rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the income statement.

De-recognition of financial liabilities

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

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

3. Significant accounting policies (continued)

3.10 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 recognized amounts or when the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.11 Islamic financing products

All Islamic banking products are accounted for in conformity with the accounting policies described below:

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

An agreement whereby the Company sells to a customer a commodity or an asset, which the Company has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

Ijara

An agreement whereby the Company acting as a lesser, purchases or constructs an asset for lease according to the customer's request (lessee), based on his promise to lease the asset for an agreed rent and a specific period that could end by transferring the ownership of the leased asset to the lessee.

Mudaraba

Mudaraba is a profit sharing partnership contract between a capital provider (Rab-ul-Mal) and a fund manager (Mudarib). In a depository relationship with the Company, the Company acts as a Mudarib and customer as Rab-ul-Mal whereas in case of a financing or investment mode, the Company acts as the capital provider (Rab ul Mal) and the customer as the Fund Manager (Mudarib). In both of cases Mudaraba Contract is a profit sharing arrangement wherein capital provider bears the risk and the Mudarib (Fund Manager) contributes expertise and management skills. In case of loss, it falls on the financier/investor except in the case of negligence, misconduct and breach of contract by the Mudarib (Fund Manager).

Sukuk

These comprised asset backed Shari'a compliant trust certificates. The trust certificate owners share the return and bear the losses in proportion to the certificates held by them.

**Notes to the financial statements
for the year ended 31 December 2014 (continued)****3. Significant accounting policies (continued)****3.11 Islamic financing products (continued)***(ii) Accounting policy*

Islamic financing products are measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income.

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Allowance for impairment is made against Islamic financing products when their recovery is in doubt taking into consideration IFRS requirements and the United Arab Emirates UAE Central Bank guidelines. Islamic financing products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

(iii) Revenue recognition policy

Income from Islamic financing assets is recognised in the income statement using the effective profit method.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

Murabaha

Murabaha income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

Ijara

Ijara income is recognised on effective profit rate basis over the lease term.

Profit and coupon revenue

Profit and coupon revenue is accrued on a time basis, by reference to the principal outstanding and at the effective profit rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

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 judgements are as follows:

(i) Impairment of Islamic financing products measured at amortised cost

The Company reviews its Islamic financing products on a regular basis to assess whether a provision for impairment should be recorded in the income statement in relation to any non-performing assets. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs.

Impairment 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 written off or are fully provided for net of collateral.

(ii) Classification and measurement of financial assets

The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. Management is satisfied that the Company's investments are appropriately classified and measured.

5. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at banks and short term bank deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

	2014	2013
	AED	AED
Current accounts (Note 7)	10,207	10,197
Short-term bank deposits – Mudaraba (Note 7)	-	80,000,000
	10,207	80,010,197

Short-term bank deposits carried an average profit rate of 0.85% per annum in 2013 and had maturity of less than three months from date of placement.

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

6. Other financial assets measured at amortised cost

The analysis of the Company's other financial assets measured at amortised cost is as follows:

	2014 AED	2013 AED
Sukuk	31,952,432	36,571,113
Accrued profit from Sukuk	446,763	452,864
Less: Allowance for impairment	(24,309,738)	(22,549,495)
	<u>8,089,457</u>	<u>14,474,482</u>

(a) Allowance for impairment movement:

	2014 AED	2013 AED
At 1 January	22,549,495	22,549,495
Allowance for impairment (Note 16)	1,760,243	-
At 31 December	<u>24,309,738</u>	<u>22,549,495</u>

(b) The fair value of other financial assets measured at amortised cost amounted to AED 7.6 million as of 31 December 2014 (2013: AED 13.1 million).

(c) During the year ended 31 December 2014, income from investment in Sukuk of AED 0.1 million (2013: AED 0.2 million) was recorded in income statement.

(d) Included in other financial assets measured at amortised cost, investments with a carrying value of AED 24.3 million (2013: AED 24.3 million) were impaired and a specific allowance for impairment of AED 24.3 million (2013: AED 22.5 million) were recorded against these investments (Note 19).

7. Related party transactions

The Company enters into transactions with the parties that fall within the definition of a related party as contained in International Accounting Standard 24: *Related Party Disclosures*. Related parties comprise companies and entities under common ownership and/or common management and key management personnel.

The nature of significant related party transactions and the amounts involved were as follows:

	2014 AED	2013 AED
<i>Parent Company</i>		
Current accounts (Note 5)	10,207	10,197
Short term bank deposits - Mudaraba (Note 5)	-	80,000,000
Accrued profit on short term bank deposits - Mudaraba (Note 9)	-	165,601
Due to a bank	(558,613,966)	(444,915,590)
Letter of guarantee (Note 17)	<u>200,000,000</u>	<u>200,000,000</u>

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

7. Related party transactions (continued)

Amount due to a bank is payable to the ultimate parent company “Mashreqbank psc” and is unsecured without any fixed repayment schedule. No profit is charged on the amount due to a bank.

Letter of guarantee provided by the ultimate parent company “Mashreqbank psc” amounted to AED 200 million (2013: AED 200 million).

Profit for the year included significant related party transactions as follows:

	2014	2013
	AED	AED
<i>Parent Company</i>		
Income from Mudaraba deposits	185,186	743,267
Fees and commission income	490,239	649,707

8. Islamic financing products measured at amortised cost

(a) The analysis of the Company’s Islamic financing products measured at amortised cost is as follows:

	2014	2013
	AED	AED
Murabaha	579,691,362	444,047,338
Ijara	600,588,507	497,633,790
	1,180,279,869	941,681,128
Less: Unearned income	(107,531,918)	(124,700,508)
Allowance for impairment	(42,191,141)	(32,766,860)
Total	1,030,556,810	784,213,760

(b) Allowance for impairment movement:

	2013	2013
	AED	AED
At 1 January	32,766,860	40,040,377
Impairment allowance/(reversal of impairment) during the year (Note 16)	7,616,978	(6,054,837)
Profit suspended during the year	1,807,303	181,320
Written off during the year	-	(1,400,000)
At 31 December	42,191,141	32,766,860

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

8. Islamic financing products measured at amortised cost (continued)

- (c) In certain cases, the Company continues to carry classified doubtful financial assets and delinquent accounts on its books even after making 100% provision for impairment. Profit is recorded on accounts for litigation purposes only and accordingly profit is not accrued or taken to income statement. Receivables are written off only when all legal and other avenues for recovery or settlement are exhausted. The book value of these accounts on which profit is not taken to income statement, including fully provided accounts, amounted to AED 50.8 million at 31 December 2014 (2013: AED 45.9 million).
- (d) Included in allowance for impairment, a collective allowance of AED 16.7 million (2013: AED 6.7 million)
- (e) In determining the recoverability of Islamic financing products, the Company considers any change in the credit quality of the Islamic financing products measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

9. Other receivables and assets

	2014	2013
	AED	AED
Prepayments	183,161	17,449
Accrued profit on short term bank deposits - Mudaraba (Note 7)	-	165,601
Other receivables	-	18,375
	<hr/>	<hr/>
	183,161	201,425
	<hr/> <hr/>	<hr/> <hr/>

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

10. Property and equipment

Property and equipment represents freehold land in the Emirate of Sharjah, United Arab Emirates.

	AED
Cost	
At 1 January 2013	200,914,190
Impairment allowance for the year (Note 16)	(29,369,993)
	<hr/>
At 31 December 2013	171,544,197
Additions during the year	30,203,604
Disposals during the year	(25,693,738)
	<hr/>
At 31 December 2014	176,054,063

- (a) During the year ended 31 December 2013, the management recorded an impairment loss of AED 29.4 million in order to adjust the carrying amount of land to its recoverable amount.
- (b) During the year, the Company entered into a plot swap transaction with Government of Sharjah in which Sharjah Government Land Department acquired four plots amounting to a net book value of AED 25.7 million against a new plot amounting to AED 20.2 million and additional area was granted in four existing plots held by the Company, amounted to AED 10 million. The Company paid a consideration of AED 2.87 million to Sharjah Government Land Department. Impairment allowance of AED 1.6 million was reversed to income statement on disposal of four plots in the swap transaction.

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

11. Other payables

	2014 AED	2013 AED
Accrued expenses	319,796	195,386
Commission income collected in advance	164,259	-
Other payables	107,500	874,641
	<u>591,555</u>	<u>1,070,027</u>

12. Issued and paid up share capital

The issued and fully paid-up capital of the Company comprises of 5,000,000 shares of AED 100 each. As at 31 December 2014 and 2013, share capital is held by the following parties:

	Number of shares	Amount AED
Mashreqbank psc – U.A.E.	4,985,000	498,500,000
Abdul Aziz Abdulla Al Ghurair	5,000	500,000
Injaz Services FZ LLC – U.A.E.	5,000	500,000
Abdulla Bin Ahmed Al Ghurair	5,000	500,000
	<u>5,000,000</u>	<u>500,000,000</u>

13. Statutory reserve

In accordance with the U.A.E. Federal Commercial Companies Law number 8 of 1984, as amended, the Company has established a statutory reserve by appropriation of 10% of profit for each year until at least the reserve equals 50% of the issued and paid up share capital. This reserve is not available for distribution.

14. Fees and commission income

	2014 AED	2013 AED
Insurance related income	5,180,864	6,627,082
Finance prepayment and settlement income	1,391,641	1,258,443
Finance processing fees	3,160,664	2,486,601
Other	1,045,849	648,489
	<u>10,779,018</u>	<u>11,020,615</u>

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

15. General and administrative expenses

	2014 AED	2013 AED
Professional fees	146,653	157,280
Commission expense	286,532	125,181
Government fees	17,652	27,870
Insurance related expenses	464,732	78,568
Other	91	859
	<u>915,660</u>	<u>389,758</u>

16. Allowance for impairment, net

	2014 AED	2013 AED
Impairment allowance/(reversal of impairment) during the year (Note 8)	7,616,978	(6,054,837)
Impaired and write-off of impaired Islamic financing products	10,783,452	10,214,106
Recovery of previously written Islamic financing products	(1,664,789)	-
Impairment of property and equipment (Note 10)	-	29,369,993
Impairment of other financial assets measured at amortised cost (Note 6)	1,760,243	-
Reversal of impairment allowance of property and equipment (Note 10)	(1,632,446)	-
	<u>16,863,438</u>	<u>33,529,262</u>

17. Contingencies

	2014 AED	2013 AED
Letter of guarantee (Note 7)	200,000,000	200,000,000

The letter of guarantee has been issued on behalf of the Company by the Parent Company without any commission charges.

18. Capital management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the borrowings and equity balance. The Company's overall strategy remains unchanged from the year ended 31 December 2013.

**Notes to the financial statements
for the year ended 31 December 2014 (continued)****19. Risk management**

The Parent Company sets and monitors the risk management function of the Company. The Company has risk management infrastructure supported by adoption of the best 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 management
- Liquidity risk management
- Market risk management (currency risk, profit risk and fair value of financial instruments)
- Operational risk management

The Parent Company's Risk Committee, Assets and Liabilities Committee (ALCO) and Investment Committee work under the mandate of the Board of Directors (BOD) to set up risk limits and manage the overall risk in the Company. These committees approve risk management policies of the Company developed by the Risk Management Group.

The Risk Committee has overall responsibility for the oversight of the risk management framework and the risk appetite of the Company. 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 Company. In addition to setting the credit policies of the Company, the Risk Committee also establishes various concentration limits, approves policy exceptions and monitors periodic portfolio reviews to ascertain portfolio quality.

The Risk Management Group function is independent of the business and is led by a qualified Risk Management Head, with enterprise-wide responsibility for the function. The Risk Management Group is responsible for developing credit, market and operational risk policies. Experienced and trained Risk Managers have delegated authority within the risk management framework to approve credit risk transactions and monitor market and operational risks.

The Risk Management Group oversees credit, market and operational risks. Different credit underwriting procedures are followed for commercial and institutional lending, and retail lending, as described below.

Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the credit worthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location.

The Company seeks to manage its credit risk exposure through diversification of financing and investment activities to avoid undue concentrations of risks with individuals or Companies of customers in specific locations or businesses. It also obtains security when appropriate.

Policies relating to credit are reviewed and approved by the parent Company's Credit Policy Committee. All credit lines are approved centrally by the Company's Credit Risk Management Division in accordance with the Company's credit policy set out in the Credit Policy Manual.

**Notes to the financial statements
for the year ended 31 December 2014 (continued)****19. Risk management (continued)****Credit risk management (continued)*****Retail credit risk management***

Retail credit risk is managed on a product basis. 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 Parent Company's Risk Committee. The evaluation of a customer's creditworthiness is determined on the basis of statistically validated scoring models and policies.

All approval authorities are delegated by the Chief Executive Officer (the "CEO") acting on behalf of the Board of Directors. Different authority levels are specified for approving product programs and exceptions thereto, and individual financing and 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. Credit authority levels range from Level 1 (approval of a credit application meeting all the criteria of an already approved product program) to Level 5 (the highest level where the Risk Committee approval of the specific credit application is necessary).

Credit review procedures

Specialists within the Audit, Review and Compliance Group undertake regular reviews of the portfolio. The focus is on testing the Risk Management Process including periodic review of retail assets portfolio quality and related provision. The specialists subject the Group's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of U.A.E. and the internal policies in order to assist in the early identification of accrual and potential performance problems, they validate the risk ratings of those clients and ensure approved credit policies, guidelines and operating procedures across the Company are implemented or highlight identified gaps in their reports.

Receivables classification

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. Retail financing is written off at a maximum of 180 days past their due date, based on the characteristics of the underlying product. The written off amount includes the unpaid profit accrued to the advance till the date of write off and the principal outstanding. Profit accrual to retail advances stop on the date of write off. The only exception to this is high risk mortgage loans to individuals where the loan amount is written off at 180 days or is fully provided for net of collateral. For all other cases of mortgage defaults the bank provisions for the full amount of negative equity at 180 days.

Impaired financial assets

Impaired financial assets for which the Company determines that it is probable that it will be unable to collect all principal and profit due according to the contractual terms of the agreement(s).

Past due but not impaired loans and other financial assets

Past due but not impaired loans and other financial assets are those loans and other financial assets where contractual profit or principal payments are past due, but the Company believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Company.

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

19. Risk management (continued)

Credit risk management (continued)

Allowances for impairment

The Company establishes 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 impairment 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.

The Company also complies with International Accounting Standards 39 (IAS 39) in accordance with which it assesses the need for any impairment losses on its loans portfolio by calculating the net present value using the original effective profit rate of the expected future cash flows for each loan or its recoverability based on either collateral value or the market value of the asset where such price is available. As required by Central Bank of the U.A.E. guidelines, the Company takes the higher of the loan loss provisions required under IAS 39 and Central Bank regulations.

Set out below is an analysis of certain financial assets by risk grade.

	Other financial assets measured at amortised cost		Islamic financing products measured at amortised cost	
	2014 AED	2013 AED	2014 AED	2013 AED
Impaired				
Substandard	-	-	3,255,287	813,193
Doubtful	-	24,311,616	3,286,781	1,943,488
Loss	24,309,738	-	44,300,350	43,227,050
Gross amount	24,309,738	24,311,616	50,842,418	45,983,731
Specific allowance for impairment*	(24,309,738)	(22,549,495)	(25,491,141)	(26,066,860)
	-	1,762,121	25,351,277	19,916,871
Past due but not impaired				
Past due beyond 30 days	-	-	12,655,094	11,351,520
	-	-	12,655,094	11,351,520
Neither past due nor impaired				
Gross amount	8,089,457	12,712,361	1,009,250,439	759,645,369
Collective allowance for impairment	-	-	(16,700,000)	(6,700,000)
Carrying amount	8,089,457	14,474,482	1,030,556,810	784,213,760

* Specific allowance for impairment is calculated based on the net exposure amount i.e. outstanding loan balance less the net realizable value of the collateral held.

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

19. Risk management (continued)

Credit risk management (continued)

***Allowances for impairment* (continued)**

Collateral against financial assets measured at amortised cost is generally held in the form of mortgage interests over vehicles and real estate properties. Estimates of fair value are based on the value of collateral assessed at the time of extending finance, and generally are not updated except when a financial asset is individually assessed as impaired.

The Company holds collateral against its Islamic financing products, the fair value of which as at 31 December 2014 is AED 586.4 million (2013: AED 466.1 million).

Liquidity risk management

Liquidity Risk is the risk that the Company will be unable to meet a financial commitment to a customer, creditor, or investor when due.

The Company's 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 Company's reputation.

When the Company is subject to a liquidity limit imposed by its local regulator, the Company is responsible for managing its overall liquidity within the regulatory limit in co-ordination with parent company's Central Treasury, who monitors compliance with local regulatory limits on a daily basis.

The following table summarizes the maturity profile of Company's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date:

Mashreq Al-Islami Finance Company (P.J.S.C.)

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

19. Risk management (continued)

Maturities of assets and liabilities – 31 December 2014

Assets	Within 3 months AED	Over 3 to 6 months AED	Over 6 to 12 months AED	Over 1 to 5 years AED	Over 5 years AED	Total AED
Cash and cash equivalents	10,207	-	-	-	-	10,207
Islamic financing products measured at amortised cost	64,657,510	50,584,696	109,226,185	477,811,573	328,276,846	1,030,556,810
Other financial assets measured at amortised cost	-	-	-	8,089,457	-	8,089,457
Other receivables and assets	183,161	-	-	-	-	183,161
Property and equipment	-	-	-	-	176,054,063	176,054,063
Total assets	64,850,878	50,584,696	109,226,185	485,901,030	504,330,909	1,214,893,698
Liabilities and shareholders' equity						
Due to a bank	558,613,966	-	-	-	-	558,613,966
Other payables	591,555	-	-	-	-	591,555
Shareholders' equity	-	-	-	-	655,688,177	655,688,177
Total liabilities and shareholders' equity	559,205,521	-	-	-	655,688,177	1,214,893,698

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

19. Risk management (continued)

Maturities of assets and liabilities – 31 December 2013

Assets	Within 3 months AED	Over 3 to 6 months AED	Over 6 to 12 months AED	Over 1 to 5 years AED	Over 5 years AED	Total AED
Cash and cash equivalents	80,010,197	-	-	-	-	80,010,197
Islamic financing products measured at amortised cost	32,794,620	32,352,801	64,253,665	346,059,684	308,752,990	784,213,760
Other financial assets measured at amortised cost	1,784,223	-	-	12,690,259	-	14,474,482
Other receivables and assets	183,976	17,449	-	-	-	201,425
Property and equipment	-	-	-	-	171,544,197	171,544,197
Total assets	114,773,016	32,370,250	64,253,665	358,749,943	480,297,187	1,050,444,061
Liabilities and shareholders' equity						
Due to a bank	444,915,590	-	-	-	-	444,915,590
Other payables	1,070,027	-	-	-	-	1,070,027
Shareholders' equity	-	-	-	-	604,458,444	604,458,444
Total liabilities and shareholders' equity	445,985,617	-	-	-	604,458,444	1,050,444,061

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

19. Risk management (continued)

Market risk management

Market Risk is the risk that the Company's position will be adversely affected by changes in the levels or volatilities of market factors such as profit rates, currency rates and equity prices. Market risk arises from the Company's trading and non-trading activities.

Currency risk

The majority of the Company's assets and liabilities are denominated in Arab Emirates Dirhams (AED) and accordingly the Company's exposure to the currency risk is very limited. Some current accounts held at banks are denominated in U.S. Dollars to which AED is pegged and accordingly currency risk is limited on U.S. Dollar currency exposures.

Rate of return risk

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

The Company is not significantly exposed to risk in terms of the re-pricing of its assets and liabilities since it is primarily in accordance with Islamic Shari'a.

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 Company is 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 (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- 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.

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

19. Risk management (continued)

Market risk management (continued)

***Fair value of financial instruments* (continued)**

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

- 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. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted profit rates matching maturities of the contracts. Profit rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted profit rates.

Fair value of the Company's financial assets and financial liabilities 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).

During the year ended 31 December 2014 and 2013, the Company has no financial assets that are measured at fair value.

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

19. Risk management (continued)

Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events.

Operational risk is inherent in the Company's business and support activities. Operational risk can manifest itself in various ways, including errors, fraudulent acts, business interruptions, employee misdeeds, or non-compliance to contract by vendors. These events could result in financial losses and other damage to the Company, including reputational harm.

To monitor and control operational risk, the Parent Company maintains a system of comprehensive policies, procedures and a control framework designed to provide a sound and well-controlled operational environment. The goal is to keep operational risk at appropriate levels, in relation to the Company's financial strength, business characteristics, competitive environment and regulatory environment of the market in which the Company operates. Notwithstanding these control measures, the Company incurs operational losses.

The Parent Company has established an independent Operational Risk Function under the Risk Management Group; this Function has designed and implemented a detailed level Operational Risk Policy, which has since been approved by the Risk Management Committee.

The Parent Company's operational risk framework is supported by an operational risk software tool customised to meet the specific framework requirements of its entities. This helps integrate the individual components of the operational risk management framework into a unified, web-based tool and enhances the capture, reporting and analysis of operational risk data.

Operational risk monitoring

The Parent Company has a process for monitoring operational risk-event data, permitting analysis of errors and losses as well as trends. Such analysis is performed at business level and at each product and risk type level.

20. Calculation of Zakat

The ultimate responsibility to pay the Zakat rests with the shareholders of the Company.

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

21. Classification of financial assets and liabilities

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

	Amortised cost AED	Carrying amount AED
<i>Financial assets</i>		
Cash and cash equivalents	10,207	10,207
Islamic financing products measured at amortised cost	1,030,556,810	1,030,556,810
Other financial assets measured at amortised cost	8,089,457	8,089,457
Total	1,038,656,474	1,038,656,474
<i>Financial liabilities</i>		
Due to a bank	558,613,966	558,613,966
Other payables	591,555	591,555
Total	559,205,521	559,205,521

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

	Amortised cost AED	Carrying amount AED
<i>Financial assets</i>		
Cash and cash equivalents	80,010,197	80,010,197
Islamic financing products measured at amortised cost	784,213,760	784,213,760
Other financial assets measured at amortised cost	14,474,482	14,474,482
Other receivables and assets	183,976	183,976
Total	878,882,415	878,882,415
<i>Financial liabilities</i>		
Due to a bank	444,915,590	444,915,590
Other payables	1,070,027	1,070,027
Total	445,985,617	445,985,617

22. Approval of financial statements

The financial statement for the year ended 31 December 2014 was approved by the Board of Directors and authorized for issue on 18 March 2015.

