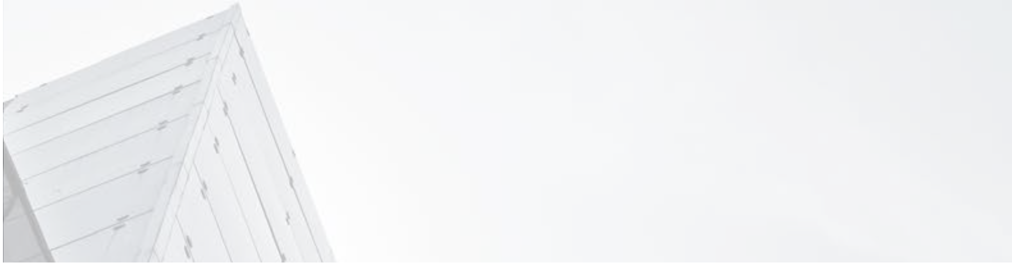
الإمارات الإسلامي

EMIRATES ISLAMIC



annual report 2013

In the name of Allah,
The Merciful, The Very Merciful

Emirates Islamic Bank
(Public Joint Stock Company)

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P.O. Box: 6564, Dubai, United Arab Emirates
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Consolidated Financial Statements
As at 31 December 2013

His Highness Sheikh Khalifa Bin Zayed Al Nahyan
President of the United Arab Emirates

His Highness Sheikh Mohammed Bin Rashid Al Maktoum
Vice President, Prime Minister of the UAE and Ruler of Dubai

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OUR VISION

To be the leading provider of high standard Shari'a – compliant innovative financial products, quality service and superior value for our customers, shareholders, employees and the community.

OUR MISSION

Providing innovative and high standard financial products and services governed by Islamic Shari`a provision to enrich the society.

CHAIRMAN'S MESSAGE

2013 was another prosperous year for the UAE economy and the banking sector. Beside the strong growth of GDP at 4%, we have seen the economy further diversify with a strong trade, tourism and logistics sector performance, let alone the strong recovery in the real estate sector; all signaling the increased "healthy" outlook for the economy overall and the banking sector in particular. Such confidence in the economy was further affirmed in the win of the world expo 2020, adding more growth potential for the economy.

Islamic banking in particular has also continued its solid multiple figure growth, under the initiative of His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai, to establish Dubai as a global centre for Islamic Banking. Islamic Banking as a whole has seen an impressive growth in the year, estimated at 14-18%, further growing its share of the UAE banking sector.

Most importantly, we are proud to see Emirates Islamic at the forefront of the Islamic banking growth in the UAE. Beside the impressive growth of the business, seen in the solid growth of revenues by 42%, Emirates Islamic has been among the first to execute against the vision of H.H., innovating new Islamic Banking tools in partnership with NASDAQ-Dubai. The new Murabaha financing platform is seen to be a major milestone in the development of Islamic Banking, and a key enabler for the growth of the sector in the coming years.

Furthermore, Emirates Islamic has taken major steps towards its commitment to customer service and care, with convenience continuing as a core ethos. Such efforts have been recognised and commended by the local and international markets. In 2013, the Bank won several noteworthy awards, including 'Best Domestic Retail Bank', 'Best Corporate Islamic Bank', and several product awards by a number of leading international business magazines, including Capital Finance International and Banker Middle East.

I would like to take this opportunity to congratulate all the stakeholders who have played a vital role in taking Emirates Islamic Bank to new heights. I would also like to thank the members of our Board of Directors, the CEO and Management, as well as the employees for their tireless efforts and continuous support. I look forward to 2014 being another year full of success and prosperity.

Hesham Abdulla Al Qassim
Chairman

CEO'S MESSAGE

Emirates Islamic has continued as one of the fastest growing banks in the UAE in 2013, with Revenues growing by 42% to more than AED 1.9 Billion, fueled by a strong growth in our customer base by over 15%. Over the same period, the bank's net profit rose by 72% to AED 139 Million, further signaling the improvement in efficiency across our operations. The impressive financial growth has happened while continuing to expand our services to our customers, through a growing network of 50 branches and over 110 automated service machines.

Retail was a substantial contributor in the bank's overall success during the year, experiencing strong growth across all segments and product lines. The Corporate segment continued its advance with the launch of a number of industry focused products and services. Furthermore, the buildup of the SME business has continued as a key pillar for our growth in 2014, with the launch of several new SME centers and a dedicated segmental offering. All of which has meant that the bank is in a position of strength to further continue the growth journey during 2014.

As an organisation we are focusing on developing our human capital. Teamwork, cooperation plus internal satisfaction drive success and are delivered by our people. We want to boost our "people advantage" and will continue to invest to make this a reality. The bank is building a culture that values talent and ambition, while remaining cognizant of the fact that it is teamwork that drives success.

Before I close, I would like to thank the Chairman and members of our Board of Directors for their guidance and support, our customers for their trust and loyalty and our employees for the dedication and focus towards making us a success.

Jamal Bin Ghalaita
CEO

BOARD OF DIRECTORS' REPORT

Distinguished Shareholders of Emirates Islamic Bank,

Peace and Mercy of Allah be upon you.

It gives me great honor to report the 2013 results of the bank, where we have managed to achieve a renowned success on our path towards becoming the leading Islamic Bank in the UAE. The transformation initiatives launched in the late 2011 have resulted in a remarkable turnaround in 2013, with operating profits, before allowances for impairment and distribution, rising by 36% over 2012. EIB is now recognised in the market as the fastest growing bank in the country.

Following were the key pillars of Bank's strategy driving growth:

- Revamp of bank strategy to focus on retail and commercial banking segments
- Complete reorganisation of the bank resulting in boost of revenue per staff while reducing overall cost
- Active yield and pricing management resulting in improved profitability
- Revamp of the funding structure, focusing on lower-cost funding products/segments; e.g. current accounts
- Establishment of remedial functions within corporate banking to boost recovery of customers' receivables
- Continue to enhance provisions and coverage against non-performing assets
- Significant increase in Bank's sales force and frontline management

The bank has continued its focus on strengthening the core franchise through expansion of its retail, SME, and corporate offerings. The rebranding of "Emirates Islamic Bank" to "Emirates Islamic" came to mark the next stage in the bank's customer-centric transformation. The new logo with the three horizontal lines mark the 3 focus segments of the bank (Retail, SME, and Corporate) and the single vertical line represent the customer being the single focus. The new branding, including the choice of colors and logo, came as the result of over 12 months of market research and preparations, and hence it was received with great success from across the industry and the different customer segments.

The bank's success continued to be recognised across the industry, with EI being recognised as "Best Domestic Retail Bank" at the CPI Financial Islamic Banking and Finance Awards 2013, and "Best Islamic Corporate Bank" at Banker Middle East Industry Awards 2013.

The Financial Highlights:

1. Net profit of AED 139 million compared to net profit of AED 81 million in 2012.
2. Operating income, before allowances for impairment and distribution, rising by more than 36% to AED 1,242 million.
3. Impairment allowances net of recoveries, made during the year, reached AED 719 million enhancing the NPL coverage ratio to 74%.
4. Capital Adequacy Ratio remained at 16% at December 2013.

Recommendations:

The Board of Directors raises the following recommendations to the Annual General Meeting:

1. To approve the consolidated Financial Statements for the year ended 31st December 2013
2. Transfer to reserves amounting to 28 million
3. Discharge of "Zakat" of AED 7.3 million due on shareholders' equity (excluding capital) as per clause of 72-G of Articles of Association

In the end, the Board of Directors extend their gratitude to the Shareholders for their boundless support and to all customers for their continuous trust and loyalty, as well as to the executive management of the Bank and staff members for their dedication and commitment, praying to Almighty Allah for the best achievements in the New Year.

We pray to Almighty Allah to guide us all to the best.

On Behalf of the Board of Directors

Jamal Bin Ghalaita
CEO

Report of the Shari'a Supervisory Board Emirates Islamic Bank for 2013

To the Shareholders of Emirates Islamic Bank,

I submit, on behalf of Fatwa and Shari'a Supervisory Board (the "Shari'a Supervisory Board") of Emirates Islamic Bank PJSC (the "Bank"), the following Annual Report in relation to transactions executed in the year 2013.

The Shari'a Supervisory Board has reviewed the contracts relating to the transactions and applications introduced by the Bank during the period ended. I have also conducted due review to ensure that the Bank has complied with the Shari'a Principles and Rulings and also with the specific Fatwa, rulings and guidelines issued by the Shari'a Board during the year ended 2013.

To take into consideration that ensuring that the Bank functions in accordance with Shari'a Principles and Rulings is the duty of Bank's Management. It is my responsibility to form an independent opinion, based on my review of the operations of the Bank, and to report to you.

The Shari'a Supervisory Board, through Dar Al Shari'ah Legal & Financial Consultancy LLC which had a Retainership Agreement with the Bank, conducted overview which included examining, on a test basis of each type of transaction, the relevant documentation and procedures adopted by the Bank and on the basis of Shari'a cases presented by the Shari'a Audit and Shari'a Coordination. The Shari'a Supervisory Board endeavored through reasonable assurance that the Bank has not violated Shari'a Principles & Rulings.

Based on these insights, the conclusive view is of that:

1. The contracts, transactions and dealings entered into by the Bank during the year 2013 that were reviewed by the Shari'a Supervisory Board are in compliance with the Shari'a Principles and Rulings;
2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with the Shari'a Principles and Rulings;
3. All earnings that have been realised from sources or by means prohibited by the Shari'a Principles and Rulings have been disposed off to charitable causes as approved by the Shari'a Board.
4. The mechanism of Zakat calculation is in compliance with the Shari'a Principles and Rulings and as per the Bank's Article of Association, the Bank is authorised to pay it on behalf of the shareholders.

I pray to Allah the Almighty to grant all of us the ultimate success and straight-forwardness.

On Behalf of the Shari'a Supervisory Board – Emirates Islamic Bank

Dr. Abdulsattar Abu Guhddah

Chairman & Executive Member of Shari'a Supervisory Board of Emirates Islamic Bank

Due Zakat on Emirates Islamic Bank Shareholders for the Year 2013

Article (72-G) of the Articles of Association stipulates that: "The shareholders shall independently provide Zakat (Alms) for their money (paid up capital) and the Company shall calculate for them the due Zakat per share and notify them thereof every year. As for the money held by the Company as reserves, retained earnings and others, on which Zakat is due, the Company shall pay their Zakat as decided by the Fatwa and Shari'a Supervisory Board, and transfer such Zakat to the Zakat Fund stipulated in Article (75) of Chapter 10 of the Articles of Association."

Shares' Zakat maybe calculated using one of the following methods:

First Method

Zakat on shares purchased for trading purposes (to sell them when the market value rises) is as follows:

- Zakat pool per share = Share quoted value + Cash dividends per share for the year
- Zakat per share = Zakat pool per share x 2.5775%
- Net Zakat per share = Zakat per share – 0.1854 UAE Fils (Zakat on reserves and retained earnings per share, paid by the Bank)
- Total Zakat payable on shares = Number of shares x Net Zakat per share

* Note: Zakat is calculated at 2.5775% for the Gregorian year, and at 2.5% for Hijri year, due to the eleven days difference between the two calendars.

Second Method

Zakat on shares purchased for acquisition (to benefit from the annual return):

- Shares' Zakat = Total shares' dividends for the year x 10%

Independent Auditors' Report to the Shareholders of Emirates Islamic Bank PJSC

Report on the Financial Statements:

We have audited the accompanying consolidated financial statements of Emirates Islamic Bank PJSC (the "Bank") and its subsidiary (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements of the Group as of 31 December 2012 were audited by another auditor whose report dated 30 January 2013 expressed an unqualified opinion on the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements:

Management is responsible for the preparation and fair preparation of these consolidated financial statements in accordance with International Financial Reporting Standards and applicable provisions of the articles of association of the Bank, Federal Law No. 8 of 1984 (as amended), Islamic Shari'ah'a rules and principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility:

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

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

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

Opinion:

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements:

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the Federal Law No. 8 of 1984 (as amended) and the articles of association of the Bank; proper books of account have been kept by the Group and the contents of the Board of Directors' report relating to these consolidated financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the Federal Law No. 8 of 1984 (as amended) or of the articles of association of the Bank have occurred during the year which would have had a material effect on the business of the Group or on its financial position.

For Ernst & Young

Signed by:

Joseph Murphy
Partner
Registration No. 492

26 January 2014
Dubai, United Arab Emirates

Consolidated Statement of Financial Position (as at 31 December 2013)

	Notes	2013 AED'000	2012 AED'000
Assets			
Cash and balances with UAE Central Bank	5	3,058,691	2,004,695
Due from banks	6	10,851,567	10,922,263
Financing receivables	7	21,683,210	19,825,471
Investments	8	1,975,011	2,911,381
Investment properties	9	1,137,656	1,119,133
Customer acceptances		461,567	124,831
Prepayments and other assets	10	495,061	247,195
Property and equipment	11	106,203	108,791
Total Assets		**39,768,966**	**37,263,760**
Liabilities			
Customers' accounts	12	28,892,862	25,673,184
Due to banks	13	312,736	3,023,964
Sukuk payable	14	3,673,000	3,673,000
Customer acceptances		461,567	124,831
Other liabilities	15	1,182,137	1,061,594
Zakat payable		7,287	3,291
Investment Wakala	16	1,081,872	1,081,872
Total Liabilities		**35,611,461**	**34,641,736**
Shareholders' Equity			
Share capital	17	3,930,422	2,430,422
Statutory reserve	18	228,936	214,987
General reserve	18	134,715	120,766
Fair value reserve		13,188	66,632
Accumulated losses		(149,756)	(254,059)
Total Equity Attributable to Equity Holders of the Bank		**4,157,505**	**2,578,748**
Non-controlling interest	19	-	43,276
Total Equity		**4,157,505**	**2,622,024**
Total Liabilites and Equity		**39,768,966**	**37,263,760**
Contingencies and Commitments	20	**6,648,928**	**4,472,047**

Chairman **Chief Executive Officer**

The attached notes 1 to 38 form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 19.

Consolidated Statement of Income (For the year ended 31 December 2013)

	Notes	2013 AED'000	2012 AED'000
Income			
Income from financing activities, net	21	1,185,077	760,873
Income from investment securities, net	22	106,948	50,007
Income from Group Holding Company, net	23	323,089	275,866
Gain on sale of a subsidiary	19	11,618	-
Property related income, net	24	11,968	8,114
Commission and fee income, net	25	217,905	225,033
Other operating income, net	26	47,828	23,669
Total Income		**1,904,433**	**1,343,562**
Expenses			
General and administrative expenses	27	(662,933)	(429,001)
Total Expenses		**(662,933)**	**(429,001)**
Net Operating Profit before allowances for impairment and distributions		**1,241,500**	**914,561**
Allowances for impairment, net of recoveries	28	(718,601)	(456,611)
Net Operating Profit		**522,899**	**457,950**
Customers' share of profit and distribution to sukuk holders	29	(383,411)	(376,838)
Net Profit for the year		**139,488**	**81,112**
Attributable to:			
Equity holders of the Bank		139,488	81,220
Non-controlling interest		-	(108)
Net Profit for the year		**139,488**	**81,112**
Earning per share (Dirham)	31	**0.039**	**0.033**

Consolidated Statement of Comprehensive Income (For the year ended 31 December 2013)

		2013 AED'000	2012 AED'000
Net Profit for the year		**139,488**	**81,112**
Cumulative changes in fair value of AFS investment			
• Net change in fair value		(21,228)	66,117
• Net amount transferred to income statement		(32,216)	-
Total Comprehensive Income for the year		**86,044**	**147,229**
Attributable to			
Equity holders of the Bank		86,044	147,337
Non-Controlling Interest		-	(108)
		86,044	**147,229**

The attached notes 1 to 38 form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 19.

Consolidated Statement of Changes in Equity (For the year ended 31 December 2013)

	Attributable to equity holders of the bank						Non-Controlling interest	Total equity
	Share Capital	Statutory Reserve	General Reserve	Fair Value Reserve	Accumulated Losses	Total		
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
As at 1 January 2012	2,430,422	206,865	112,644	515	(315,744)	2,434,702	43,384	2,478,086
Net profit for the year	-	-	-	-	81,220	81,220	(108)	81,112
Other comprehensive income for the year	-	-	-	66,117	-	66,117	-	66,117
Transfer to reserves	-	8,122	8,122	-	(16,244)	-	-	-
Zakat	-	-	-	-	(3,291)	(3,291)	-	(3,291)
As at 31 December, 2012	**2,430,422**	**214,987**	**120,766**	**66,632**	**(254,059)**	**2,578,748**	**43,276**	**2,622,024**
As at 1 January 2013	2,430,422	214,987	120,766	66,632	(254,059)	2,578,748	43,276	2,622,024
Issue of right shares	1,500,000	-	-	-	-	1,500,000	-	1,500,000
Net profit for the year	-	-	-	-	139,488	139,488	-	139,488
Other comprehensive (loss) for the year	-	-	-	(53,444)	-	(53,444)	-	(53,444)
Sale of share in a subsidiary	-	-	-	-	-	-	(43,276)	(43,276)
Transfer to reserves	-	13,949	13,949	-	(27,898)	-	-	-
Zakat	-	-	-	-	(7,287)	(7,287)	-	(7,287)
As at 31 December 2013	**3,930,422**	**228,936**	**134,715**	**13,188**	**(149,756)**	**4,157,505**	**-**	**4,157,505**

The attached notes 1 to 38 form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 19.

Consolidated Statement of Cash Flows (For the year ended 31 December 2013)

	Notes	2013 AED'000	2012 AED'000
Operating Activities			
Net profit for the year		139,488	81,220
Adjustments:			
Allowances for impairment on financing receivables, net	28	554,971	407,465
Allowances for impairment on investments, net	28	163,630	49,146
Dividend income	22	(15,967)	(2,537)
Gain on sale of investments	22	(31,421)	(6,441)
Gain on sale of a subsidiary	19	(11,618)	-
Unrealised (gain)/loss on fair value of investment securities through profit and loss	22	(1,099)	19,813
Depreciation on investment properties	9	28,683	27,279
Depreciation on fixed assets	11	22,170	17,929
Operating profit before changes in operating assets and liabilities		**848,837**	**593,874**
Changes in reserves with UAE Central Bank		(368,522)	(717,725)
Changes in due from banks		2,449,116	(6,540,465)
Changes in financing receivables		(2,412,710)	(7,263,895)
Changes in prepayments and other assets		(247,866)	(51,902)
Changes in customers' accounts		3,219,678	8,548,032
Changes in due to banks		(2,752,083)	1,681,950
Changes in other liabilities		120,544	441,692
Zakat paid		(3,291)	(1,053)
Net cash generated from/(used in) operating activities		**853,703**	**(3,309,492)**
Investing Activities			
Purchases of investment securities, net		(347,023)	(738,940)
Proceeds from sale of investment securities		1,098,837	28,749
Dividend income received		15,967	2,537
Changes in investment properties		(35,588)	(35,095)
Changes in fixed assets, net		(19,582)	(27,802)
Net cash generated from/(used in) investing activities		**712,611**	**(770,551)**
Financing Activities			
Proceeds from Sukuk issuance		-	3,673,000
Changes in non-controlling interest		(43,276)	(108)
Issue of right shares		1,500,000	-
Net cash generated from financing activities		**1,456,724**	**3,672,892**
Net change in cash and cash equivalents		**3,023,038**	**(407,151)**
Cash and cash equivalents at the beginning of the year		1,602,560	2,009,711
Cash and cash equivalents at the end of the year	32	**4,625,598**	**1,602,560**

The attached notes 1 to 38 form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 19.

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

1 Legal Status and Activities

Emirates Islamic Bank (formerly Middle East Bank) (the "**Bank**") was incorporated by a decree of His Highness the Ruler of Dubai as a conventional Bank with a limited liability in the Emirate of Dubai on 3rd of October 1975. The Bank was reregistered as a Public Joint Stock Company in July 1995 and is regulated by the Central Bank of United Arab Emirates.

At an extraordinary general meeting held on 10th of March 2004, a resolution was passed to transform the Bank's activities to be in full compliance with the Islamic Shari'ah. The entire process was completed on 9th of October 2004 (the "Transformation Date") when the Bank obtained the UAE Central Bank and other UAE authorities' approvals.

The Bank is a subsidiary of Emirates NBD PJSC, Dubai (the "Group Holding Company"). The ultimate parent company of the Group Holding Company is Investment Corporation of Dubai, a company in which the Government of Dubai is the major shareholder. The Bank is listed in the Dubai Financial Market.

In addition to its head office in Dubai, the Bank operates through 50 branches in the UAE. The Financial Statements combine the activities of the Bank's head office and its branches and the following subsidiaries (together referred as "the Group").

	Date of Incorporation & Country	Principal Activity	Ownership %	
			2013	2012
Emirates Islamic Financial Brokerage Co. LLC	26 April 2006, UAE	Financial brokerage services	100%	100%
Ithmar Real Estate Development Co. PSC	9 June 2008, UAE	Real estate holding and trust companies	-	40%

Up to 1st December 2013, the Group exercised control over the management of Ithmar Real Estate Development Co. PSC through holding the majority of the votes of its Board of Directors. With effect from 2nd December 2013 Ithmar Real Estate Development Co. PSC ceased to be subsidiary of the Group, as the Group sold its entire share in the subsidiary.

The Bank provides full commercial and banking services and offers a variety of products through Islamic financing and investing instruments in accordance with Islamic Shari'ah.

The Bank's registered office address is P.O. Box 6564, Dubai, United Arab Emirates.

2 Basis of Preparation

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB), and the applicable requirements of the laws of the UAE.

The principal accounting policies adopted in the preparation of the Group consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

These Group consolidated financial statements have been approved for issue by the Board of Directors on 26 January 2014.

b) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except for the following, which are measured at fair value:

- Financial assets at fair value through profit or loss, and
- Financial assets available for sale.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgments in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group consolidated financial statements are disclosed in Note 3 (a).

c) Principles of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Group. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

2 Basis of Preparation *(continued)*

c) Principles of consolidation *(continued)*

ii. Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at the end of the reporting period. The financial statements of the subsidiary used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Bank. Consistent accounting policies are applied to similar transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are restated to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

iii. Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific financing transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation.
- The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks related to the activities of the SPE.
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment is made at each statement of financial position date.

Information about the Group's securitisation activities is included in note 14 to accounts.

iv. Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Bank and is presented separately in the consolidated statement of income and comprehensive income and within equity in the consolidated balance sheet, separately from equity attributable to owners of the Bank. Changes in the Group owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

3 Significant Accounting Policies

a. Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires the management to use certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired financing receivables as well as allowances for impairment provision for unquoted investment securities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant items which require use of estimates and judgments are outlined below:

i. Allowances for impairment of financing receivables

The Group reviews its financing receivables to assess impairment on a regular basis. In assessing impairment, the Group evaluates whether an impairment loss should be recorded in the consolidated income statement. The Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the contractual future cash flows from Islamic financing receivables. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss.

In addition to specific allowance against individually impaired financing receivable, the Group also makes a collective impairment allowance to recognise, at any reporting date that there will be an amount of financing products which are impaired even though a specific trigger point for recognition of the loss has not yet occurred (known as the "emergence period").

ii. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for asset or liability; or
- In the absence of principal market, in the most advantageous market for assets and liabilities

If an asset or a liability measurement at fair value has a "bid" price and "ask" price then the Group measure assets and long positions at a "bid" price and liabilities and short positions at an "ask" price.

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

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from quoted prices, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not possible, a degree of judgment is required in establishing fair values

Fair values are subject to a control framework designed to ensure that they are either determined or validated, by a function independent of the risk taker.

iii. Impairment of available-for-sale investment securities

The Group determines the impairment of available-for-sale investment securities when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates several market and non-market factors.

iv. Impairment of non-financial assets

At each consolidated reporting date, the Bank 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 condition exists the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of fair value less costs to sell or value in use.

v. Held-to-maturity investment securities

The Group follows the guidance of IAS 39 in classifying certain non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Group evaluates its intention and ability to hold such investment securities to maturity. In the event the Group fails to keep these investments to maturity other than for specific circumstances, it will be required to reclassify the entire class as available-for-sale and the Group will be prevented from classifying investment securities as held-to-maturity for the current and the following two financial years.

b) Income from financing

Income from financing activities include income from; Murabaha, Ijarah, Istisna'a, Wakala, Mudaraba and Musharaka. Income from financing activities is recognised in profit or loss using effective yield basis. Effective yield basis rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

3 Significant Accounting Policies *(continued)*

b) Income from financing *(continued)*

liability (or, where appropriate, a shorter period) to the carrying amount of financial asset or liability. When calculating the effective yield, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not the future losses.

The calculation of effective yield includes all transaction cost and fees that are integral part of the transaction. It includes incremental cost that is directly attributable to the acquisition or issue of a financial asset or liability.

c) Fees and commission

Fees and commission that are integral part of financing arrangement are included in the measurement of the effective yield.

Other fees and commission income, including portfolio and management fees, front end fees, Sukuk management fees are recognised as the related services performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

d) Earnings prohibited by the Shari'a

The earning generated from non-Shari'a compliant transactions in reference to the Shari'a Supervisory Board directives in this regard.

e) Income from financial assets at fair value through profit or loss

Income from financial assets at fair value through profit or loss comprises gains less losses related to financial assets designated through profit or loss and includes all realised and unrealised fair value changes, profits, dividends, and foreign exchange differences.

f) Dividend

Dividend income is recognised in the consolidated statement of income when Group's right to receive income is established.

g) Rental income

Rental income from investment properties is recognised in the consolidated statement of income on a straight line basis over the term of lease.

h) Customer loyalty programme

The Group operates a rewards programme which allows customers to accumulate points when they purchase products using the Group's credit cards. The points can then be redeemed for shopping rewards, cash back or air miles, subject to a minimum number of points being earned. While some aspects of the programme are administered in-house, third party providers are used for certain other aspects of the programme.

In the case of the in-house administered aspects, the sale proceeds received are allocated between the products sold and the points issued, with the proceeds allocated to the points being equal to their fair value. Fair value is determined by applying statistical techniques. The fair value of the points issued is deferred and recognised as revenue when the points are redeemed.

For aspects where third party providers are used, the consideration allocated to the rewards credits collected on behalf of the third party are charged to the income statement at the time of supplying the rewards.

i) Financial Instrument

i. Classification

Financial Assets

The Group classifies its financial assets in one of the following categories:

- Financing receivables;
- Held to maturity;
- Available-for-sale; and
- Fair value through profit or loss.

Financing receivables

- **Murabaha**: An agreement whereby the Group sells to a customer a commodity or a property which the Group 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 of the cost of the commodity and an agreed profit margin.
- **Financing Ijarah**: An agreement whereby the Group (lesser) leases an asset to a customer (lessee), for a specific period against certain rent installments. Ijarah could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the Group transfers substantially all the risks and returns related to the ownership of the leased asset to the lessee.
- **Istisna'a**: A sale contract, in which the Group (as Al Saanee) sells an asset to be developed using its own materials

3 Significant Accounting Policies *(continued)*

i) Financial Instrument *(continued)*

i. Classification *(continued)*

to a customer (Al Mustasnee) according to pre-agreed upon specification, at a specific price, installments dates and to be delivered on a specific date. The manufactured asset can be either directly developed by the Group or through a subcontractor and then it is handed over to the customer on the pre-agreed upon.

- **Wakala**: A contract between the Group and a customer whereby one party (the principal/Muwakkil) appoints the other party (the agent/Wakil) to invest certain funds according to the terms and conditions of the Wakala for a fixed fee in addition to any profit exceeding the expected profit as an incentive for the Wakil for the good performance. Any losses in the principal amount as a result of misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the Wakil; otherwise, they are borne by the principal.
- **Mudaraba**: An agreement between two parties; one of them provides the funds and is called Rab-Ul-Mal, and the other provides efforts and expertise and is called Mudarib who is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of profit as Mudaraba fee. In case of normal loss; Rab-Ul-Mal would bear the loss of his funds while Mudarib would bear the loss of his efforts. However, in case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, the Mudarib would bear the losses. The Group may acts as Mudarib when accepting funds from the holders of investment, saving and Wakala accounts and as Rub-Ul-Mal when investing such funds on Mudaraba basis.
- **Musharaka**: An agreement between the Bank and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing agreement set between both parties. Profits are distributed according to the mutual agreement of the parties as stipulated in the contract; however, losses are borne on a pro-rata basis according to the respective contribution by both the parties in the Musharaka capital.

Investment Securities

- **Held-to-maturity**

  Held-to-maturity assets are non-derivative financial assets, with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These are not recognised at fair value through profit or loss, or as available for sale.

  Held-to-maturity ("HTM") investments are carried at amortised cost (less impairment, if any).

  Sale of HTM assets is allowed only under the following circumstances:

  - The investment is close enough to maturity as to have no impact on fair value;
  - The principal is substantially received;
  - Isolated events beyond the Group's control;
  - Significant financing deterioration;
  - Major business combination or disposal; or
  - Increase in regulatory capital requirements.

- **Available-for-sale**

  Available-for-sale assets are financial assets that are not classified as financial assets at fair value through profit or loss, financing receivables, or held-to-maturity. Available-for-sale assets include certain Sukuk and equity investments. These assets may be sold in response to needs for liquidity or changes in profit rates, exchange rates or equity prices.

  Available-for-sale (AFS) financial assets may be freely sold or hedged. All AFS financial assets are measured at fair value. The differences between cost and fair value is taken to the Statement of Other Comprehensive Income and recognised as a separate component in the statement of financial position, except in the case of impairment where the cumulative loss is taken to the income statement. When the financial asset is sold, the full quantum of the difference between the fair value and cost, posted previously to the Statement of Other Comprehensive Income, is transferred to the income statement.

- **Designated at fair value through profit or loss**

  The Group designates financial assets and liabilities at fair value through profit or loss in the following circumstances:

  - The assets or liabilities are managed, evaluated and reported internally on a fair value basis;
  - The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
  - The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

ii. Recognition

The Group initially recognises financing receivables, investments, customer accounts and Wakala on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

3 Significant Accounting Policies *(continued)*

i) Financial Instrument *(continued)*

ii. Recognition *(continued)*

Group commits to purchase or sell the assets. All other assets and liabilities (including assets and liabilities designated through profit or loss) are recognised initially on the trade date, which is the date the Group becomes a party to the contractual provisions of the instrument.

A financial instrument is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction cost that are directly attributable to its acquisition or issue.

Financial assets and liabilities are recognised in the statement of financial position when the Group becomes a party to contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets or liabilities designated at fair value through profit or loss or available-for-sale assets are recognised.

iii. Derecognition

The Group derecognises financial assets when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of the ownership of the financial assets are transferred. Any profit in derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending, repurchase transactions and asset-backed securitisations.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Group retains all or substantially all the risks and rewards of ownership of such assets.

iv. Measurement

A financial asset or a financial liability is recognised initially at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be measured reliably is stated at cost, including transaction costs, less impairment allowances.

Fair value changes in trading securities are recognised immediately in the income statement.

All other financial assets and non-trading financial liabilities are measured at amortised cost less impairment allowances.

v. Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques and option pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account the current creditworthiness of the counterparties.

vi. Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in the Statement of Other Comprehensive Income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in the Statement of Other Comprehensive Income is recognised in the Income Statement.

vii. Impairment

Impairment of financing receivables

Losses for impaired financing receivables are recognised promptly when there is objective evidence that impairment of a financing or portfolio of financing receivables has occurred. Impairment allowances are calculated on individual

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

3 Significant Accounting Policies *(continued)*

i) Financial Instrument *(continued)*

vii. Impairment *(continued)*

financing receivables and on groups of financing receivables assessed collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired financing receivables on the balance sheet is reduced through the use of impairment allowance accounts.

Individually assessed financing receivables

For all financing receivables that are considered individually significant, the Group assesses on a case-by-case basis each quarter and more frequently when circumstances require whether there is any objective evidence of impairment. The criteria used by the Group to determine that there is such objective evidence include:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or profit;
- breach of covenants or conditions;
- decline in the realisable value of the security;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- a significant downgrading in credit rating by an external credit rating agency.

For those financing receivables where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- the Group's aggregate exposure to the customer;
- the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the Group and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the ability of the borrower to obtain, and make payments in, the currency of the financing if not denominated in local currency; and
- when available, the secondary market price of the debt.

Impairment losses are calculated by discounting the expected future cash flows of a financing at its original effective interest rate and comparing the resultant present value with the financing's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

Collectively assessed financing receivables

Impairment is assessed on a collective basis in two circumstances:

- to cover losses which have been incurred but have not yet been identified on financing receivables subject to individual assessment; and
- for homogeneous groups of financing receivables that is not considered individually significant.

Incurred but not yet identified impairment (Corporate financing receivables)

Individually assessed financing receivables for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group has incurred as a result of events occurring before the balance sheet date, which the Group is not able to identify on an individual financing basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual financing receivable within the group, those financing receivables are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, financing grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual financing ; and

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

3 Significant Accounting Policies *(continued)*

i) Financial Instrument *(continued)*

vii. Impairment *(continued)*

- management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by management for each identified portfolio.

Homogeneous groups of financing receivables (Consumer financing receivable)

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of financing receivables that are not considered individually significant, because individual financing assessment is impracticable.

Losses in these groups of financing receivables are recorded on an individual basis when individual financing receivables are written off, at which point they are removed from the group.

The allowance on collective basis is calculated as follows:

When appropriate empirical information is available, the Group utilises roll rate methodology. This methodology employs statistical analyses of historical data and experience of delinquency and default to estimate the amount of financing receivables that will eventually be written off as a result of the events occurring before the balance sheet date which the Group is not able to identify on an individual financing basis, and that can be reliably estimated. Under this methodology, financing receivables are grouped into ranges according to the number of days past due and statistical analysis is used to estimate the likelihood that financing receivables in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable.

In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio, though sometimes it provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, when there have been changes in economic, regulatory or behavioral conditions which result in the most recent trends in portfolio risk factors being not fully reflected in the statistical models. In these circumstances, the risk factors are taken into account by adjusting the impairment allowances derived solely from historical loss experience.

Write-off of financing receivables

Financing receivables (and the related impairment allowance) are normally written off, in full, when there is no realistic prospect of recovery. Where financing receivables are secured, this is after receipt of any proceeds from the realisation of security, if any.

Reversals/Write backs of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the financing impairment allowance account accordingly. The write-back is recognised in the income statement.

Impairment of available for sale securities

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

The impairment methodologies for available-for-sale financial assets are set out in more detail below.

Available-for-sale Sukuk

When assessing available-for-sale Sukuk for objective evidence of impairment at the reporting date, the Group considers all available evidence, including observable data or information about events specifically related to the Sukuk which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganisation, or the disappearance of an active market for the Sukuk because of financial difficulties relating to the issuer.

These types of specific event and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of Sukuk.

Available-for-sale equity securities

Objective evidence of impairment for available-for sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

3 Significant Accounting Policies *(continued)*

i) Financial Instrument *(continued)*

vii. Impairment *(continued)*

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- for an available-for-sale Sukuk, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of Sukuk increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value; and
- for an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

j) Cash and cash equivalent including reserve as per Central Bank of UAE

Central Bank of UAE requires certain percentage of customer account balances to be kept as cash reserve with the central Bank. Such reserve is not available for day to day operation and doesn't earn any profit.

Cash and cash equivalent consists of cash at bank, current account with the UAE Central Bank, due from banks and Group Holding Company (including short-term Murabaha) less due to banks and Group Holding Company. Cash equivalents are short-term liquid investments that are readily convertible to known amounts of cash with outstanding maturities up to three months from the date of consolidated statement of financial position.

k) Property and equipment

i. Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- The cost of materials and direct labour;
- Any other costs directly attributable to bringing the assets to a working condition for their intended use;
- When the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- Capitalised financing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

ii. Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

iii. Depreciation and amortisation

Items of property and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the assets are completed and ready for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

3 Significant Accounting Policies *(continued)*

k) Property and equipment *(continued)*

iii. Depreciation and amortisation *(continued)*

their estimated useful lives. Depreciation is recognised in profit or loss. Land is not depreciated.

The estimated useful lives for the current and comparative periods of significant items of property and equipment are as follows:

• Leasehold improvements	3 years
• Furniture	4 years
• Equipments	4 years
• Motor vehicles	3 years
• Computer hardware	4 years
• Computer software	3 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Capital work-in-progress is stated at cost. When commissioned, they are transferred to the appropriate fixed assets category and depreciated in accordance with the Group's policies.

l) Investment properties

Investment property is a property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is initially measured at cost and subsequently at cost less depreciation and impairment, includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When an investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in 'Other operating income' in the year of retirement or disposal.

Transfers are made to investment properties when, and only when there is a change in use evidenced by ending of owner-occupation on commencement of an operating lease of a significant portion of the property to another party. Transfers are made from investment properties when and only when there is a change in use based on the business model.

m) Customer accounts and Sukuk issued

Customer accounts, Sukuk issued and Wakala investments are the Group's sources of funding.

i. Customer accounts

The Bank accepts customer investment and savings accounts either on Mudaraba basis or on Wakala basis.

ii. Sukuk

When Group sells a group of financial assets and simultaneously enters into an agreement to repurchase similar group of financial assets at an agreed price on future date under securitisation of such group of assets. Such arrangement is accounted for as a Sukuk liability and the underlying group of assets continues to be recognised in the Group's consolidated financial statements.

iii. Wakala

Investment Wakala is an agreement whereby one party (the "Muwakkil"/"Principal") appoints an investment agent (the "Wakeel"/"Agent") to invest the Muwakkil's funds (the "Wakala Capital") on the basis of an agency contract (the "Wakala") in return for a specified fee. The agency fee can be a lump sum or a fixed percentage of the Wakala Capital and is payable regardless the said Wakala generates profit or loss; while the share of the profit, if any, is an incentive for the Wakeel to achieve a return higher than expected. The Wakala profit, if any, goes to the Muwakkil, and he bears the loss. However, the Wakeel bears the loss in cases of default, negligence or violation of any of the terms of the Investment Wakala.

n) Provision

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

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

3 Significant Accounting Policies *(continued)*

n) Provision *(continued)*

The unwinding of the discount is recognised as finance cost.

i. Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly, future operating losses are not provided for.

ii. Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

o) Financial guarantees and financing commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The financial guarantee liability is initially measured at fair value and the initial fair value is amortised over the life of the guarantee. The liability is subsequently carried at the higher of this amortised amount and present value of any expected payments to settle the liability when a payment under the contract has become probable.

p) Provision for end of service benefits

Provision is made for end of service benefits to the group expatriate employees in accordance with the UAE labor law. The entitlement of these benefits is based upon the employees' basic salary and length of service, subject to a completion of a minimum service period. These benefits are accrued over the period of employment. Provision for employees' end of service benefits at the reporting date is included under "Other Liabilities".

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

q) Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit or loss for the year by the weighted average number of shares outstanding during the year. The group has not issued any instrument which has a dilutive effect on earnings per shares.

r) Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries,
 (i) controls, is controlled by, or is under common control with, the Group;
 (ii) has an interest in the Group that gives it significant influence over the Group; or
 (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

s) Operating segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge.

The segment managers' report directly to the management of the Group who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 34.

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

3 Significant Accounting Policies *(continued)*

t) Profit distribution

Profit distribution between the unrestricted account holders (investment, saving and Wakala accounts) and the shareholders, is according to the instructions of the Bank's Fatwa and Shari'ah supervisory board.

- Net income realised from Mudaraba Pool, at the end of each quarter, represents the net profit available for distribution.
- Net profit available for distribution between unrestricted account holders and shareholders is calculated after deducting the Mudarib fee as per the agreed and declared percentage.

Profit Distribution is on a pro rata-basis of the weighted average balances of unrestricted customers' accounts and shareholders' funds. No priority is given to either party in the Mudaraba Pool.

u) Zakat

The Bank discharges Zakat (Alms) as per its Articles of Association. The Bank calculates Zakat based on the guidance of its Fatwa and Shari'ah Supervisory Board as follows:

- Zakat on shareholders' equity (except paid up capital) is discharged from the retained earnings.
- Zakat is disbursed to Shari'ah channels through a committee formed by management.
- Shareholders themselves are responsible to pay Zakat on their paid up capital.

Zakat on the general provision or on other reserves, if any, is calculated and discharged from the share of profit of the respective parties participating in the Mudaraba Pool.

v) New standards and interpretations effective after 01 January 2013

The following new and revised IFRSs have been applied in the current period in these consolidated financial statements. Their adoption had no significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Standard	Description	Effective date (early adoption permitted)
IFRS 10 - Consolidated Financial Statements	The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. Defines the principle of control, and establishes controls as the basis for consolidation. Sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. Sets out the accounting requirements for the preparation of consolidated financial statements.	1 January 2013
IFRS 11 - Joint Arrangements	IFRS 11 relates to joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.	1 January 2013
IFRS 13, 'Fair value measurement	IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.	1 January 2013
IAS 27 (revised 2011), 'Separate financial statements'	IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.	1 January 2013
IAS 28 (revised 2011),'Associates and joint ventures'	IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.	1 January 2013
Amendment to IAS 19, 'Employee benefits'	These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.	1 January 2013

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

3 Significant Accounting Policies *(continued)*

w) New standards and interpretations not yet effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2013, with the Group not opting for early adoption. These have, therefore, not been applied in preparing these consolidated financial statements.

Standard	Description	Effective date (early adoption permitted)
IFRS 9 Financial Instruments	This standard, issued as a replacement to IAS 39, retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. It also includes the requirements related to the classification and measurement of financial liabilities, and de-recognition of financial assets and liabilities.	Not yet Specified
Amendment to IAS 32 and IFRS 7, 'Financial Instruments: Presentation'	Offsetting Financial Assets and Financial Liabilities	1 January 2014

The Group has assessed the impact of the above standards, amendments to standards, revisions and interpretations. Based on the assessment, the above standards, amendments to standards, revisions and interpretations have no material impact on the consolidated financial statements of the Group as at the reporting date. The impact of IFRS 9 is likely to depend on the outcome of the other phases of IASB's IAS 39 replacement project.

x) Foreign currency transactions

Monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In Group consolidated financial statements, assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at rates of exchange ruling at the reporting date, and the resulting gains and losses are taken to the Group consolidated income statement. Income and expense items are translated at the average rates for the period, unless exchange rate fluctuates significantly during the period.

Foreign currency differences arising on retranslation are generally recognised in profit or loss. However, foreign currency differences arising from the retranslation of the available-for-sale equity instruments are recognised in other comprehensive income (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss).

4 Business combination – acquisition of financial assets and customer deposits from Dubai Bank PJSC

As part of an overall strategy to manage two Shari'a compliant banking businesses within the Emirates NBD Group, majority of assets and liabilities of Dubai Bank PJSC were transferred to Emirates Islamic Bank PJSC by virtue of Sale Purchase Agreement dated November 30, 2012.

The objective of combination was to manage two Shari'a compliant Islamic banking businesses under one roof in a cost effective manner.

The carrying values of identifiable assets and liabilities that are acquired from Dubai Bank as at the date of acquisition were as follows:

Particulars	Amount
	AED'000
Cash and bank balances	896,324
Financing receivables	3,708,787
Investments	115,704
Customer accounts	(7,492,639)
Others	(112,445)
Carrying value of net liabilities acquired – Receivable from Dubai Bank	**(2,884,269)**

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

5 Cash and balances with UAE Central Bank

	2013 AED'000	2012 AED'000
Cash in hand	191,437	139,487
Balances with UAE Central Bank:		
Current accounts	335,683	104,152
Reserve requirements	2,129,578	1,761,056
Murabaha	401,993	-
	3,058,691	**2,004,695**

6 Due from banks

	2013 AED'000	2012 AED'000
Due from local banks		
Current accounts	24	25
Murabaha accounts	8,210,859	7,106,928
Deposit exchange (profit free)	-	495,450
Receivables from Dubai Bank (Notes 4 and 33)	2,415,665	2,884,269
Other balances with parent company and subsidairies	121,862	152,344
	10,748,410	**10,639,016**
Due from foreign banks		
Current accounts	103,157	283,247
	10,851,567	**10,922,263**

7 Financing Receivables

	2013 AED'000	2012 AED'000
Murabaha	13,858,119	9,705,333
Ijarah	9,417,915	8,957,451
Istisna'a	1,252,003	1,319,978
Financing Wakala	855,658	2,193,085
Musharaka	133,384	161,800
Mudarabah	192,072	83,805
Secured overdrafts	224,552	227,359
Credit card receivables	988,558	954,366
	26,922,261	**23,603,177**
Less: Deferred income	(2,210,170)	(1,309,346)
Less: Allowances for impairment	(3,028,881)	(2,468,360)
	21,683,210	**19,825,471**
Total of impaired financing receivables	**4,077,849**	**4,047,642**
By Segment :		
Retail banking	12,434,170	9,171,509
Corporate banking	9,249,040	10,653,962
	21,683,210	**19,825,471**

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

7 Financing Receivables *(continued)*

Movements in allowances for specific impairment	2013 AED'000	2012 AED'000
Balance at the beginning of the year	1,860,821	1,007,566
Allowances for impairment made during the year	676,262	509,575
Recoveries/write-backs during the year	(135,614)	(106,059)
Transfer from Dubai Bank PJSC	16,841	449,739
Write-off	(11,291)	-
Balance at the end of the year	**2,407,019**	**1,860,821**
Movements in allowances for collective impairment		
Balance at the beginning of the year	607,539	343,988
Allowances for impairment made during the year	14,323	3,949
Transfer from Dubai Bank PJSC	-	259,602
Balance at the end of the year	**621,862**	**607,539**
	3,028,881	**2,468,360**

8 Investments

	2013 AED'000	2012 AED'000
Fair value through profit or loss		
Equity shares	59,422	59,197
Funds	-	450
	59,422	**59,647**
Available-for-sale		
Equity shares	705,705	687,203
Funds	810,634	862,007
Sukuk	477,088	1,016,732
	1,993,427	**2,565,942**
Held-to-maturity		
Sukuk	327,947	527,947
	2,380,796	**3,153,536**
Less: Allowance for impairment	(405,785)	(242,155)
	1,975,011	**2,911,381**
Investment securities comprise		
Quoted	727,280	1,448,647
Unquoted	1,247,731	1,462,734
	1,975,011	**2,911,381**
Investments located at		
Investments within UAE	642,879	1,470,572
Investments outside UAE	1,332,132	1,440,809
	1,975,011	**2,911,381**
Movements in allowances for impairment		
Balance at the beginning of the year	242,155	180,209
Allowances for impairment made during the year (note 28)	163,630	49,146
Transfer from Dubai Bank PJSC	-	12,800
Balance at the end of the year	**405,785**	**242,155**

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

9 Investment Properties

2013	AED'000 Land	AED'000 Building	AED'000 Work-in-progress	AED'000 Total
Cost				
Balance as at 1 January	662,221	840,889	60,253	1,563,363
Addition during the year	62,444	-	68,430	130,874
Properties disposed in respect of sale of share in a subsidiary	(168,399)	-	-	(168,399)
Gross Balance at 31 December	**556,266**	**840,889**	**128,683**	**1,525,838**
Less: Allowances for Impairment	(235,822)	(113,457)	-	(349,279)
Add: Write off of impairment in respect of share in a subsidiary	84,731	-	-	84,731
Net Balance at 31 December	**405,175**	**727,432**	**128,683**	**1,261,290**
Accumulated Depreciation				
Balance as at 1 January	-	(94,951)	-	(94,951)
Charge during the period (note 24)	-	(28,683)	-	(28,683)
Balance as at 31 December	**-**	**(123,634)**	**-**	**(123,634)**
Net Book Value at 31 December	**405,175**	**603,798**	**128,683**	**1,137,656**

2012	AED'000 Land	AED'000 Building	AED'000 Work-in-progress	AED'000 Total
Cost				
Balance as at 1 January	662,221	840,889	25,160	1,528,270
Properties purchased during the year	-	-	35,093	35,093
Gross Balance at 31 December	**662,221**	**840,889**	**60,253**	**1,563,363**
Less: Allowances for Impairment	(235,822)	(113,457)	-	(349,279)
Net Balance at 31 December	**426,399**	**727,432**	**60,253**	**1,214,084**
Accumulated Depreciation				
Balance as at 1 January	-	(67,672)	-	(67,672)
Charge during the period (note 24)	-	(27,279)	-	(27,279)
Balance as at 31 December	**-**	**(94,951)**	**-**	**(94,951)**
Net Book Value at 31 December	**426,399**	**632,481**	**60,253**	**1,119,133**

The fair value of investment properties as of 31 December 2013 is not materially different from their carrying value.
All investment properties are located within the United Arab Emirates.

10 Prepayments and other Assets

	2013 AED'000	**2012** AED'000
Dividend and profit receivable	12,191	25,719
Overdraft accounts (profit free)	135,610	67,661
Bills under Letters of Credits	43,776	42,688
Prepaid expenses	30,933	23,006
Deferred sales commissions	37,076	25,597
Goods available-for-sale	-	39,770
Others	235,475	22,754
	495,061	**247,195**

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

11 Property and Equipment

2013	Freehold land	Leasehold improvements	Furniture	Equipment	Motor vehicles	Computer hardware & software	Capital work in progress (C- WIP)	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cost								
As at 1 January 2013	50,580	72,313	44,545	35,710	2,277	53,383	28,328	287,136
Additions	-	1,816	777	1,071	294	3,063	12,566	19,587
Transfer from C-WIP	-	18,924	147	643	-	8,872	(28,586)	-
Disposals	-	(33)	-	-	-	(8)	(6)	(47)
Net book value As at 31 December 2013	**50,580**	**93,020**	**45,469**	**37,424**	**2,571**	**65,310**	**12,302**	**306,676**
Accumulated Depreciation								
As at 1 January 2013	-	(68,364)	(37,412)	(29,352)	(2,044)	(41,173)	-	(178,345)
Charge for the year	-	(9,528)	(1,052)	(3,367)	(202)	(8,021)	-	(22,170)
Disposals	-	33	-	-	-	9	-	42
As at 31 December 2013	**-**	**(77,859)**	**(38,464)**	**(32,719)**	**(2,246)**	**(49,185)**	**-**	**(200,473)**
Net book value As at 31 December 2013	**50,580**	**15,161**	**7,005**	**4,705**	**325**	**16,125**	**12,302**	**106,203**

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

11 Property and Equipment *(continued)*

2012	Freehold land	Leasehold improvements	Furniture	Equipment	Motor vehicles	Computer hardware & software	Capital work in progress (C-WIP)	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cost								
As at 1 January 2012	50,580	71,968	15,246	20,299	1,290	41,243	20,971	221,597
Additions	-	337	251	1,344	118	1,425	12,755	16,230
Transfers from Dubai Bank	-	-	28,798	13,526	929	9,333	-	52,586
Transfer from C-WIP	-	2,951	250	541	-	1,382	(5,124)	-
Disposals	-	(2,943)	-	-	(60)	-	(274)	(3,277)
Net book value As at 31 December 2012	**50,580**	**72,313**	**44,545**	**35,710**	**2,277**	**53,383**	**28,328**	**287,136**
Accumulated Depreciation								
As at 1 January 2012	-	(61,994)	(12,279)	(16,682)	(1,164)	(30,560)	-	(122,679)
Charge for the year	-	(7,762)	(1,890)	(2,167)	(122)	(5,988)	-	(17,929)
Transfer from Dubai Bank	-	-	(23,243)	(10,503)	(818)	(4,625)	-	(39,189)
Disposals	-	1,392	-	-	60	-	-	1,452
As at 31 December 2012	**-**	**(68,364)**	**(37,412)**	**(29,352)**	**(2,044)**	**(41,173)**	**-**	**(178,345)**
Net book value As at 31 December 2012	**50,580**	**3,949**	**7,133**	**6,358**	**233**	**12,210**	**28,328**	**108,791**

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

12 Customers' Accounts

	2013 AED'000	2012 AED'000
Current accounts	10,011,289	6,620,109
Saving accounts	6,587,312	5,304,389
Investment accounts	5,423,969	6,309,127
Wakala accounts	6,636,087	7,286,022
Margins	234,205	153,537
	28,892,862	**25,673,184**
Customers' accounts are concentrated as follows:		
Resident customer accounts	28,385,141	25,197,148
Non-Resident customer accounts	507,721	476,036
	28,892,862	**25,673,184**
By Segment:		
Retail banking	23,726,320	18,310,155
Corporate banking	5,166,542	7,363,029
	28,892,862	**25,673,184**

13 Due to Banks

	2013 AED'000	2012 AED'000
Current accounts	4,019	6,209
Overdraft with correspondents	43,059	14
Investment accounts	72,080	72,910
Deposit exchange (profit free)	132,144	367,300
Wakala accounts	61,434	2,577,531
	312,736	**3,023,964**
Due to banks are concentrated as follows:		
Due to local banks	266,014	2,946,891
Due to foreign banks	46,722	77,073
	312,736	**3,023,964**

14 Sukuk Payable

The Bank, through a Shari'ah'a compliant Sukuk financing arrangement, raised two tranches of US Dollar denominated medium term finance amounting to USD 500,000,000 each (AED 1,836,500,000).

The Sukuk are listed on the London Stock Exchange. The terms of the arrangement include transfer of certain identified assets (the "Co-Owned Assets") of the Bank to a Sukuk company, EIB Sukuk Company Limited – (the "Issuer"), a special purpose vehicle formed for the issuance of the Sukuk. In substance, the co-owned assets remain in control of the Bank. Accordingly these assets continue to be recognised by the Bank. In case of any default, the Holding Company has provided an undertaking to make good all losses to the Sukuk holders. The Sukuk will be due for maturity during January 2017 and January 2018 respectively. The assets are in the control of the Bank and shall continue to be serviced by the Bank.

The Issuer will pay the semi-annual distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the semi-annual distribution amount payable to the Sukuk holders on the semi-annual distribution dates. Upon maturity of the Sukuk, the Bank has undertaken to repurchase the assets at the exercise price.

The Sukuk carry a fixed profit rate of 4.718% and 4.14% per annum respectively. Such profits are payable on a semi-annual basis.

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

15 Other Liabilities

	2013 AED'000	2012 AED'000
Investment, saving and Wakala accounts' share of profit (Note 29)	134,758	191,085
Provision for employee benefits	120,297	71,231
Manager Cheques	249,287	265,783
Trade payables	184,132	103,566
Properties related liabilities	129,895	149,818
Forfeited income	399	20,612
Others	363,369	259,499
	1,182,137	**1,061,594**

16 Investment Wakala

The Bank has received funds, on Wakala basis, aggregating to AED 1,081,872,000 in December 2008 from the Ministry of Finance, Government of UAE, payable after five years (extendable up to seven years), subject to certain conditions as per the Wakala agreement, and carries profit at the rate of 5.25% (2012: 4.5%).This is subordinated and eligible as Tier II capital.

17 Share Capital

	2013	2012
	AED'000	AED'000
Authorised Share Capital		
5,000,000,000 (2012: 3,000,000,000) ordinary shares of AED 1 each (2012: AED 1 each)	**5,000,000**	**3,000,000**
Issued and fully paid up capital		
3,930,422,000 (2012: 2,430,422,000) ordinary shares of AED 1 each (2012: AED 1 each)	**3,930,422**	**2,430,422**

Shareholders of the Bank in the extra ordinary general meeting held on 23rd December 2012 approved the increase in authorised share capital by AED 2,000,000,000 and paid up share capital by AED 1,500,000,000. Legal formalities were completed and the capital was increased on 31st March 2013.

18 Statutory Reserve & General Reserve

In accordance with the Bank's Articles of Association, Article (82) of Union Law no. 10 of 1980 and Federal Commercial Companies Law, the Bank transfers 10% of Shareholders' net profit for the year, if any, to the statutory reserve until such reserve equals 50% of the paid-up share capital. This reserve is restricted and is not available for distribution.

A further 10% of shareholders' net profit for the year, if any, is transferred to the general reserve until it reaches 10% of the paid-up capital. This transfer may be suspended by an ordinary General Meeting, based on Board of Directors' recommendation. The Board of Directors proposes the use of the general reserve at its discretion.

19 Sale of Share in a Subsidiary – Ithmar Real Estate Co. PSC

In December 2013 the Group sold its share in Ithmar Real Estate and has de-consolidated Ithmar as a Subsidiary of the Group. The Group realised a total gain of AED 11,618,000 on this sale. Properties having a fair value of AED 62,444,000 were transferred in the name of the Group as a consideration.

	AED'000
Investment in subsidiary- net	44,804
Receivable from Ithmar Real Estate Co. PSC	6,022
	50,826
Fair value consideration received	62,444
Gain on sale of shares in subsidiary	**11,618**

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

20 Contingencies and Commitments

a) The Bank provides letters of guarantee and letters of credit to meet the requirements of its customers. These commitments have fixed limits and expirations, and are not concentrated in any period, and are arising in the normal course of business, as follows:

	2013 AED'000	2012 AED'000
Letters of guarantee	3,388,858	2,916,996
Letters of credit	1,050,994	644,930
Liability on risk participation	288,462	-
Irrevocable financing commitments	1,855,846	764,618
Capital expenditure commitments including in respect of investment properties	42,087	129,759
Commitments in respect of operating lease	22,681	15,744
	6,648,928	**4,472,047**

Commitments in respect of operating lease		
Less than one year	19,182	12,512
Between one and five years	3,499	3,232
	22,681	**15,744**

b) Acceptances:

Under IAS 39, acceptances are recognised on balance sheet with a corresponding liability. Accordingly, there is no off balance sheet commitment for acceptances.

21 Income from Financing Activities, Net

	2013 AED'000	2012 AED'000
Commodities Murabaha	361,847	133,166
Vehicles Murabaha	227,343	180,572
Syndication Murabaha	16,713	533
Real Estates Murabaha	2,865	7,803
Ijarah	481,651	347,703
Istisna'a	16,842	17,187
Financing Wakala	43,903	56,760
Others	33,913	17,149
	1,185,077	**760,873**

22 Income from Investment Securities, Net

	2013 AED'000	2012 AED'000
Realised gain/(loss) on sale of - fair value through profit or loss	-	1,442
Realised gain on sale of - available for sale investments	31,421	4,999
Unrealised gain/(loss) - fair value through porfit or loss	1,099	(19,813)
Dividend Income	15,967	2,537
Investing profit - available-for-sale investments	35,246	26,824
Investing profit - held-to-maturity investments	23,215	34,018
	106,948	**50,007**

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

23 Income from Group Holding Company, Net

	2013	2012
	AED'000	AED'000
Short term Murabaha	326,776	328,721
Investment Wakala	(3,687)	(52,855)
	323,089	**275,866**

24 Property Related Income, Net

	2013	2012
	AED'000	AED'000
Rental income	42,962	38,874
Property related expenses	(2,311)	(3,481)
Depreciation of investment properties (note 9)	(28,683)	(27,279)
	11,968	**8,114**

25 Commission and Fee Income, Net

	2013	2012
	AED'000	AED'000
Commissions and fees	214,290	193,617
Portfolio and management fees	728	519
Front end fees	9,549	5,440
Sukuk management fees	-	29,515
Others	22,899	14,274
	247,466	**243,365**
Less: Commissions and fees paid	(29,561)	(18,332)
	217,905	**225,033**

26 Other Operating Income, Net

	2013	2012
	AED'000	AED'000
Foreign exchange gains, net	57,316	33,237
Others	(9,488)	(9,568)
	47,828	**23,669**

27 General and Administrative Expenses

	2013	2012
	AED'000	AED'000
Staff related expenses	(423,729)	(273,669)
Administrative & operating expenses	(217,034)	(137,403)
Depreciation of fixed assets (Note 11)	(22,170)	(17,929)
	(662,933)	**(429,001)**

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

28 Allowances for Impairment, Net of Recoveries

	2013 AED'000	2012 AED'000
Financing receivables		
Allowances made during the year	(690,585)	(513,524)
Recoveries	135,614	106,059
	(554,971)	**(407,465)**
Investments		
Allowances made during the year (note 8)	(163,630)	(49,146)
	(163,630)	(49,146)
	(718,601)	**(456,611)**

29 Customers' Share of Profit and Distribution to Sukuk Holders

	2013 AED'000	2012 AED'000
Customer accounts	(220,156)	(254,420)
Sukuk issued	(163,255)	(122,418)
	(383,411)	**(376,838)**

The distribution of profit between unrestricted account holders (investment, saving and Wakala accounts) and shareholders is made, quarterly, in accordance with the method approved by the Bank's Fatwa and Shari'ah Supervisory Board.

30 Directors Fee

This comprises of Board Committee fees paid to the directors of the Group, amounting to AED 1,960,000.

31 Earning per Share

The calculation of earnings/(loss) per share is based on profit of AED 139,488,000 (2012: profit of AED 81,220,000), for the year divided by the weighted average of the number of shares outstanding during the year: 3,555,422,000 shares (2012: 2,430,422,000 shares).

No figures for diluted earnings per share have been presented as the Group has not issued any instruments which would have an impact on earnings per share when exercised.

	2013 AED'000	2012 AED'000
Net profit and loss for the year	139,488	81,220
Weighted average no shares outstanding during the year	-	-
Shares capital available throughout the year	2,430,422	2,430,422
	2,430,422	**2,430,422**
Weighted average number of right shares issued on March 31, 2013	1,125,000	-
	3,555,422	**2,430,422**
Earning per share	**0.039**	**0.033**

32 Cash and Cash Equivalents

	2013 AED'000	2012 AED'000
Cash in hand (note 5)	191,437	139,487
Current account with U.A.E Central Bank (note 5)	335,683	104,152
Murabaha with Central Bank (note 5)	401,993	-
Due from banks	3,743,563	1,365,144
Due to banks	(47,078)	(6,223)
	4,625,598	**1,602,560**

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

33 Related Party Transactions

The ultimate parent of the Group is Investment Corporation of Dubai (55.6%), a company in which the Government of Dubai is the major shareholder.

Customer accounts and financing to Government related entities other than those that have been individually disclosed amount to 3.96% and 6.81% of the total customers' accounts and financing receivables of the Group respectively. These entities are independently run business entities, and all the financial dealings with the Group are on an agreed basis.

The Group has also entered into transactions with certain other related parties who are non-government related entities. Such transactions were also made on substantially the same terms, including profit rates and collaterals, as those prevailing at the same time for comparable transactions with third parties and do not involve more than a normal amount of risk.

Related party transactions are as follows:

	2013 AED'000	2012 AED'000
Consolidated interim statement of income		
Income from Group Holding Company, net	323,089	275,866
Key management personnel compensations	(17,181)	(8,812)
Key management personnel compensations - retirements benefits	(411)	(26,798)

Balances with related parties are as follows:

	2013 AED'000	2012 AED'000
Consolidated interim statement of financial position		
Due from Group Holding Company, net	8,139,143	4,809,891
Due from Ultimate Parent Company	183,756	613,376
Due to Ultimate Parent Company	(254,629)	(661,308)
Due from Dubai Bank PJSC (note 4 and 6)	2,415,665	2,884,269
Financing receivables - Directors & affiliates	6,059	-
Financing receivables - Key management personnel & affiliates	16,615	11,648
Current and Investment accounts - Directors	(379)	(571)
Current and Investment accounts - Key management personnel	(14,236)	(3,933)
Investment in Government Related Entities	85,195	79,594

Key management personnel are those persons, including non-executive directors, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

No impairment losses have been recorded against balances outstanding during the year with key management personnel and their immediate relations at the year end.

As explained in Note 4, the Group has acquired certain assets and liabilities from Dubai Bank PJSC a subsidiary of the Group Holding Company. Details of assets and liabilities have been mentioned in Note 4 to the financial statements.

34 Operating Segment

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

Corporate and Investment

Within this business segment, the Bank provides to corporate customers a range of products and services and accepts their deposits. This segment invests in investment securities, Sukuk, funds and real estate sector.

Retail

Retail segment provides a wide range of products and services to individuals and accepts their deposits.

Treasury

This segment mainly includes Murabaha deals with Group Holding Company.

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

34 Operating Segment (continued)

	Corporate & Investment		Retail		Treasury		Total	
	2013 AED'000	2012 AED'000	2013 AED'000	2012 AED'000	2013 AED'000	2012 AED'000	2013 AED'000	2012 AED'000
Consolidated statement of income								
Segment income	643,421	463,273	660,223	347,606	323,088	275,867	1,626,732	1,086,746
Inter segment Wakala income	(91,337)	(106,186)	203,041	185,081	(111,704)	(78,895)	-	-
Commission, fees & other income	136,543	112,717	138,834	142,930	2,324	1,169	277,701	256,816
Total income	**688,627**	**469,804**	**1,002,098**	**675,617**	**213,708**	**198,141**	**1,904,433**	**1,343,562**
General and administrative expenses	(170,509)	(132,511)	(487,631)	(324,994)	(4,793)	28,504	(662,933)	(429,001)
Total expenses	**(170,509)**	**(132,511)**	**(487,631)**	**(324,994)**	**(4,793)**	**28,504**	**(662,933)**	**(429,001)**
Net operating income	**518,118**	**337,293**	**514,467**	**350,623**	**208,915**	**226,645**	**1,241,500**	**914,561**
Allowances for impairment, net of recoveries	(605,185)	(429,822)	(113,416)	(26,789)	-	-	(718,601)	(456,611)
	(87,067)	**(92,529)**	**401,051**	**323,834**	**208,915**	**226,645**	**522,899**	**457,950**
Customers' share of profit and distribution to Sukuk holders	(92,000)	(113,320)	(128,156)	(142,477)	(163,255)	(121,041)	(383,411)	(376,838)
Net profit for the year	**(179,067)**	**(205,849)**	**272,895**	**181,357**	**45,660**	**105,604**	**139,488**	**81,112**
Consolidated statement of financial position								
Assets								
Segment assets	15,238,888	17,693,575	12,434,172	9,171,510	9,365,064	8,281,633	37,038,124	35,146,718
Central Bank Reserve Requirements	851,831	704,422	1,277,747	1,056,634	-	-	2,129,578	1,761,056
Unallocated assets	-	-	-	-	-	-	601,264	355,986
Total Assets	**16,090,719**	**18,397,997**	**13,711,919**	**10,228,144**	**9,365,064**	**8,281,633**	**39,768,966**	**37,263,760**
Liabilities								
Segment liabilities	6,387,851	7,484,335	23,798,619	18,313,680	3,866,629	7,778,836	34,053,099	33,576,851
Unallocated liabilities	-	-	-	-	-	-	1,558,362	1,064,885
Total Liabilities	**6,387,851**	**7,484,335**	**23,798,619**	**18,313,680**	**3,866,629**	**7,778,836**	**35,611,461**	**34,641,736**

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

35 Risk Management

Risk management framework:

The Group manages identification, measurement, aggregation and effective management of risk through a comprehensive risk management framework which incorporates organisational structure, risk measurement and monitoring processes.

The key features of the Group's risk management framework are:

- The Board of Directors ("the Board") has the overall responsibility for the establishment and oversight of the Group's risk management framework;
- The Group's risk appetite is determined by the Executive Committee (EXCO) and approved by the Board;
- Board committees meet regularly and are responsible for monitoring compliance with the risk management policies and procedures, and reviewing the adequacy of the risk management framework;
- Reporting any policy or major practice changes, unusual situations, significant exceptions and new strategies to the Board of Directors for review, approval and/or ratification through various Board Committees.
- The Group's overall risk management process is managed by the Group risk management function operating under its Head of Risk with oversight function exercised by the ENBD Group Risk's Chief Risk Officer ("CRO"). This function is independent of the business divisions.

Group Risk assists senior management in controlling and actively managing the Group's overall risk profile. This function also ensures that:

- Risk policies, procedures and methodologies are consistent with the Group's risk appetite;
- The Group's overall business strategy is consistent with its risk appetite; and
- Appropriate risk management architecture and systems are developed and implemented.

Risk management process:

Through the risk management framework, transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non-quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations, are escalated to the management for appropriate and timely action.

a. Credit Risk

Credit is the risk that a customer or counterparty will fail to meet a commitment, thereby resulting in financial loss to the Group. Credit risk also captures 'Credit Concentration risk' and 'Settlement risk', which is the risk of a counterparty failing to deliver on a financial markets transactions at settlement, and 'Residual risk', which arises from an insufficient ability to realize collaterals later.

Credit risk management and structure:

The approach to credit risk management is based on the foundation of preserving the independence and integrity of the credit risk assessment, management and reporting processes combined with clear policies, limits and approval structures in the business segments.

The Group's credit policy focuses on the core credit principles and includes guidelines on financing parameters, target businesses, policy guidelines, Shari'ah guidelines, management of high risk customers and provisioning.

The Board of Directors (BOD) has delegated authority to the Board Credit and Investment Committee ("BCIC") Management Credit and Investment Committee ("MCIC") and CEO to facilitate and effectively manage the business. However, the Board and the BCIC retain the ultimate authority to approve credits above MCIC authority.

The following general guidelines are followed for account classification into non-impaired and impaired credits:

Normal Financings

- Financings which bear normal banking risk, whereby information available to the bank assures repayment as agreed are classified as "Normal Financings";

Watch-list Financings

- Financings which show some weaknesses in the obligor's financial condition and credit worthiness, requiring more than normal attention but not allocation of provisions are classified as "Watch-list Financings";

Impaired Financings

i. Those accounts where adverse factors may hinder repayment or weaken security or lead to some loss are classified as "Substandard credits". In general these are credit exposures where agreed payments of principal and/or profit are more than 90 consecutive days in arrears;

ii. Those accounts where full recovery of profit and principal seems doubtful on the basis of information available, leading generally to a loss of part of these financings are classified as "Doubtful Financings"; and

iii. Those accounts where the bank has exhausted all courses of action available but failed to recover anything or where there is a possibility that nothing shall be recovered are classified as "Loss credits".

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

35 Risk Management *(continued)*

a. Credit Risk *(continued)*

Management of corporate credit risk:

The process of managing corporate credit risk is as follows:

- Corporate credit risk appetite is set as per the risk strategy approved at the Board Risk Committee;
- Credit facilities are granted based on the detailed credit risk assessment of the counterparty. The assessment considers, amongst other things, the purpose of the facility, sources of re-payment, prevailing and potential macro-economic factors, industry trends, customer's creditworthiness and standing within the industry;
- The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals, maintenance of documentation and proactive controls over maturities, expiry of limits and collateral valuations;
- Obligor risk grading - Internal rating models are used across various business segments to assess credit quality of the obligors and assign risk grades on the rating Master scale. All obligors are mapped to risk grades based on their probability of default. Highest credit quality customers have the lowest probability to default. These internal risk grades are mapped to Central Bank of the UAE categorisation on a scale of 1 to 5;
- Management of Impaired Non Performing Financings (NPF) and Watch List (WL) accounts - The Group has a well-defined process for identification of NPF & WL accounts and dealing with them effectively. This includes identification of delinquent accounts and controls applicable for close monitoring. Policies on profit suspension and provisioning are strictly adhered to in line with UAE Central Bank guidelines. The Group's Remedial Unit manages the problem commercial credit facilities. However, a specialised team in the Holding company ("ENBD") "Financial Restructuring and Remedial" team also handles the management and collection of some of the problem commercial credit facilities.

Management of consumer credit risk:

- Consumer credit risk appetite is set as per the risk strategy approved at the Board Risk Committee;
- The Risk Unit approves retail credit policies within the risk appetite set and monitors compliance. All new products are evaluated against approved policy guidelines. The evaluation takes into account the risk; reward dynamics. Policies are reviewed and updated on a regular basis to ensure that current market trends and portfolio performance are considered on a timely basis;
- Retail financing is granted under approved credit policies for each product. Every application needs to meet the laid down criteria as per the credit policies. Exception, if any, are approved by staff having delegated authority after reviewing the mitigant proposed for these exceptions;
- Risk grading – The risk grade of an account reflects the associated risks measured by the delinquency history and application and behavior probability of defaults ("PDs");
- Management of delinquent accounts – Delinquent accounts are monitored closely to ensure the Bank's asset quality is protected. Differential collections strategies are drawn out and higher risk accounts are subject to an accelerated collections strategy.

Credit risk monitoring:

The Group's exposures are continuously monitored through a system of triggers and early warning signals. These are supplemented by monitoring of account conduct, assessment of collateral and market intelligence.

Risks of the Group's Financing portfolio is continuously assessed/monitored on the basis of exceptions, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

Group credit risk mitigation strategy:

The Group operates within prudential exposure ceilings set by the Board, in line with UAE Central Bank guidelines. There are well laid out processes for exception management.

Portfolio diversification is the basis of the Group's credit risk mitigation strategy. Diversification is achieved by setting customer, industry and geographical limits.

The Group monitors concentrations of credit risk by economic activity sector. The analysis by economic activity is as follows:

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

35 Risk Management *(continued)*

a. Credit Risk *(continued)*

Analysis by Economic Activity for Assets

	2013		2012	
	Financing receivables	Others	Financing receivables	Others
	AED'000	AED'000	AED'000	AED'000
Agriculture and related activities	7,560	-	13,044	-
Manufacturing	436,590	-	307,069	-
Construction	420,778	-	464,912	-
Trade	1,436,855	-	1,008,482	-
Transportation and communication	255,103	-	189,058	-
Services	1,485,240	66,896	1,505,798	130,713
Sovereign	411,643	84,210	-	160,151
Personal	15,821,629	-	11,797,042	-
Real estates	4,669,135	1,038,745	4,889,825	1,229,576
Financial institutions	1,022,649	12,042,512	2,573,936	12,555,359
Others	955,079	-	854,011	-
Total	**26,922,261**	**13,232,363**	**23,603,177**	**14,075,799**
Less: Deferred income	(2,210,170)	-	(1,309,346)	-
Less: Allowances for impairment	(3,028,881)	(405,785)	(2,468,360)	(242,155)
Net Carrying Value	**21,683,210**	**12,826,578**	**19,825,471**	**13,833,644**

Risk gross maximum exposure:

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of use of master netting and collateral agreements.

	2013	2012
	AED'000	AED'000
Balances with UAE Central Bank	2,867,254	1,865,208
Due from banks	10,851,567	10,922,263
Financing receivables	21,683,210	19,825,471
Investments	1,348,994	1,507,983
Other assets	191,577	136,068
Total	**36,942,602**	**34,256,993**
Contingent liabilities	4,439,852	3,561,926
Total credit risk exposure	**41,382,454**	**37,818,919**

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

35 Risk Management *(continued)*

a. Credit Risk *(continued)*

Classification of investment securities as per their external ratings:

As at 31 December 2013

Ratings	Designated at fair value through profit or loss	Held-to-maturity investment securities	Available-for-sale investment securities	Total
	AED'000	AED'000	AED'000	AED'000
AAA	-	-	-	-
AA- to AA+	-	-	-	-
A- to A+	-	-	262,345	262,345
Lower than A-	59,422	122,413	190,254	372,089
Unrated	-	142,988	1,197,590	1,340,578
	59,422	**265,401**	**1,650,189**	**1,975,012**

As at 31 December 2012

Ratings	Designated at fair value through profit or loss	Held-to-maturity investment securities	Available-for-sale investment securities	Total
	AED'000	AED'000	AED'000	AED'000
AAA	-	-	30,556	30,556
AA- to AA+	-	-	-	-
A- to A+	-	-	375,331	375,331
Lower than A-	59,197	322,413	447,260	828,870
Unrated	450	165,788	1,510,387	1,676,625
	59,647	**488,201**	**2,363,534**	**2,911,382**

a. Credit risk *(continued)*

Credit quality analysis:

The credit quality of financial assets is managed by the Group. The table below shows the credit quality by class of financial assets, based on the Groups credit rating policy.

2013	Of which neither impaired nor past due on reporting date				Of which past due but not impaired on the reporting date				Of which individually impaired		
	Carrying amount	Low/Fair risk	Watch list	Re-negotiated terms	< 30 days	30-60 days	61-90 days	> 90 days	Carrying amount	Allowance for impairment	Gross amount
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Due from banks and Group Holding Company	10,851,567	10,851,567	-	-	-	-	-	-	-	-	-
Financing receivables:											
Retail	12,434,170	11,575,801	-	-	452,317	178,604	77,054	-	150,394	927,199	1,077,593
Corporate	9,249,040	5,238,535	148,440	1,177, 692	505,368	198,646	80,582	379,339	1,520,438	1,479,818	3,000,256
	21,683,210	**16,814,336**	**148,440**	**1,177,692**	**957,685**	**377,250**	**157,636**	**379,339**	**1,670,832**	**2,407,017**	**4,077,849**
Investments:											
Debt securities	1,348,994	714,878	-	-	-	-	-	-	634,116	266,674	900,790

2012	Of which neither impaired nor past due on reporting date				Of which past due but not impaired on the reporting date				Of which individually impaired		
	Carrying amount	Low/Fair risk	Watch list	Re-negotiated terms	< 30 days	30-60 days	61-90 days	> 90 days	Carrying amount	Allowance for impairment	Gross amount
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Due from banks and Group Holding Company	10,922,263	10,922,263	-	-	-	-	-	-	-	-	-
Financing receivables:											
Retail	9,171,509	8,140,714	-	-	498,293	168,271	70,179	-	294,052	840,007	1,134,059
Corporate	10,653,962	3,357,972	2,435,120	769, 698	462,275	225,972	152,343	1,357,542	1,893,039	1,020,814	2,913,583
	19,825,471	**11,498,686**	**2,435,120**	**769,698**	**960,568**	**394,243**	**222,522**	**1,357,542**	**2,187,091**	**1,860,821**	**4,047,642**
Investments:											
Debt securities	1,507,983	1,410,043	-	-	-	-	-	-	97,940	39,746	137,686

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

35 Risk Management *(continued)*

a. Credit risk *(continued)*

Financing with renegotiated terms

Financing with renegotiated terms are those Financings, where the repayment plan has been revised to align with the changed cash flows of the obligor with no other concessions by way of reduction in the amount or profit, but in some instances with improved security. These financings are treated as standard financings and continue to be reported as normal financings in the renegotiated financings category.

Past due but not impaired

Exposures where contractual profit or principal payment are past due for more than 90 days but based upon individual assessment, that the impairment is not appropriate considering the obligor's ability to pay, past track record, overall exposure levels, materiality of the past due, types of collaterals, quality of the obligor's receivables and the stage of collection of the amounts owed to the Group. Amounts that were past due and settled in a short period after the balance sheet date have been excluded.

Definition of impaired financial assets:

A counterparty is impaired if:

a) In case of corporate exposures, the Group considers the counterparty unlikely to pay due to one of the following conditions:

- A material credit obligation has been put on non-accrual status;
- Distressed restructuring of a credit obligation;
- Selling of a credit obligation at an economic loss; and
- The Group or a third party has filed for the counterparty's bankruptcy.

b) In case of retail, if the exposure is past due for more than 90 days, it is considered to be impaired.

Impairment assessment

The asset portfolio is reviewed on an ongoing basis for impairment. The accrual or non-accrual status of the asset is re-assessed and appropriately risk graded as per credit policy. Impaired assets are classified as such and reported at least on quarterly intervals to the Board sub-committees.

Assessment of specific impairment:

Corporate Exposure: The Group determines impairment appropriate for each financing by exercising mature judgment in line with Central Bank of the UAE and IFRS requirements. The Group classifies those accounts where recovery is considered doubtful and ensures impairment is made accordingly. The impairment losses are evaluated on an ongoing basis. Specific impairment is assessed when an exposure shows a significant perceived decline in the credit quality or when an obligation is past due or over-limit for more than 90 days. Impaired accounts are classified as Substandard, Doubtful or Loss.

Retail Exposure: Criteria for provisions are based on products, namely, credit cards and other retail financings. All retail financings are classified as non-performing after 90 days and provisions are made in line with the Group's income and loss recognition policies.

Assessment of collective impairment:

Provisions for collective impairment are made based on the IFRS and Central Bank of the UAE guidelines. Impairments that cannot be identified with an individual financing are estimated on a portfolio basis.

Collateral management:

Collaterals and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed.

Where financing facilities are secured by collateral, the Group seeks to ensure the enforceability of the same.

Collaterals are revalued regularly as per the policy as a general rule. However, periodic valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Group to assess the fair market value of the collateral and ensure that risks are appropriately covered.

b. Market risk

Market risk is the potential for adverse changes in the market value of portfolio and positions due to fluctuations in profit rates, exchange rates, equity prices, commodity prices, as well as in their correlation and implied volatility. Consistent with the Group's approach to strict compliance with Islamic Shari'ah, the Group does not involve in speculative foreign exchange transactions. The Group only involves in a limited amount of foreign exchange transactions to hedge its commercial activities.

The Group's market risk is managed through risk limits set by the ALCO and approved by the Group's Board of Directors. Risk limits are reviewed by the ALCO on an annual basis and are monitored independently by the Market Risk Unit on a regular basis, and exceptions, if any, are reported to senior management.

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

35 Risk Management *(continued)*

b. Market risk *(continued)*

i. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is not significantly exposed to any currency risk as it does not hold any open position in foreign currencies.

ii. Price risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The effect on equity (as a result of a change in the fair value of equity instruments held as available for sale at 31 December 2012) due to reasonably possible change in equity indices, with all other variables held constant, is as follows:

	31 December 2013			31 December 2012		
	% Change in market indices	Effect on net profit AED' 000	Effect on OCI AED' 000	% Change in market indices	Effect on net profit AED' 000	Effect on OCI AED' 000
Equity	10	5,942	6,222	10	92,743	4,066
Sukuk	10	-	47,709	10	42,464	101,978

c. Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes and systems, human error or external events. It thus excludes strategic and reputation risks but includes legal and regulatory risks.

The Bank has standard policies and procedures for managing each of its divisions, departments and branches so as to minimise losses through a framework to ensure compliance with the Basel II requirements. All related policies are subject to review and approval by the Board of Directors.

The Group manages operational risk through disciplined application and evaluation of internal controls, appropriate segregation of duties, independent authorisation of transactions and regular, systematic reconciliation and monitoring of transactions. This control structure is complemented by independent and periodic reviews by the Bank's internal audit department.

The Group has set up the Group operational risk function within Group Risk to establish the framework and governance structure set out in the operational risk policy. This function develops and implements the methods for the identification, assessment and monitoring of operational risks throughout the Group and provides regular and comprehensive reporting on operational risks to senior management. The function supports business and other support units to monitor and manage their individual operational risks. Furthermore, the Group operational risk function also provides analysis and reports on operational risks to senior management and conducts independent oversight and monitoring of risks and mitigating measures.

The governance structure of operational risk is regulated through the Group Operational Risk and Compliance Committee ("ORCC"). The ORCC reviews the Group's operational risks on a periodic basis, and the effectiveness of existing controls to mitigate these risks. The ORCC reports to EXCO and requires senior management involvement from every unit and major entity of the Group.

The Group has implemented the following processes to proactively monitor and manage operational risks:

- Assessment of any operational risk of a new or amended product or process prior to its implementation. This enables identification and mitigation of operational risks prior to the introduction of new products, processes, systems or any major change initiatives;
- Identification of inherent and residual risks across all units and entities of the Group and assessment of control efficiencies and estimation of probabilities and potential impact of the operational risks. The identified risks are monitored and reassessed frequently by the line management;
- The internal loss data collection process enables an effective and efficient management of the risk, i.e. analysing the root cause, improving controls and mitigating the loss potential. The responsibility for the identification of and notification on operational risk events lies with the line managers of the business and support units;
- IT security processes ensure confidentiality, integrity and availability of Group's information, information systems and its resources through the selection and application of appropriate safeguards. The Holding Company's operational risk function ensures that security processes are integrated with strategic and operational planning processes at the Group;
- A comprehensive insurance program is in place as an integral component of the Group's operational risk mitigation strategy; and
- The Group Business Continuity Management (BCM) policy enables the implementation of measures to protect the Group's resources and maintain the availability of business operations in the event of a disaster.

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

35 Risk Management *(continued)*

d. Liquidity risk

The risk that an entity may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk management:

To guard against this risk, the Group has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents. Liquidity is managed by the Treasury department under guidance from the ALCO, and is monitored using short-term cash-flow reports and medium-term maturity mismatch reports. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. They do not take into account the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

The maturity profile of the Group's assets and liabilities is monitored by management to ensure adequate liquidity is maintained.

Liquidity risk monitoring:

All funded liquidity risk positions are monitored and evaluated by Group risk to identify mismatches of future cash inflows and corresponding maturity of liabilities over the short term and by major currencies.

The Group ALCO reviews the funding capacity, and its sensitivity to any key event, based on the judgment of Group Treasury that is responsible for maintaining diversified funding sources within capital and money markets.

The Group applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets or aggressive bidding for deposits. The Group's approach to manage the liquidity risk is to ensure that it has adequate funding from diversified sources at all times. The Group ALCO monitors the concentration risk through a combination of indicative triggers (as opposed to prescriptive Limits) that include:

- Depositor concentration;
- Maturity analysis;
- Varied funding programs; and
- Investor diversification.

Liquidity risk mitigation:

The ALCO, in conjunction with Treasury is primarily responsible for implementing the liquidity management strategies on structural positions, and maintaining adequate liquidity buffers for possible distress situations. Other business units contribute to overall structural liquidity management through product mix strategies and deposit targets.

The ALCO, in line with the best practices, recognises that users and providers of liquidity as a resource should be incentivised an equitable and transparent manner. This is achieved through the Funds Transfer Pricing (FTP) system which is aligned to charge/compensate for liquidity of the underlying assets or structural nature of underlying liabilities.

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

35 Risk Management *(continued)*

d. Liquidity risk *(continued)*

Maturity Profile of Financial Assets and Liabilities

2013	Within 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Financial Assets						
Cash and balances with UAE Central Bank	2,656,698	401,993	-	-	-	3,058,691
Due from banks	5,288,937	1,889,630	-	3,673,000	-	10,851,567
Financing receivables	3,340,350	1,207,083	4,336,264	2,903,914	9,895,599	21,683,210
Investments	205,931	454,852	740,083	574,145	-	1,975,011
Other financial assets	147,801	-	-	-	-	147,801
Total Financial Assets	**11,639,717**	**3,953,558**	**5,076,347**	**7,151,059**	**9,895,599**	**37,716,280**
Financial Liabilities						
Customers' accounts	(10,305,483)	(7,586,211)	(11,001,168)	-	-	(28,892,862)
Due to banks	(312,736)	-	-	-	-	(312,736)
Sukuk payable	-	-	-	(3,673,000)	-	(3,673,000)
Other financial liabilities	(568,576)	-	-	-	-	(568,576)
Zakat payable	(7,287)	-	-	-	-	(7,287)
Investment Wakala	-	-	(1,081,872)	-		(1,081,872)
Total Financial Liabilities	**(11,194,082)**	**(7,586,211)**	**(12,083,040)**	**(3,673,000)**	**-**	**(34,536,333)**
Liquidity surplus/(deficit)	**445,635**	**(3,632,652)**	**(7,006,693)**	**3,478,059**	**9,895,599**	**3,179,947**
Cumulative liquidity surplus/(deficit)	**445,635**	**(3,187,018)**	**(10,193,711)**	**(6,715,652)**	**3,179,947**	

The Group is also exposed to financial commitments disclosed in note 20 to the financial statements.

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

35 Risk Management *(continued)*

d. Liquidity risk *(continued)*

Maturity Profile of Financial Assets and Liabilities *(continued)*

2012	Within 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Financial Assets						
Cash and balances with UAE Central Bank	2,004,695	-	-	-	-	2,004,695
Due from banks	6,679,115	570,148	-	3,673,000	-	10,922,263
Financing receivables	3,858,005	902,570	4,103,811	3,482,369	7,478,716	19,825,471
Investments	158,579	415,705	1,189,923	894,751	252,423	2,911,381
Other financial assets	93,380	-	-	-	-	93,380
Total Financial Assets	**12,793,774**	**1,888,423**	**5,293,734**	**8,050,120**	**7,731,139**	**35,757,190**
Financial Liabilities						
Customers' accounts	(10,584,442)	(6,563,290)	(8,525,452)	-	-	(25,673,184)
Due to banks	(446,433)	(2,577,531)	-	-	-	(3,023,964)
Sukuk payable	-	-	-	(3,673,000)	-	(3,673,000)
Other financial liabilities	(581,046)	-	-	-	-	(581,046)
Zakat payable	(3,291)	-	-	-	-	(3,291)
Investment Wakala	-	-	-	(1,081,872)	-	(1,081,872)
Total Financial Liabilities	**(11,615,212)**	**(9,140,821)**	**(8,525,452)**	**(4,754,872)**	**-**	**(34,036,357)**
Liquidity surplus/(deficit)	**1,178,562**	**(7,252,398)**	**(3,231,718)**	**3,295,248**	**7,731,139**	**1,720,833**
Cumulative liquidity surplus/(deficit)	**1,178,562**	**(6,073,836)**	**(9,305,554)**	**(6,010,306)**	**1,720,833**	

The Group is also exposed to financial commitments disclosed in note 20 to the financial statements.

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

35 Risk Management *(continued)*

d. Liquidity risk *(continued)*

Analysis of Financial Liabilities by Remaining Contractual Maturities

As at 31 December 2013			Contractual outflows				
	Carrying amount	Gross nominal outflows	Within 3 months	3 months to 1 year	1 year to 3 years	3 years to 5 years	Over 5 years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Financial Liabilities							
Customers' accounts	(28,892,862)	(28,926,327)	(10,306,312)	(7,609,835)	(11,010,180)	–	–
Due to banks	(312,736)	(312,736)	(312,736)	-	-	–	–
Investment Wakala	(1,081,872)	(1,195,469)	(14,200)	(42,599)	(1,138,670)	–	–
Sukuk payable	(3,673,000)	(4,250,619)	(40,669)	(122,008)	(2,245,106)	(1,842,836)	–
	(33,960,470)	**(34,685,151)**	**(10,673,917)**	**(7,774,442)**	**(14,393,956)**	**(1,842,836)**	**–**

As at 31 December 2012			Contractual outflows				
	Carrying amount	Gross nominal outflows	Within 3 months	3 months to 1 year	1 year to 3 years	3 years to 5 years	Over 5 years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Financial Liabilities							
Customers' accounts	(25,673,184)	(25,740,407)	(10,599,878)	(6,604,626)	(8,535,903)	–	–
Due to banks	(3,023,964)	(3,023,964)	(3,023,964)	-	-	–	–
Investment Wakala	(1,081,872)	(1,248,210)	(12,171)	(40,570)	(1,195,469)	–	–
Sukuk payable	(3,673,000)	(4,369,341)	(40,678)	(122,035)	(325,428)	(3,881,200)	–
	(33,452,020)	**(34,381,922)**	**(13,676,691)**	**(6,767,231)**	**(10,056,800)**	**(3,881,200)**	**–**

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

35 Risk Management *(continued)*

e. Legal risk

The Group has full-time legal advisors and is actively supported at Group level Legal department who deal, with both routine and more complex legal cases. Situations of a particular complexity and sensitivity are referred to external firms of lawyers, either in the UAE or overseas, as appropriate.

f. Reputational Risk:

Reputational risk is the risk of potential loss of earnings and future revenue, loss in market value or lack of liquidity supply due to deterioration of reputation. It also includes the threat to the brand value of a financial institution.

Reputational risk can arise as a consequence of failures with a strong negative perception of clients, shareholders, creditors or the public. The Group has controls to ensure a positive perception of the Group.

g. Regulatory & Compliance Risk:

Regulatory/Compliance risk is the risk of sanctions and/or financial losses due to the failure to comply with applicable laws, regulations or guidelines.

The Group has independent compliance function, with necessary mandate and authority to enforce compliance on a Group wide basis. This includes active monitoring and reporting on Anti Money Laundering (AML) issues and sanctions. The Group follows the holding company ("ENBD") policy in relation to compliance with the Office of Foreign Assets Control (OFAC) regulations which are in line with international practices and guidelines. The Group maintains a "restricted customer" database which is checked when prospective customers of the Group are initially assessed. This database is linked to the OFAC list of sanctioned individuals as updated from time to time.

h. Business Risk:

Business risk is the potential risk of negative impact on Group's profits and capital, as a result of unforeseen changes in business and regulatory environment and exposure to economic cycles.

The Group measures such risk through stress testing processes and ensure that the Group is adequately Capitalised, so that the business model and planned activities are resourced and Capitalised consistent with the commercial, economic and risk environment in which the Group operates.

i. Non-Compliance Shari'a Risks:

It is possibility of occurrence of damage to the Group due to non-compliance with Shari'a Supervisory Board's Resolutions and Fatwas while taking administrative decision, products or executing financial products' contracts, which may also cause a reputational risk for the Group.

The Group has a permanent Shari'a Department to evaluate all existing and proposed solutions prior to presenting it to Shari'a Supervisory Board for approval then to conduct a periodic audit to ensure compliance with Shari'a principles and rules.

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

35 Risk Management *(continued)*

j. Capital Adequacy Ratio

The Group's capital adequacy ratio is regularly monitored by ALCO and managed by the Group risk, following table shows the details of calculating capital adequacy ratio as at 31 December 2013 and 31 December 2012:

	2013 AED'000	2012 AED'000
Tier I Capital		
Share capital	3,930,422	2,430,422
Statutory reserve	228,936	214,987
General reserve	134,715	120,766
Accumulated losses	(149,756)	(254,059)
Non-controlling interest	-	43,276
Total tier I capital	**4,144,317**	**2,555,392**
Tier II Capital		
Investment Wakala from the Ministry of Finance	649,123	865,498
Portfolio impairment provisions	621,862	607,539
Fair value reserve	13,188	66,632
Total tier II capital	**1,284,173**	**1,539,669**
Tier II eligible capital	**1,048,725**	**1,310,823**
Capital Base	**5,193,042**	**3,866,215**
Risk Weighted Assets	**32,539,172**	**31,599,023**
Capital Adequacy Ratio (Basel II)	**15.96%**	**12.24%**

Internal Audit's role in overall risk management

Internal Audit's reporting lines are independent of management and it reports directly to the Board Audit Committee. It is responsible for providing an independent review of the control environment across the group including all aspects of risk management. The primary objective of Internal Audit is to provide reliable, valued and timely assurance to the Board and Executive Management over the effectiveness of controls to mitigate current and emerging high risks thereby enhancing the control culture within the Group. The Board Audit Committee reviews and approves Internal Audit's plans and resources, and evaluates the effectiveness of Internal Audit. An assessment by external advisers is also carried out periodically.

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

36 Geographical Distribution of Assets and Liabilities

2013	GCC	Other Middle East	Europe	North America	Asia	Far East	Others	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets								
Cash and balances with UAE Central Bank	3,058,691	-	-	-	-	-	-	3,058,691
Due from banks	10,753,578	655	25,826	70,366	747	-	395	10,851,567
Financing receivables	21,358,477	55,640	189,813		79,280			21,683,210
Investments	1,369,169	19,221	1,142	-	479,162	106,317	-	1,975,011
Investment properties	1,137,656	-	-	-	-	-	-	1,137,656
Customer acceptances	461,567	-	-	-	-	-	-	461,567
Prepayments and other assets	495,061	-	-	-	-	-	-	495,061
Property and equipment	106,203	-	-	-	-	-	-	106,203
Total Assets	**38,740,402**	**75,516**	**216,781**	**70,366**	**559,189**	**106,317**	**395**	**39,768,966**
Liabilities								
Customers' accounts	28,482,184	121,230	93,347	53,857	46,733	70	95,441	28,892,862
Due to banks	312,039	-	142	7	548	-	-	312,736
Sukuk payable	3,673,000	-	-	-	-	-	-	3,673,000
Customer acceptances	461,567	-	-	-	-	-	-	461,567
Other liabilities	1,182,137	-	-	-	-	-	-	1,182,137
Zakat payable	7,287	-	-	-	-	-	-	7,287
Investment Wakala	1,081,872	-	-	-	-	-	-	1,081,872
Total Liabilities	**35,200,086**	**121,230**	**93,489**	**53,864**	**47,281**	**70**	**95,441**	**35,611,461**
Shareholders' equity	4,157,505	-	-	-	-	-	-	4,157,505
Total Equity	**4,157,505**	**-**	**-**	**-**	**-**	**-**	**-**	**4,157,505**

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

36 Geographical Distribution of Assets and Liabilities *(continued)*

2012	GCC	Other Middle East	Europe	North America	Asia	Far East	Others	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets								
Cash and balances with UAE Central Bank	2,004,695	-	-	-	-	-	-	2,004,695
Due from banks	10,648,355	710	140,181	131,995	845	-	177	10,922,263
Financing receivables	19,573,747	-	121,631	-	130,093	-	-	19,825,471
Investments	2,269,534	25,221	-	-	597,101	19,525	-	2,911,381
Investment properties	1,119,133	-	-	-	-	-	-	1,119,133
Customer acceptances	124,831	-	-	-	-	-	-	124,831
Prepayments and other assets	247,195	-	-	-	-	-	-	247,195
Property and equipment	108,791	-	-	-	-	-	-	108,791
Total Assets	**36,096,281**	**25,931**	**261,812**	**131,995**	**728,039**	**19,525**	**177**	**37,263,760**
Liabilities								
Customers' accounts	25,351,453	98,775	76,355	76,020	39,591	101	30,889	25,673,184
Due to banks	3,023,942	-	-	22	-	-	-	3,023,964
Sukuk payable	3,673,000	-	-	-	-	-	-	3,673,000
Customer acceptances	124,831	-	-	-	-	-	-	124,831
Other liabilities	1,061,594	-	-	-	-	-	-	1,061,594
Zakat payable	3,291	-	-	-	-	-	-	3,291
Investment Wakala	1,081,872	-	-	-	-	-	-	1,081,872
Total Liabilities	**34,319,983**	**98,775**	**76,355**	**76,042**	**39,591**	**101**	**30,889**	**34,641,736**
Shareholders' equity	2,578,748	-	-	-	-	-	-	2,578,748
Non-Controlling Interest	43,276	-	-	-	-	-	-	43,276
Total Equity	**2,622,024**	**-**	**-**	**-**	**-**	**-**	**-**	**2,622,024**

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

37 Financial Assets and Liabilities

Accounting classifications and carrying values:

As at 31 December 2013	Designated at fair value through profit or loss	Held-to-maturity	Available-for sale	Financing receivables	Amortised cost	Total carrying Value
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Financial Assets						
Cash and balances with UAE Central Bank	-	-	-	-	3,058,691	3,058,691
Due from banks	-	-	-	-	10,851,567	10,851,567
Financing receivables	-	-	-	21,683,210	-	21,683,210
Investments	59,422	265,401	1,650,189	-	-	1,975,012
Other financial assets	-	-	-	-	147,801	147,801
	59,422	**265,401**	**1,650,189**	**21,683,210**	**14,058,059**	**37,716,281**
Financial Liabilities						
Customers' accounts	-	-	-	-	28,892,862	28,892,862
Due to banks	-	-	-	-	312,736	312,736
Sukuk payable	-	-	-	-	3,673,000	3,673,000
Other financial liabilities	-	-	-	-	568,576	568,576
Zakat payable	-	-	-	-	7,287	7,287
Investment Wakala	-	-	-	-	1,081,872	1,081,872
	-	**-**	**-**	**-**	**34,536,333**	**34,536,333**

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

37 Financial Assets and Liabilities *(continued)*

Accounting classifications and carrying values:

As at 31 December 2012	Designated at fair value through profit or loss	Held-to-maturity	Available-for sale	Financing receivables	Amortised cost	Total carrying Value
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Financial Assets						
Cash and balances with UAE Central Bank	-	-	-	-	2,004,695	2,004,695
Due from banks	-	-	-	-	10,922,263	10,922,263
Financing receivables	-	-	-	19,825,471	-	19,825,471
Investments	59,647	488,201	2,363,534	-	-	2,911,382
Other financial assets	-	-	-	-	93,380	93,380
	59,647	**488,201**	**2,363,534**	**19,825,471**	**13,020,338**	**35,757,191**
Financial Liabilities						
Customers' accounts	-	-	-	-	25,673,184	25,673,184
Due to banks	-	-	-	-	3,023,964	3,023,964
Sukuk payable	-	-	-	-	3,673,000	3,673,000
Other financial liabilities	-	-	-	-	581,046	581,046
Zakat payable	-	-	-	-	3,291	3,291
Investment Wakala	-	-	-	-	1,081,872	1,081,872
	-	**-**	**-**	**-**	**34,036,357**	**34,036,357**

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

37 Financial Assets and Liabilities *(continued)*

Fair value of assets and liabilities

The table below analyses assets and liabilities measured at fair value on a recurring basis. The different levels in the fair value hierarchy have been defined as follows:

- Level 1: quoted prices (unadjusted) in principal markets for identified assets or liabilities.
- Level 2: valuation using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: valuation using inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	Total Gains/ (losses)
	Level 1	Level 2	Level 3	
	AED'000	AED'000	AED'000	AED'000
31-December-2013				
Investment Securities Available-for-Sale:				
Investment in Funds	-	-	606,506	**606,506**
Investment in equities	62,217	-	504,379	**566,596**
Sukuk	477,087	-	-	**477,087**
	539,304	**-**	**1,110,885**	**1,650,189**
Designated at Fair Value Through Profit or Loss:				
Investment in Funds	-	-	-	**-**
Investment in equities	59,422	-	-	**59,422**
	59,422	**-**	**-**	**59,422**
Grand Total	**598,726**	**-**	**1,110,885**	**1,709,611**

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total Gains/ (losses) AED'000
31-December-2012				
Investment Securities Available-for-Sale:				
Investment in Funds	-	-	788,709	**788,709**
Investment in equities	40,663	-	514,379	**555,042**
Sukuk	956,190	63,593	-	**1,019,783**
	996,853	**63,593**	**1,303,088**	**2,363,534**
Designated at Fair Value Through Profit or Loss:				
Investment in Funds	-	450	-	**450**
Investment in equities	59,197	-	-	**59,197**
	59,197	**450**	**-**	**59,647**
Grand Total	**1,056,050**	**64,043**	**1,303,088**	**2,423,181**

Notes to the Consolidated Financial Statements (For the year ended 31 December 2013)

37 Financial Assets and Liabilities *(continued)*

Reconciliation of financial assets, classified under level 3	Financial assets held for trading	Available for sale financial assets	Total
	AED'000	AED'000	AED'000
Balance as at 1 January 2013	**-**	**1,303,088**	**1,303,088**
Total gains or losses:	-	-	-
in profit or loss	-	-	-
in other comprehensive income	-	-	-
Purchases	-	-	-
Issues	-	-	-
Settlements		(192,988)	(192,988)
Movement due to change in un-observable estimates	-	-	-
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
FX Adjustment	-	785	785
Balance as at 31 December 2013	**-**	**1,110,885**	**1,110,885**

	AED'000	AED'000	AED'000
Balance as at 1 January 2012	**-**	**1,345,060**	**1,345,060**
Total gains or losses:	-	-	-
in profit or loss	-	-	-
in other comprehensive income	-	-	-
Purchases	-	-	-
Issues	-	-	-
Settlements		(41,005)	(41,005)
Movement due to change in un-observable estimates	-	-	-
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
FX Adjustment	-	(967)	(967)
Balance as at 31 December 2012	**-**	**1,303,088**	**1,303,088**

38 Comparative Figures

Certain prior year balances have been reclassified to conform to the current year.

List of District Branches

Branch Name	Branch Location	P. O. Box	Branch Telephone Number
Dubai – Deira			
Main Branch	Al Gurg Tower 2, Riggat Al Buteen, Near Hilton Creeek Hotel, Deira	6564 Dubai	04-2131661
Land Department	Dubai Land Dept Bldg, Ground Level, Baniyas Str, Opp Dubai Chamber of Commerce, Dubai	6564 Dubai	04-2215301/ 04-2212321
Al Mizher	Aswaq Centre, Near Al Mizhar Mall, Al Mizhar 1, Dubai	6564 Dubai	04-2845802
Nad Al Hamar	Bel Rumaitha Club Bldg, Showroooms no. S-8 & S-9, Al Rebat Str, Nad Al Hamar area, Dubai	6564 Dubai	2845999 (ext. 7900)
Al Twar	Dubai Municipality Bldg, Ground Level, Opp Al Twar Centre, Dubai	6564 Dubai	04-7023888
Al Twar Centre	Al Nahda Road, Near Al Twar Centre, Dubai	6564 Dubai	04-2575182
Business Village	Business Village Bldg, Block A, Ground Level, Next to Clock Tower, Deira, Dubai	6564 Dubai	04-2367878
Al Riqah	Omar Bin Al Khattab Street, Near Ibis Hotel, Riqqa, Deira, Dubai	6564 Dubai	04-2248442
Hamriya Souq	Shop no. 007, Central Al Hamriya Market Bldg, Hor Al Anz East, Near Union Coop, Abu Hail Rd	6564 Dubai	04-3733504
Mamzar	Arabila Bldg, Ground Level, Next to Grand Service Station, Dubai	6564 Dubai	04-2651323
Al Garhoud	Sunshine Building, Next to Al Tayer Showroom, Garhoud, Dubai	6564 Dubai	04 2829778
Dubai Fesitval City	Dubai Festival Centre, Opp Ikea, Next to Hyper Panda, Level 1, Dubai	6564 Dubai	04-3733201
Baniyas	Baniyas Road, Al Sabkha Area, Al Sabkha Bldg, Dubai	6564 Dubai	04-2023999
Dubai – Bur Dubai			
Al Khaleej Centre	Al Khaleej Centre Mall, Al Mankhool Road, Next to Choithram, Opp. Ramada Hotel	6564 Dubai	04-3550992
Bur Dubai	Bank Str, Next to Sun & Sand Sports Shop, Adjacent to Al Musalla Tower, Bur Dubai	6564 Dubai	04-3517161
Al Diyafah	Diyafa Street, Opp. Dune Centre, Satwa, Dubai	6564 Dubai	04-3986768
Dubai Investment Park	Dubai Investment Park Bldg	6564 Dubai	04-8855005
Dubai Mall	Dubai Mall, Inside Dubai Economic Dept	6564 Dubai	04-3253777
Oud Metha	Eleganza Apartments, Showroom No. 2 & 3, Oud Mehta Rd, Dubai	6564 Dubai	04-3379990
Umm Suqueim	Villa A, Jumeirah Beach Road, Near Jumeirah Beach Park, Umm Sequeim	6564 Dubai	04-3949968
Al Mina Road	Al Mina Road, Bur Dubai, After Emirates Petroleum Station, Service Rd after 1st Signal Light	6564 Dubai	04-3455554
Health Care City	Building No.16, Ground Floor, Dubai Health Care City, Dubai	6564 Dubai	04-3834726
Al Barsha Mall	Al Barsha Mall, Barsha	6564 Dubai	04-3733211

List of District Branches *(continued)*

Dubai – New Dubai			
Al Quoz	Khalifa Bin Dismal Bldg, Show Room no. 1, Al Quoz 3 Area,	6564 Dubai	04-3809952
Jebel Ali	Banking Complex, Jafza Main Gate, Jebel Ali	6564 Dubai	04-8811771
Jebel Ali Jafza Br	Gate No.4, Jafza 16, Jebel Ali	6564 Dubai	04-8872555
Media City	Business Central Towers, Showroom No.16, Dubai Media City, Sheikh Zayed Road	6564 Dubai	04-4380200
Sheikh Zayed Road	Al Wasl Tower, Showroom 2, Sheikh Zayed Road, Dubai	6564 Dubai	04-3311087 (Ext. 4500)
Sheikh Zayed Road 2	Al Kharbash Building, Sheikh Zayed Road, Dubai	6564 Dubai	04-3438882/9192
Jumeirah Beach Residence	Jumeirah Beach Resident, Amwaj 3, Jumeirah, Dubai	6564 Dubai	04-4233777
Sharjah & North Emirates			
Ajman	Sheikh Khalifa Bin Zayed Road, Ajman	6688 Ajman	06-7463338
Halawan	Wasit Street, Sheikh Ismail Building	67621 Sharjah	06-5663555 (Ext. 4656)
Muwaileh	Dr. Faisal Al Qasimi Bldg, Showrooms No. 6 & 7, Maleeha Str., Near National Paints Ind. Area no. 15	5169 Sharjah	06-5663555 (Ext. 4656)
Qasimiyah	Al Otaiba Building, King Abdul Aziz Road, Sharjah	67622 Sharjah	06-5076666
Sharjah Corniche	Ground Floor, EIB Tower, Buheira Corniche, Al Majaz Area, Sharjah	5169 Sharjah	06-5444555
Sharjah	Al Bourj Avenue, Al Arooba Bank Street, Near Rolla Square, Sharjah	5169 Sharjah	06-5686166
Sharjah Crystal Plaza	Crystal Plaza Tower, Sharjah Buhairah Corniche Road, Sharjah	5169 Sharjah	06-5750113
Fujairah	Near Choithram Supermarket, Sheikh Hamad Bin Abdulla Street, Fujairah	1472 Fujairah	09-2235666
Khorfakkan	Corniche Street, Khorfakkan	18969 Khorfakkan	09-2371122
Umm Al Quwain	Near Umm Al Quwain Broadcasting Station, King Faisal Road, Umm Al Quwain	315 Umm Al Quwain	06-7646112
Ras Al Khaimah	Emirates Islamic Bank Tower, Ground Floor, Al Muntaser Str., Al Nakheel Area, Ras Al Khaimah	5198 Ras Al Khaimah	07-2260363
Abu Dhabi & Al Ain			
Abu Dhabi	Sheikh Rashid Bin Saeed Al Maktoum Street, Abu Dhabi	46077 Abu Dhabi	02-4464000
Al Khalidiya	Street No.26, Intersecting with Zayed 1st Street, Al Khalidiya, Abu Dhabi	108330 Abu Dhabi	02-6679000
Khalifa City	Villa No. 104, Sector SE-02, Khalifa City'A', Abu Dhabi	46077 Abu Dhabi	02-5571741
Tourist Club	Al Zarooni Building, Al Meena Street 10, Abu Dhabi	46077 Abu Dhabi	02-6448820
Abu Dhabi Corniche	Corniche Street, Nearest Landmark – Ministry of Energy, Abu Dhabi	46077 Abu Dhabi	02 6160812
Abu Dhabi Mall	Abu Dhabi Mall, Ground Floor, Next to Yateem Optician, Abu Dhabi	46077 Abu Dhabi	02-6445903
Al Ain	Jawazat Street, Near Sheikh Salama Mosque, Al Ain	15095 Al Ain	03-7511159
Al Ain Souq Branch	Oud Al Touba Street, Nearest Landmark – NBQ	15095 Al Ain	03-7511099
Al Mutaradh	Arabian Centre, Show Rooms No. 14, 15 & 16, Al Mutaradh Area, Al Ain	15095 Al Ain	03-7559840

List of offsite ATMs

Offsite ATM Location	Emirate
LuLu Hypermarket, Al Wahda Mall	Abu Dhabi
Carrefour , Abu Dhabi	Abu Dhabi
Awqaf Abu Dhabi	Abu Dhabi
City Center Ajman	Ajman
UNCP Co-operative Ajman	Ajman
Al Ain Mall Al Ain	Al Ain
Jimmi Mall Al Ain	Al Ain
Bawadi Mall ATM 2 NOC – Near Carrefour	Al Ain
Bin Sougat Center, Airport Road	Dubai
American Hospital, Oudh Metha	Dubai
Wholesale Plaza Dubai	Dubai
Al Barsha Mall (UNCP)	Dubai
Ibn Battuta Mall	Dubai
Mall of the Emirates	Dubai
Marina Mall	Dubai
Mirdiff City Centre	Dubai
Etisalat Al Kifaf	Dubai
Dubai Immigration	Dubai
UNCP Karama	Dubai
Dubai Municipality, Al Manara Centre Offsite, G.P.R.S	Dubai
Dubai Airport Arrival	Dubai
Etihad Mall	Dubai
Bawadi Mall ATM 3 NOC – Near Style Studio	Dubai
Deira City Center	Dubai
Dubai Taxi ATM	Dubai
Dubai Airport Terminal 2	Dubai
Dubai Airport Terminal 3	Dubai
Sahara Center	Dubai
Lulu hypermarket - Al Qusais	Dubai
Karama Center	Dubai
Al Bustan Center	Dubai
Union Co-operative - Jumeirah	Dubai
Union Co-operative - Al Twar	Dubai
Union Co-operative- Al Aweer	Dubai
Souk Al Wasl	Dubai
Union Co-operative Rashidya	Dubai
Union Co-operative Hamriya	Dubai
UNCP Al Wasl, Satwa	Dubai
Mall of Emirates	Dubai
Shindagha Carrefour	Dubai
Dubai Mall ATM GF 22	Dubai
Dubai Mall	Dubai
Fujairah City Centre	Fujairah
Khalifa Khamis Matar Al Kaabi	Fujairah
Sharjah International Airport	Sharjah
Al Saqr Business Center, Sharjah	Sharjah
Rolla Mall	Sharjah
Al Khaleej Shopping Center (Tawun Mall)	Sharjah
Mega Mall - Sharjah	Sharjah
Ansar Mall - Sharjah	Sharjah

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