

Emirates Investment Bank P.J.S.C.

FINANCIAL STATEMENTS

31 DECEMBER 2013

REPORT OF THE BOARD OF DIRECTORS

For the year ended 31 December 2013

The Directors are pleased to place before the shareholders of Emirates Investment Bank pjsc ("Bank") the Annual Report for the year ended 31 December 2013.

During the past few years, the Bank has been repositioning itself with the objective of becoming a leading private and investment banking boutique serving a select client base of high net worth individuals and institutional clients. During 2013, we continued to execute on this strategy while simultaneously building the infrastructure required for growth.

The Bank closed 2013 with an annual net profit of AED 36.2 million, an increase of 38% over the previous year (AED 26.3 million), while maintaining a healthy Capital Adequacy Ratio at 15.82% (Tier I Adequacy Ratio of 13.96%). Over this period, customer deposits grew by 109% to reach AED 1,675 million (AED 803 million in 2012), while total balance sheet assets reached AED 2,775 million, an increase of 52% over the previous year (AED 1,828 million).

Notably, the value of fiduciary assets under the Bank's management grew by 122% to AED 1,488 million (AED 669 million in 2012) for a total assets under management of AED 4,263 million (AED 2,497 million in 2012).

It is proposed that this year's profit be appropriated as follows:

	AED
- Transfer to legal reserve in accordance with the requirements of Article 58(1) of the Articles of association of the Bank	2,669,950
- Transfer to special reserve in accordance with the requirements of Article 58(2) of the Articles of association of the Bank	3,622,950
- Cash Dividend:10% of Paid up Capital	6,000,000
- Stock Dividend:8.333% of Paid up Capital	5,000,000

As we continue our journey to build a leading private and investment banking boutique, we extend our gratitude to our clients for their support and to our staff for their dedication and hard work.

Board of Directors
17 February 2014
Dubai, United Arab Emirates

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EMIRATES INVESTMENT BANK P.J.S.C.

Report on the Financial Statements

We have audited the accompanying financial statements of Emirates Investment Bank P.J.S.C. (the "Bank"), which comprise the statement of financial position as at 31 December 2013 and the statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, applicable provisions of the articles of association of the Bank, the UAE Commercial Companies Law of 1984 (as amended) and Federal Law No. 10 of 1980, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

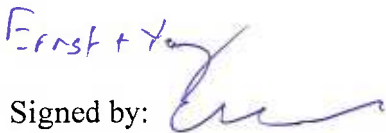
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
EMIRATES INVESTMENT BANK P.J.S.C. (continued)**

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended), Federal Law No. 10 of 1980 and the applicable provisions of the articles of association of the Bank; proper books of account have been kept by the Bank and the contents of the Directors' report relating to these 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 UAE Commercial Companies Law of 1984 (as amended), Federal Law No. 10 of 1980 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 Bank or on its financial position.

For Ernst & Young


Signed by:

Anthony O'Sullivan
Partner
Registration No. 687

17 February 2014

Dubai, United Arab Emirates

INCOME STATEMENT

Year ended 31 December 2013

	<i>Notes</i>	<i>2013 AED'000</i>	<i>2012 AED'000</i>
Interest income		2,405	3,448
Net income from investments	4	103,933	82,780
		106,338	86,228
Interest expense		(38,522)	(30,616)
NET INTEREST INCOME AND NET INCOME FROM INVESTMENTS		67,816	55,612
Other income	5	10,371	7,173
Exchange gain - net		383	165
OPERATING INCOME		78,570	62,950
General and administrative expenses	6	(35,417)	(26,852)
Impairment loss on available-for-sale investments		-	(8,152)
Impairment loss on investments carried at cost		(5,424)	-
Impairment loss on loans and advances	10	(1,500)	(1,620)
OPERATING EXPENSES		(42,341)	(36,624)
PROFIT FOR THE YEAR		36,229	26,326
BASIC AND DILUTED EARNINGS PER SHARE	7	AED 60.38	AED 43.88

The attached notes 1 to 26 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	<i>Note</i>	2013 AED'000	2012 AED'000
PROFIT FOR THE YEAR		36,229	26,326
Other comprehensive income			
Net unrealised gain on available for sale investments		15,769	87,176
Net realised gain transferred to income statement on disposal of available for sale investments	4	(33,329)	(26,418)
Impairment of available for sale investments recognised in income statement		-	8,152
Other comprehensive (loss) income for the year		(17,560)	68,910
Total comprehensive income for the year		18,669	95,236

Emirates Investment Bank P.J.S.C.

STATEMENT OF FINANCIAL POSITION

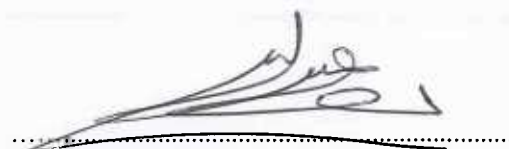
As at 31 December 2013

	Notes	2013 AED'000	2012 AED'000
ASSETS			
Cash and balances with UAE Central Bank	8	69,179	15,716
Due from banks	9	235,951	60,843
Loans and advances, net	10	108,778	18,658
Investments	11	2,328,275	1,711,891
Investment in an associate	12	72	72
Property and equipment	13	4,874	1,464
Other assets	14	28,088	19,816
TOTAL ASSETS		2,775,217	1,828,460
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	15	765,286	698,569
Customer deposits		1,675,112	803,240
Other liabilities	16	30,225	35,226
TOTAL LIABILITIES		2,470,623	1,537,035
EQUITY			
Share capital	17	60,000	55,000
Legal reserve	17	30,000	27,330
Special reserve	17	24,361	20,738
Cumulative changes in fair values		63,337	80,897
Retained earnings		126,896	107,460
TOTAL EQUITY		304,594	291,425
TOTAL LIABILITIES AND EQUITY		2,775,217	1,828,460

The financial statements were approved by the Board of Directors on 17 February 2014 and signed on its behalf by:



Omar Abdulla Al Futtaim
(Chairman)



Buti Obaid Al Mulla
(Director)

STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 AED'000	2012 AED'000
OPERATING ACTIVITIES			
Profit for the year		36,229	26,326
Adjustments for:			
Depreciation	13	1,139	824
Gain on sale of property and equipment		(31)	-
Impairment loss on available-for-sale investments		-	8,152
Impairment loss on investments carried at cost	11	5,424	-
Impairment loss on loans and advances		1,500	1,620
Changes in due from banks with original maturities of over three months		39,000	16,000
Changes in due to banks with original maturities of over three months		119,061	304,727
Change in loans and advances		(91,620)	(11,283)
Change in other assets		(8,272)	1,635
Change in investments (net)		(639,368)	(475,647)
Change in customers' deposits		871,872	(45,212)
Change in other liabilities		(5,001)	12,175
Net cash from (used in) operating activities		329,933	(160,683)
INVESTING ACTIVITIES			
Purchase of property and equipment	13	(4,553)	(1,121)
Investment in an associate	12	-	(72)
Proceeds from disposal of property and equipment		35	-
Net cash used in investing activities		(4,518)	(1,193)
FINANCING ACTIVITIES			
Dividend paid	18	(5,500)	(4,944)
Net cash used in financing activities		(5,500)	(4,944)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS			
		319,915	(166,820)
Cash and cash equivalents at 1 January		(236,283)	(69,463)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		83,632	(236,283)
Cash and cash equivalents comprise the following amounts in the statement of financial position with original maturities of three months or less:			
Cash and balances with Central Bank		69,179	15,716
Due from banks		235,951	21,843
Due to banks		(221,498)	(273,842)
		83,632	(236,283)
Operational cash flows from interest and dividends			
Interest paid		29,271	38,154
Interest received (including from investments)		52,735	44,458
Dividend received		17,185	12,705

The attached notes 1 to 26 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Share capital AED '000	Legal reserve AED '000	Special reserve AED '000	Cumulative changes in fair values AED '000	Retained earnings AED '000	Total AED '000
At 1 January 2013	55,000	27,330	20,738	80,897	107,460	291,425
Profit for the year	-	-	-	-	36,229	36,229
Other comprehensive income (loss) for the year	-	-	-	(17,560)	-	(17,560)
Total comprehensive income for the year	-	-	-	(17,560)	36,229	18,669
Transfers	-	2,670	3,623	-	(6,293)	-
Cash dividend – relating to 2012 (note 18)	-	-	-	-	(5,500)	(5,500)
Script dividend – relating to 2012 (note 18)	5,000	-	-	-	(5,000)	-
Balance at 31 December 2013	60,000	30,000	24,361	63,337	126,896	304,594

The attached notes 1 to 26 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Share capital AED '000	Legal reserve AED '000	Special reserve AED '000	Cumulative changes in fair values AED '000	Retained earnings AED '000	Total AED '000
At 1 January 2012	49,432	24,697	18,105	11,987	96,912	201,133
Profit for the year	-	-	-	-	26,326	26,326
Other comprehensive income for the year	-	-	-	68,910	-	68,910
Total comprehensive income for the year	-	-	-	68,910	26,326	95,236
Transfers	-	2,633	2,633	-	(5,266)	-
Cash dividend – relating to 2011 (note 18)	-	-	-	-	(4,944)	(4,944)
Scrip dividend – relating to 2011 (note 18)	5,568	-	-	-	(5,568)	-
Balance at 31 December 2012	55,000	27,330	20,738	80,897	107,460	291,425

The attached notes 1 to 26 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

1 INCORPORATION AND ACTIVITIES

Emirates Investment Bank P.J.S.C. (the "Bank") was incorporated on 17 February 1976 in Dubai, United Arab Emirates by a decree of HH The Ruler of Dubai as Arab Emirates Investment Bank PJSC. In 1999, the Bank was registered under the UAE Commercial Companies Law No. (8) of 1984 (as amended) as a Public Joint Stock Company. During 2010 the Bank has changed its name to Emirates Investment Bank PJSC. The Bank is engaged in the business of private banking, investment banking and investment portfolio management. The address of the Bank's registered office is P. O. Box 5503, Dubai, United Arab Emirates.

The Bank is a subsidiary of Al Futtaim Private Company LLC which holds 52.36% of the shares in the Bank.

2 BASIS OF PREPARATION

2.1 Accounting convention

The financial statements are prepared under the historical cost convention except for the measurement of derivatives and available for sale investments at fair value.

The financial statements have been presented in UAE Dirhams which is the functional currency of the Bank and all values are rounded to the nearest thousand (AED '000) except where otherwise stated.

2.2 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) issued by the International Accounting Standards Board (IASB), and applicable requirements of the United Arab Emirates laws.

2.3 Changes in accounting policies

The accounting policies are consistent with those used in the previous year except the Bank applied, for the first time, certain standards and amendments which resulted in additional disclosures in the financial statements. The nature and the impact of each new standards and amendments is described below:

New and amended standards and interpretations

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Bank is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Bank.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Bank re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Bank. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 24.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

2 BASIS OF PREPARATION (continued)

2.3 Changes in accounting policies (continued)

New and amended standards and interpretations (continued)

IAS 1 Presentation of Items of other comprehensive income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Bank's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at 1 January 2012), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Bank's financial position or performance.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32 Financial Instruments: Presentation clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the financial statements of the Bank, as there is no tax consequences attached to cash or non-cash distribution.

In case of the Bank, the transition to IAS 19R did not have impact on the employees' end of service benefits obligations as the management has concluded that net impact of discount rates and future increases in benefits is not likely to be material.

2.4 Standards effective in 2013 but not relevant to the Bank's operations

The following standards and amendments were mandatory for accounting period beginning on or after 1 January 2013 but are not relevant to the Bank's operations:

- IAS 27 Separate Financial Statements (as revised in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Involvement with Other Entities

In addition to the above-mentioned amendments and new standards, IFRS 1 First-time Adoption of International Financial Reporting Standards was amended with effect for reporting periods starting on or after 1 January 2013. The Bank is not a first-time adopter of IFRS, therefore, this amendment is not relevant to the Bank. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

2 BASIS OF PREPARATION (continued)

2.5 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015 and subsequently the mandatory effective date was determined to be once all stages of the IFRS 9 project are complete. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will not have an impact on classification and measurements of the Bank's financial liabilities. The Bank will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Bank, since there are no entities in the Bank which would qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to impact the Bank's financial position or performance.

IFRIC Interpretation 21 - Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Bank does not expect that IFRIC 21 will have material financial impact in future financial statements.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Bank has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

2.6 Significant management judgments and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates, assumptions and judgments that affect the reporting amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

Impairment losses on loans and advances

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

2 BASIS OF PREPARATION (continued)

2.6 Significant management judgments and estimates (continued)

Judgments

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification of investments:

Management decides upon acquisition of an investment whether it should be classified as investments carried at fair value through profit or loss or available for sale.

The Bank classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

All other investments are classified as available for sale.

The above classification requires management's judgement.

Impairment of investments

The Bank treats available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. The Bank evaluates a number of factors, including the amount of decline and the length of period of the decline, the normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Liquidity

The Bank manages their liquidity by maintaining an adequate ratio of net liquid assets to liabilities which is set out in a table in the liquidity risk disclosure in note 22. The table requires judgment with regards to whether assets can be considered liquid.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transaction;
- current fair value of another investment that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of cash flows and discount factors for unquoted equity investments requires significant estimations. The Bank calibrates the valuation techniques periodically and tests them for validity using either process from observable current market transactions in the same investment or from other available observable market data.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

Revenue recognition

For all financial instruments measured at amortised cost and other interest bearing financial instruments including financial instruments classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Other fee income and expenses are recognised when earned or incurred. Dividend income is recognised when the right to receive payment is established.

Cash and cash equivalents

Cash and cash equivalents for the purpose of statement of cash flows comprise balances with maturities of three months or less from the date of acquisition including cash and balances with UAE Central Bank, due from banks and due to banks.

Due from banks

Due from banks are stated at amortised cost using the effective interest method less allowance for impairment, if any.

Loans and advances

Loans and advances are stated at amortised cost net of interest suspended, provisions for impairment and any amounts written off. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in interest income in the income statement and the losses arising on impairment of such loans and advances are also recognised in the income statement.

Investments

Investments are classified as follows:

- Investments at fair value through profit or loss;
- Available for sale

All securities are initially recognised at fair value plus, except for investments at fair value through profit or loss and investment in gold bullion, transaction costs that are directly attributable to the acquisition.

Investments at Fair Value through Profit or Loss ("FVTPL")

This category has two sub-categories:

- Investment securities held for trading, and;
- Those designated at fair value through profit or loss at inception. Investments at fair value through profit or loss.

An investment security is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is an evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Investment securities are designated as at FVTPL in the following circumstances:

- Doing so eliminates or significantly reduces measurement or recognition inconsistencies that would arise from measuring assets or liabilities or recognising the gains and losses on them on different basis; or
- They are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

Available for sale

Available for sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held to maturity or loans and advances.

Initial recognition

All investment securities are initially recognised at fair value plus, except for investments at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of such investment.

Subsequent measurement

After initial recognition, investments at fair value through profit or loss are remeasured at fair value. Fair value changes in respect of these investments are taken to the income statement.

After initial recognition, available for sale investments are remeasured at fair value except unquoted equity investments whose fair value cannot be reliably determined in which case they are measured at cost less accumulated impairment. Fair value changes are reported as a separate component of equity until the security is derecognised or the security is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity is included in the income statement for the year.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the Bank's rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in income statement.

Fair values

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices at the close of business on the balance sheet date. Bid prices are used for assets and offer prices are used for liabilities.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

For unquoted equity investments, fair value is determined by reference to the current market value of a similar investment, recent arm's length market transactions, or is based on expected discounted cash flows or derived using other accepted valuation models.

The fair value of forward foreign exchange contracts is calculated by reference to forward exchange rates for contracts with similar maturities.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and any accumulated impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful lives of assets as follows:

Furniture and equipment	over 4 years
Motor vehicles	over 4 years
Computer equipment	over 4 years
Artwork	is not depreciated

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Deposits

All money market and customer deposits are carried at cost less amounts repaid.

Employees' end of service benefits

With respect to its national employees, the Bank makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

The Bank provides end of service benefits to its other expatriate employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour Laws.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement. The premium received is recognised in the income statement in 'Other income' on a straight line basis over the life of the guarantee.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Derivatives

The Bank enters into derivative instruments including forwards, futures, forward rate agreements, swaps, credit default swap and options in the foreign exchange, interest rate and capital markets. These are stated at fair value. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives (continued)

Changes in the fair values of derivatives held for trading or to offset other trading positions are included in other operating income (expenses) in the income statement.

Derivative transactions, while providing effective economic hedges under the Bank's asset and liability management and risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore accounted for as derivatives held for trading and the related fair value gains and losses reported in other operating income (expenses).

Impairment and uncollectibility of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks and loans and advances to customers), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets (continued)

(i) Financial assets carried at amortised cost (continued)

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest income on investments in debt instruments" included in 'Net income from investments'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

In the case of equity investments classified as available-for-sale, objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment below its cost. The determination of what is "significant" or "prolonged" requires considerable judgement. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised directly in other comprehensive income.

Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the asset is received from or delivered to the counter party. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not recognised in the statement of financial position.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported on the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross on the statement of financial position.

Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into United Arab Emirates Dirhams at middle market rates of exchange ruling at the reporting date. Any resultant gains and losses are taken to the income statement.

Segment reporting

The Bank's reporting is based on the following operating segments: Investments and Banking Services.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

4 NET INCOME FROM INVESTMENTS

	2013 AED'000	2012 AED'000
Interest income on investments in debt instruments	54,465	44,212
Net realised gain on disposal of available for sale investments	33,329	26,418
Dividend income	17,185	12,705
Portfolio management fee paid to other financial institutions	(1,046)	(555)
	<u>103,933</u>	<u>82,780</u>

5 OTHER INCOME

	2013 AED'000	2012 AED'000
Fee from advisory services	5,340	3,567
Portfolio management fees, commission and other income	5,031	3,606
	<u>10,371</u>	<u>7,173</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

6 GENERAL AND ADMINISTRATIVE EXPENSES

	2013 AED'000	2012 AED'000
Staff costs	25,595	19,329
Depreciation (note 13)	1,139	824
Rental costs – operating leases	2,126	2,140
Consultancy charges	196	135
Others	6,361	4,424
	<u>35,417</u>	<u>26,852</u>

7 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year of AED 36,229 thousand (2012: AED 26,326 thousand) by the weighted average number of shares outstanding during the year of 600,000 shares of AED 100.

The earnings per share of AED 43.88 as reported for the year ended 31 December 2012 (previously reported as AED 47.87) has been adjusted for the effect of the shares issued in 2013 as a result of the stock dividend.

The figure for basic and diluted earnings per share is the same as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

8 CASH AND BALANCES WITH UAE CENTRAL BANK

	2013 AED'000	2012 AED'000
Cash in hand	178	139
Balances with UAE Central Bank:		
Current account	27,350	2,821
Reserve requirements	41,651	12,756
	<u>69,179</u>	<u>15,716</u>

The reserve requirements are kept with the UAE Central Bank in AED and USD and cannot be withdrawn without its approval. The level of reserve required changes every month in accordance with the UAE Central Bank directives and is based on the balance of outstanding customer deposits.

9 DUE FROM BANKS

	2013 AED'000	2012 AED'000
Domestic	119,136	39,795
Regional	16,759	1,369
International	100,056	19,679
	<u>235,951</u>	<u>60,843</u>

Included in due from banks is a term deposit of Nil (2012: AED 39,000 thousand) with a counter party in the UAE. This deposit is under lien to the extent of Nil (2012: AED 39,000 thousand) against facilities granted by the counter party to the Bank. Facilities availed by the Bank of Nil (2012: AED 6,495 thousand).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

10 LOANS AND ADVANCES, NET

	2013 AED'000	2012 AED'000
Commercial and business:		
Overdrafts / loans (secured)	113,213	21,247
Overdrafts / loans (unsecured)	-	346
	<u>113,213</u>	<u>21,593</u>
Gross loans and advances	113,213	21,593
Less: collective impairment provision	(4,435)	(2,935)
	<u>108,778</u>	<u>18,658</u>

At 31 December 2013, there were no loans individually determined to be impaired and, accordingly, no specific provisions were considered necessary in respect of any of the loans and advances provided by the Bank (2012: Nil).

Based on the assessment of health of the overall loans and advances portfolio, and also in compliance with the directive of the Central Bank of UAE, the Bank has determined a collective impairment provision of AED 4,435 thousand (2012: AED 2,935 thousand) against risk of default incurred but not yet identified.

11 INVESTMENTS

	2013 AED'000	2012 AED'000
<i>Available for sale investments</i>		
<i>Debt</i>		
Quoted	1,498,703	1,129,187
Unquoted	91,207	46,520
	<u>1,589,910</u>	<u>1,175,707</u>
<i>Equity</i>		
Quoted	717,864	473,231
Unquoted	19,484	27,985
	<u>737,348</u>	<u>501,216</u>
Total available for sale investments	<u>2,327,258</u>	<u>1,676,923</u>
Investment in bullion	<u>1,017</u>	<u>34,968</u>
Total investments	<u>2,328,275</u>	<u>1,711,891</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

11 INVESTMENTS (continued)

Investment in bullion represents an investment in physical gold which is being carried at impaired cost. The Bank has assessed this for impairment and has created a provision amounting to AED 5,424 thousand (2012: Nil).

	2013 AED'000	2012 AED'000
Debt investments:		
Domestic	1,331,061	1,059,984
Regional	49,907	18,618
International	208,942	97,105
	<u>1,589,910</u>	<u>1,175,707</u>
Equity investments:		
Domestic	152,734	120,674
Regional	66,883	22,022
International	517,731	358,520
	<u>737,348</u>	<u>501,216</u>
Investment in bullion	<u>1,017</u>	<u>34,968</u>
	<u>2,328,275</u>	<u>1,711,891</u>

Part of the proprietary investment portfolio of the Bank having a carrying value of AED 1,025 million (2012: AED 922 million) is pledged as collateral with banks against credit facilities and repurchase agreements totalling to AED 712 million (2012: AED 652 million).

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2013, the Bank held the following investments measured as follows:

	31 December 2013 AED'000	<u>Investments carried at fair value</u>			<i>Investments carried at cost</i> AED'000
		<i>Level 1</i> AED'000	<i>Level 2</i> AED'000	<i>Level 3</i> AED'000	
Debt investments:					
Domestic	1,331,061	1,239,854	-	-	91,207
Regional	49,907	49,907	-	-	-
International	208,942	208,942	-	-	-
Equity investments:					
Domestic	152,734	134,521	11,109	7,104	-
Regional	66,883	37,409	29,474	-	-
International	517,731	366,266	150,772	-	693
	<u>2,327,258</u>	<u>2,036,899</u>	<u>191,355</u>	<u>7,104</u>	<u>91,900</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

11 INVESTMENTS (continued)

	31 December 2012 AED'000	<i>Investments carried at fair value</i>			<i>Investments carried at cost</i> AED'000
		Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	
Debt investments:					
Domestic	1,059,984	1,013,464	-	-	46,520
Regional	18,618	18,618	-	-	-
International	97,105	97,105	-	-	-
Equity investments:					
Domestic	120,674	43,621	69,822	7,231	-
Regional	22,022	18,886	3,136	-	-
International	358,520	336,600	21,218	-	702
	<u>1,676,923</u>	<u>1,528,294</u>	<u>94,176</u>	<u>7,231</u>	<u>47,222</u>

During the current year, investments amounting to AED 45,156 thousand (2012: AED 4,325 thousand) was transferred from Level 2 to Level 1 fair value measurements. There are no other transfers into and out of level 3 and investments carried at cost category as at 31 December 2013.

The transfers from Level 2 to Level 1 were made as the market in respect of these securities was considered to be active again during the year.

Investments under level 2 fair value hierarchy is valued using latest available net asset value. The following table shows a reconciliation of the opening and closing amounts of level 3 investments recorded at fair value:

	2013 AED'000	2012 AED'000
At 1 January	7,231	7,004
Net unrealised (loss)/ gain recorded in equity	(127)	227
At 31 December	<u>7,104</u>	<u>7,231</u>

The Bank has assessed the sensitivity of the fair value measurement of investments under level 3 due to changes in inputs used. Based on the assessment, no major changes in the fair value of investments under level 3 are noted as at 31 December 2013. Such an assessment is performed on an annual basis by observing the changes in unobservable inputs which might result in higher or lower fair value measurement.

12 INVESTMENT IN AN ASSOCIATE

During 2012, the Bank made an investment in a newly incorporated company "EIB Investment Co. L.L.C" (the "Company"). The Bank holds a 24% interest in the profit and losses of this Company. The Company has not started its operations. The principal activities of the Company will be to invest in Commercial, Industrial and agricultural enterprises and management. The investment represents the Bank's share in the capital of the Company.

The following table illustrates summarised financial information of the Bank's investment in the Company:

	2013 AED'000	2012 AED'000
Share of the associate statement of financial position:		
Current assets	<u>72</u>	<u>72</u>
Equity	<u>72</u>	<u>72</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

12 INVESTMENT IN AN ASSOCIATE (continued)

	2013 AED'000	2012 AED'000
Share of the associate's revenue and profit:		
Revenue	3	7
Profit for the year	-	-
Carrying amount of the investment	72	72

13 PROPERTY AND EQUIPMENT

	Furniture and equipment AED'000	Motor vehicles AED'000	Artwork AED'000	Computer equipment AED'000	Total AED'000
Cost:					
At 1 January 2013	4,912	102	-	-	5,014
Additions	2,256	83	1,084	1,130	4,553
Disposals	(120)	(102)	-	-	(222)
At 31 December 2013	7,048	83	1,084	1,130	9,345
Accumulated depreciation:					
At 1 January 2013	3,448	102	-	-	3,550
Charge for the year	966	19	-	154	1,139
Relating to disposals	(116)	(102)	-	-	(218)
At 31 December 2013	4,298	19	-	154	4,471
Net carrying values:					
At 31 December 2013	2,750	64	1,084	976	4,874

	Furniture and equipment AED'000	Motor vehicles AED'000	Total AED'000
Cost:			
At 1 January 2012	3,850	113	3,963
Additions	1,121	-	1,121
Disposals	(59)	(11)	(70)
At 31 December 2012	4,912	102	5,014
Accumulated depreciation:			
At 1 January 2012	2,683	113	2,796
Charge for the year	824	-	824
Relating to disposals	(59)	(11)	(70)
At 31 December 2012	3,448	102	3,550
Net carrying values:			
At 31 December 2012	1,464	-	1,464

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

14 OTHER ASSETS

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Interest receivable	16,222	12,087
Other receivables and prepayments	11,492	6,540
Derivative financial assets (note 19)	374	1,189
	<u>28,088</u>	<u>19,816</u>

15 DUE TO BANKS

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Term placements	632,991	557,552
Repurchase agreements	132,295	134,522
Overdraft facility	-	6,495
	<u>765,286</u>	<u>698,569</u>

The Bank has borrowed an amount of AED 132 million (2012: AED 134 million) under repurchase agreements, whereby the Bank's investments in certain bonds with a carrying value of AED 182 million (2012: AED 176 million) as at 31 December 2013 are pledged as collateral under these agreements.

The Bank has also borrowed an amount of AED 580 million (2012: AED 518 million) under term placements, whereby the Banks investments in certain bonds and the equity investments with a carrying value of AED 843 million (2012: AED 746 million) as at 31 December 2013 are pledged as collateral under these placements.

The overdraft facility availed by the Bank is secured against term deposits of Nil (2012: AED 39,000 thousand).

16 OTHER LIABILITIES

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Interest payable	17,423	8,172
Employees' end of service benefits	1,962	1,307
Derivative financial liability (note 19)	1,305	1,677
Others	9,535	24,070
	<u>30,225</u>	<u>35,226</u>

In accordance with the UAE Labour Law, the Bank provides for end of service benefit for its expatriate employees. Movements in the liability recognised on the statement of financial position in respect of end of service benefits are as follows:

	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
At 1 January	1,307	890
Expense recognised in the income statement	720	562
Amount paid	(65)	(145)
At 31 December	<u>1,962</u>	<u>1,307</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

17 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised share capital of the Bank comprises 800,000 ordinary shares of AED 100 each (2012: 800,000 ordinary shares of AED 100 each). The issued and fully paid share capital of the Bank comprises 600,000 ordinary shares of AED 100 each (2012: 550,000 ordinary shares of AED 100 each). The increase in share capital represents issue of new shares following scrip dividend distributed by the Bank during the current year.

b) Legal reserve

In accordance with the Commercial Companies Law Number 8 of 1984 (as amended) and the Bank's Articles of Association, 10% of the profit for the year has been transferred to legal reserve till the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

c) Special reserve

As required under Article 82 of Union Law No. 10 of 1980 and the Bank's Articles of Association, 10% of the profit for the year has been transferred to a special reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

18 DIVIDENDS PAID AND PROPOSED

At the Annual General Meeting of the Bank, held on 25 March 2013, the shareholders approved a cash dividend and a scrip dividend at 10% and 9.091% of the paid up capital respectively amounting to AED 5,500 thousand (2012: 4,944 thousand) and AED 5,000 thousand (2012: AED 5,568 thousand) for the year, which was paid in the current year.

The Board of Directors in their meeting dated 17 February 2014 has proposed a cash dividend and a scrip dividend at 10% and 8.333% of the paid up capital respectively amounting to AED 6,000 thousand and AED 5,000 thousand. These dividends are subject to the approval of the shareholders at the annual general meeting.

19 DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business the Bank enters into transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments include credit default swaps. The credit default swaps is not designated as cash flow, fair value or net investment hedges and is entered into for period of five years. The Bank has one (2012: one) credit default swap agreement outstanding at 31 December 2013.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with the notional amounts. The notional amount, recorded gross is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor credit risk.

<i>Positive fair value 2013 AED'000</i>	<i>Negative fair value 2013 AED'000</i>	<i>Notional amount 2013 AED'000</i>	<i>Positive fair value 2012 AED'000</i>	<i>Negative fair value 2012 AED'000</i>	<i>Notional amount 2012 AED'000</i>
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Derivative held for trading:

Credit default swap	374	1,305	36,730	1,189	1,677	36,730
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Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank. The Bank's exposure under derivative contracts is closely monitored as part of the overall management of the Bank's market risk.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

19 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Credit default swaps

Credit default swaps are contractual agreements between two parties to make payments with respect to defined credit events, based on specified notional amounts. The Bank purchases credit default swaps from another banks in order to mitigate the risk of default by the counterparty.

Purpose of derivatives

In the normal course to mitigate the risk of default, the Bank is party to credit default swap agreement. This is achieved by hedging specific transactions. Since this does not qualify for special hedge accounting, credit default swaps are accounted for as trading instruments.

Fair value

The derivatives are recorded at fair value by using the published price quotations in an active market or counterparty prices or valuation techniques using a valuation model that has been tested against the prices of actual market transactions and the Bank's best estimate of the most appropriate model inputs.

Long dated contracts like credit default swaps are valued using a valuation technique with significant non-market-observable inputs. These derivatives are valued using models that calculate the present value such as credit models (e.g., default rate models or credit spread models). The models incorporate various non-observable assumptions that include the credit spread of the reference asset for credit default swaps, and market rate volatilities. The Bank has assessed the value of credit default swap using Bloomberg ISDA Standard Upfront Model valuation technique. Disclosures concerning the fair value of derivatives are provided in Note 24.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. In the case of credit default swap, the Bank is also exposed to or protected from the risk of default of the counter party referenced by the derivative. With gross-settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the Bank honours its obligation, but the counterparty fails to deliver the counter value.

20 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments and contingent liabilities

Credit-related commitments include commitments to extend credit, letters of credit, guarantees and acceptances which are designed to meet the requirements of the Bank's customers.

Letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers, contingent upon the failure of the customers to perform under the terms of the contract.

The Bank has the following credit related commitments:

	2013 AED'000	2012 AED'000
Guarantees	67,825	82,963

There are no irrecoverable undrawn loan commitments outstanding as at 31 December 2013 (2012: Nil).

Operating lease commitments:

	2013 AED'000	2012 AED'000
Future minimum lease payments		
Within one year	1,534	1,577
After one year but not more than five years	5,326	7,298
Total operating lease expenditure contracted for at the end of the reporting period	6,860	8,875

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

21 RELATED PARTY TRANSACTIONS

The Bank enters into transactions in the ordinary course of business with related parties, defined as major shareholders, directors, key management personnel and their related companies. All loans and advances to related parties are performing advances and are free of any provision for possible loan losses.

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

	2013 AED'000	2012 AED'000
<i>Directors, their related parties and key management personnel:</i>		
Loans and advances	268	-
Investments	68,698	46,520
Customers' deposits	1,022,518	496,832
Commitments and contingencies	64,445	77,664

The income and expenses in respect of related parties included in the financial statements are as follows:

	2013 AED'000	2012 AED'000
<i>Directors, their related parties and key management personnel:</i>		
Interest income	1,957	1,853
Interest expense	22,154	12,645
Commission and fees	7,206	1,863
Rental costs – operating leases	1,895	1,875
Insurance expense	822	565
IT related cost	5	12

Compensation of key management personnel:

	2013 AED'000	2012 AED'000
Salaries and other benefits	6,534	4,985

22 RISK MANAGEMENT

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The Board of Directors holds the ultimate responsibility vis a vis the risk exposures. The Bank has adopted a risk governance suggesting a "three line of defence approach" to risk management.

The Bank is exposed to Credit risk, Liquidity risk and Market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the Bank's strategic planning process.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

22 RISK MANAGEMENT (continued)

Risk management structure

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

The Board of Directors has the responsibility to monitor the overall risk process within the Bank. They also have the overall responsibility for the development of the related strategy and implementing principles, framework, process and limits. They are responsible for the fraud and other risk related matters and manages and monitors relevant risk decisions.

Board Audit & Risk Committee

Board Audit & Risk Committee (BARC) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies for enhancement of the Bank's risk management framework to best practice standards, including effective internal control structures, monitoring of aggregate risk exposures (credit, market, liquidity, operational, legal, etc.) ensuring the independence of the Internal Audit function and compliance with the regulatory requirements.

The "three line of defence approach" to risk management involves top management and business lines, strong risk management function, and capable independent audit.

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are subject to an internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the BARC.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the BARC and management committees. The report includes aggregate credit exposure, liquidity ratios and risk profile changes.

Periodic briefing is given to the relevant members of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. The Bank also constantly monitor their portfolio and diversify it in order to mitigate risk in relation to concentration of exposure towards a particular business or geographical segment.

Excessive risk concentration

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

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

22 RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Bank. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Bank. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The Bank has an internal credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including contingent liabilities and commitments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements, if any.

		Gross maximum exposure 2013 AED'000	Gross maximum exposure 2012 AED'000
	Notes		
Balances with UAE Central Bank (excluding cash on hand)	8	69,001	15,577
Due from banks	9	235,951	60,843
Loans and advances	10	113,213	21,593
Investments in debt instruments	11	1,589,910	1,175,707
Other assets		27,101	19,014
		<u>2,035,176</u>	<u>1,292,734</u>
Guarantees	20	67,825	82,963
		<u>67,825</u>	<u>82,963</u>
Total credit risk exposure		<u>2,103,001</u>	<u>1,375,697</u>

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2013 was AED 118,397 thousand (2012: AED 39,000 thousand) before taking account of collateral or other credit enhancements. This analysis does not include investment in debt instruments.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

22 RISK MANAGEMENT (continued)

Credit risk (continued)

The Bank's financial instruments (excluding cash in hand and investments in equity securities and bullion), before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2013		2012	
	<i>Assets</i> <i>AED'000</i>	<i>Contingent liabilities and commitments</i> <i>AED'000</i>	<i>Assets</i> <i>AED'000</i>	<i>Contingent liabilities and commitments</i> <i>AED'000</i>
United Arab Emirates	1,595,266	67,825	1,150,515	82,963
North America	43,823	-	13,007	-
Latin America	12,246	-	3,828	-
Europe	176,943	-	33,430	-
Asia Pacific	55,211	-	54,321	-
GCC & other ME*	151,687	-	37,633	-
	2,035,176	67,825	1,292,734	82,963

*The Bank has purchased a credit default swap with a nominal amount of AED 36,730 thousand (note 19) referred to the sovereign debt of the state of Qatar. The credit default swap is entered into with a financial institution which is rated Aa3 by Moody's.

An industry sector analysis of the Bank's financial assets (excluding cash in hand and investments in equity securities and bullion) including contingent liabilities, before taking into account collateral held or other credit enhancements, is as follows:

	2013 <i>AED'000</i>	2012 <i>AED'000</i>
Commercial and business	825,022	570,473
Banks and financial institutions	833,857	307,015
Government entities	444,094	496,327
Others	28	1,882
	2,103,001	1,375,697

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are generally cash and investment securities.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

22 RISK MANAGEMENT (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of gross assets for certain key lines of statement of financial position items, based on the Bank's internal credit rating system.

	<i>Neither past due nor impaired</i>		
	<i>Prime and high grade 2013 AED'000</i>	<i>Standard grade 2013 AED'000</i>	<i>Sub- standard grade 2013 AED'000</i>
Balances with UAE Central Bank	69,001	-	-
Due from banks	235,951	-	-
Loans and advances	-	113,213	-
Investments in debt instruments	498,628	851,212	240,070
	803,580	964,425	240,070
	2,008,075		

	<i>Neither past due nor impaired</i>		
	<i>Prime and high grade 2012 AED'000</i>	<i>Standard grade 2012 AED'000</i>	<i>Sub- standard grade 2012 AED'000</i>
Balances with UAE Central Bank	15,577	-	-
Due from banks	60,843	-	-
Loans and advances	1,572	20,021	-
Investments in debt instruments	924,247	196,672	54,788
	1,002,239	216,693	54,788
	1,273,720		

As at the year end, the Bank has an amount of Nil (2012: Nil) in loans and advances which were past due or individually impaired.

Credit risk exposure of the Bank's financial assets (excluding cash in hand and investments in equity instruments and bullion) including contingent liabilities for each internal risk rating.

	<i>Moody's equivalent grades</i>	<i>Total 2013 AED'000</i>	<i>Total 2012 AED'000</i>
Prime grade	Aaa	715,648	606,510
High grade	Aa1-Aa3	87,932	395,729
Standard grade	Baa-Baa3	1,032,250	299,656
Sub-Standard grade	Ba-B3	240,070	54,788
		2,075,900	1,356,683

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

22 RISK MANAGEMENT (continued)

Credit risk (continued)

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit and investment portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class as a number of them are based on the Bank's internal rating.

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind and by maintaining a healthy balance of cash and cash equivalents.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the Central Bank of UAE equal to 14% of demand deposits and 1% of saving deposits. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

Maturities of assets and liabilities at the date of statement of financial position are set out in the table below based on the remaining period to the contractual maturity date not taking account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds is as follows:

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

22 RISK MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2013	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Sub total less than 12 months AED'000	1-5 years AED'000	Over 5 years AED'000	Sub total over 12 months AED'000	Undated AED'000	Total AED'000
ASSETS									
Cash and balances with UAE Central Bank	69,179	-	-	69,179	-	-	-	-	69,179
Due from banks	235,951	-	-	235,951	-	-	-	-	235,951
Loans and advances, net	55,841	-	52,937	108,778	-	-	-	-	108,778
Investments	68,698	4,608	264,754	338,060	1,103,620	148,230	1,251,850	738,365	2,328,275
Investment in an associate	-	-	-	-	-	-	-	72	72
Property and equipment	-	-	-	-	-	-	-	4,874	4,874
Other assets	19,337	7,078	1,299	27,714	374	-	374	-	28,088
Total assets	449,006	11,686	318,990	779,682	1,103,994	148,230	1,252,224	743,311	2,775,217
LIABILITIES AND EQUITY									
Due to banks	543,788	221,498	-	765,286	-	-	-	-	765,286
Customer deposits	683,163	104,298	310,266	1,097,727	577,385	-	577,385	-	1,675,112
Other liabilities	10,520	7,462	1,414	19,396	8,867	-	8,867	1,962	30,225
Equity	-	-	-	-	-	-	-	304,594	304,594
Total liabilities and equity	1,237,471	333,258	311,680	1,882,409	586,252	-	586,252	306,556	2,775,217
Net liquidity gap	(788,465)	(321,572)	7,310	(1,102,727)	517,742	148,230	665,972	436,755	

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

22 RISK MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2012	Less than 3 months AED '000	From 3 months to 6 months AED '000	From 6 months to 12 months AED '000	Sub total less than 12 months AED '000	1-5 years AED '000	Over 5 years AED '000	Sub total over 12 months AED '000	Undated AED '000	Total AED '000
ASSETS									
Cash and balances with UAE Central Bank	15,716	-	-	15,716	-	-	-	-	15,716
Due from banks	21,843	-	39,000	60,843	-	-	-	-	60,843
Loans and advances, net	1,968	16,562	98	18,628	30	-	30	-	18,658
Investments	46,520	6,890	-	53,410	1,041,084	81,212	1,122,296	536,185	1,711,891
Investment in an associate	-	-	-	-	-	-	-	72	72
Property and equipment	-	-	-	-	-	-	-	1,464	1,464
Other assets	12,255	6,302	70	18,627	1,189	-	1,189	-	19,816
Total assets	98,302	29,754	39,168	167,224	1,042,303	81,212	1,123,515	537,721	1,828,460
LIABILITIES AND EQUITY									
Due to banks	273,843	54,856	-	328,699	369,870	-	369,870	-	698,569
Customer deposits	416,142	127,032	257,423	800,597	2,643	-	2,643	-	803,240
Other liabilities	31,325	1,229	995	33,549	1,677	-	1,677	-	35,226
Equity	-	-	-	-	-	-	-	291,425	291,425
Total liabilities and equity	721,310	183,117	258,418	1,162,845	374,190	-	374,190	291,425	1,828,460
Net liquidity gap	(623,008)	(153,363)	(219,250)	(995,621)	668,113	81,212	749,325	246,296	

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

22 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at the year-end based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows based on Bank's deposit retention history.

	<i>On demand AED'000</i>	<i>Less than 3 months AED'000</i>	<i>3 to 12 months AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Total AED'000</i>
2013					
Due to banks	-	766,363	-	-	766,363
Customer deposits	318,337	392,611	422,855	625,539	1,759,342
Other liabilities	1,605	8,915	8,876	10,829	30,225
Total undiscounted financial liabilities	319,942	1,167,889	431,731	636,368	2,555,930
	<i>On demand AED'000</i>	<i>Less than 3 months AED'000</i>	<i>3 to 12 months AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Total AED'000</i>
2012					
Due to banks	-	222,976	54,856	421,294	699,126
Customer deposits	68,700	348,577	393,123	2,737	813,137
Other liabilities	31,325	1,229	995	1,677	35,226
Total undiscounted financial liabilities	100,025	572,782	448,974	425,708	1,547,489

Derivatives financial instruments in the above table are indicated under other liabilities at the gross undiscounted cash flows. However, these amounts may be settled gross or net.

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities:

	<i>On demand AED'000</i>	<i>Less than 3 months AED'000</i>	<i>3 to 12 months AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Total AED'000</i>
2013						
Contingent liabilities	-	12,650	50,841	318	4,016	67,825
2012						
Contingent liabilities	-	30,115	50,689	-	2,159	82,963

The Bank expects that not all of the contingent liabilities will be drawn before expiry of the commitments.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

22 RISK MANAGEMENT (continued)

Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Bank's Investment Committee.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or reprice in a given period.

The Board has established levels of interest rate risk by setting interest rate sensitivity limits.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year based on the floating rate financial assets and financial liabilities held at the year end. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at year-end for the effect of assumed changes in interest rates. The total sensitivity is based on the assumption that there are parallel shifts in the yield curve.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement and equity.

<i>Increase in basis points</i>	<i>Impact on net profit 2013 AED'000</i>	<i>Impact on equity 2013 AED'000</i>	<i>Impact on net profit 2012 AED'000</i>	<i>Impact on equity 2012 AED'000</i>
100	(16,747)	(27,453)	(12,438)	(28,759)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency. Positions are monitored on a daily basis and strategies used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure at year-end on its non-trading monetary assets and liabilities and their forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AED, with all other variables held constant on the equity (due to the fair value of currency sensitive non trading monetary assets which mainly relates to available for sale investments). A negative amount in the table reflects a potential net reduction in equity, while a positive amount reflects a net potential increase.

	<i>Change in currency rate in % 2013</i>	<i>Effect on equity 2013 AED'000</i>	<i>Change in currency rate in % 2012</i>	<i>Effect on equity 2012 AED'000</i>
Currency				
Euro	+10	271	+10	1,247
Pound Sterling	+10	185	+10	(241)
Chinese Remnibi	+10	306	+10	298
Kuwaiti Dinar	+10	3	+10	9

Since the UAE Dirham is on a fixed parity to the US Dollar therefore the management believes that presently the Bank is not exposed to any significant foreign currency risk in respect of US Dollar.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

22 RISK MANAGEMENT (continued)

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Bank's equity investment portfolio.

The effect on equity due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	<i>Change in equity price 2013 %</i>	<i>Effect on equity 2013 AED'000</i>	<i>Change in equity price 2012 %</i>	<i>Effect on equity 2012 AED'000</i>
New York Stock Exchange	+10	20,066	+10	19,232
Abu Dhabi Securities Market	+10	6,367	+10	3,495
Dubai Financial Market	+10	8,197	+10	7,851
Others	+10	39,105	+10	19,544

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

23 SEGMENTAL ANALYSIS

For operating purposes, the Bank is organised into two major business segments: (a) Investments which is principally involved in managing the Bank's own investment portfolio and provides treasury services; and (b) Banking Services, which principally manages client's investment portfolio, provides credit facilities, accepts deposit from corporate and individual customers and provides advisory services on corporate finance and capital market transactions. These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds and an equitable allocation of expenses.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

	<i>Investments</i>		<i>Banking Services</i>		<i>Total</i>	
	<i>2013 AED'000</i>	<i>2012 AED'000</i>	<i>2013 AED'000</i>	<i>2012 AED'000</i>	<i>2013 AED'000</i>	<i>2012 AED'000</i>
Revenue *	97,622	75,836	14,046	9,578	111,668	85,414
Inter-segment adjustment	(29,305)	(24,685)	29,305	24,685	-	-
	<u>68,317</u>	<u>51,151</u>	<u>43,351</u>	<u>34,263</u>	<u>111,668</u>	<u>85,414</u>
Profit for the year	<u>30,646</u>	<u>27,625</u>	<u>5,583</u>	<u>(1,299)</u>	<u>36,229</u>	<u>26,326</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

23 SEGMENTAL ANALYSIS (continued)

	<i>Investments</i>		<i>Banking Services</i>		<i>Total</i>	
	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>	<i>2013</i> <i>AED'000</i>	<i>2012</i> <i>AED'000</i>
Segment assets	2,491,141	1,786,596	284,076	41,864	2,775,217	1,828,460
Segment liabilities	959,034	861,615	1,816,183	966,845	2,775,217	1,828,460

* Revenue comprises interest income, net income from investments, other income and exchange (loss) gain less impairment loss on investments.

24 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between book-value under the historical cost method and fair value estimates.

Determination of fair value and fair value hierarchy.

The Bank uses the following hierarchy:

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

31 December 2013

	<i>Level 1</i> <i>AED'000</i>	<i>Level 2</i> <i>AED'000</i>	<i>Level 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Financial assets				
Credit default swap	-	374	-	374
Financial liabilities				
Credit default swap	-	1,305	-	1,305

31 December 2012

	<i>Level 1</i> <i>AED'000</i>	<i>Level 2</i> <i>AED'000</i>	<i>Level 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Financial assets				
Credit default swap	-	1,189	-	1,189
Financial liabilities				
Credit default swap	-	1,677	-	1,677

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

24 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy (continued)

Fair value hierarchy of Investments is disclosed under note 11.

Assets for which fair value appropriates carrying value for financial assets and financial liabilities that have short term maturity it is assumed that the carrying amounts appropriate to their fair value. This assumption is also applied to deposits without specific maturity.

These financial instruments have been classified for the purpose of IAS 39 as follows:

31 December 2013	At fair value through profit or loss AED'000	Available for sale AED'000	Loans and receivables AED'000	Amortised cost AED'000	Total AED'000
Financial assets					
Cash and balances with UAE Central Bank	-	-	-	69,179	69,179
Due from banks	-	-	-	235,951	235,951
Loans and advances	-	-	108,778	-	108,778
Investments excluding bullion	-	2,235,358	-	91,900	2,327,258
Others	-	-	-	27,101	27,101
	-	2,235,358	108,778	424,131	2,768,267
Financial liabilities					
Due to banks	-	-	-	765,286	765,286
Customer deposits	-	-	-	1,675,112	1,675,112
Others	-	-	-	28,263	28,263
	-	-	-	2,468,661	2,468,661
31 December 2012	At fair value through profit or loss AED'000	Available for sale AED'000	Loans and receivables AED'000	Amortised cost AED'000	Total AED'000
Financial assets					
Cash and balances with UAE Central Bank	-	-	-	15,716	15,716
Due from banks	-	-	-	60,843	60,843
Loans and advances	-	-	18,658	-	18,658
Investments excluding bullion	-	1,629,701	-	47,222	1,676,923
Others	-	-	-	19,014	19,014
	-	1,629,701	18,658	142,795	1,791,154
Financial liabilities					
Due to banks	-	-	-	698,569	698,569
Customer deposits	-	-	-	803,240	803,240
Others	-	-	-	33,919	33,919
	-	-	-	1,535,728	1,535,728

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

25 CAPITAL ADEQUACY

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of UAE in supervising the Bank.

The Central Bank of UAE supervises the Bank, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Bank. The capital is computed at the Bank level using the Basel II framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the Central Bank of UAE, within national discretion. The Basel II framework is structured around three 'pillars': minimum capital requirements (Pillar I); supervisory review process (Pillar II); and market discipline (Pillar III).

Minimum Capital Requirements

Per current capital requirements, the Central Bank of UAE requires the Bank to maintain a prescribed minimum ratio of total capital to total risk-weighted assets of 12% (of which Tier I to be 8%).

The tiered components of Bank's regulatory capital comprise of:

- Tier I capital includes share capital, legal reserve, statutory reserve retained earnings and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and
- Tier II capital includes undisclosed reserve and fair value reserve.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

The capital adequacy ratio as per Basel II framework is given below:

	2013 AED'000	2012 AED'000
Tier I Capital		
Issued capital	60,000	55,000
Legal reserve	30,000	27,330
Special reserve	24,361	20,738
Retained earnings	126,896	107,460
Total tier I capital	241,257	210,528
Tier II Capital		
Undisclosed reserves/ general provisions	4,435	2,935
Fair value reserve	27,716	35,771
Total	32,151	38,706
Total regulatory capital	273,408	249,234
Risk Weighted Exposure		
	2013 AED'000	2012 AED'000
Credit risk	1,618,506	932,914
Market risk	37,418	60,194
Operational risk	71,989	69,121
Total	1,727,913	1,062,229

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2013

25 CAPITAL ADEQUACY (continued)

	2013	2012
Capital Ratio		
Total regulatory capital as a percentage of total risk weighted assets	15.82%	23.46%
Total tier I regulatory capital as a percentage of total risk weighted assets	13.96%	19.82%

Capital management policies, stress testing and capital management

The Bank has a robust capital adequacy assessment, monitoring and reporting process and is pro-actively advancing its internal capital adequacy assessment framework along the lines of Basel II and in anticipation of Basel III.

The forward-looking internal capital adequacy assessment process (ICAAP) is based on the Bank's financial budget projections. Various stress scenarios are considered to assess the strength of Bank's capital adequacy over a three year period.

The implemented ICAAP is based on Economic Capital and defines adequacy as balance of capital supply, in the form of available financial resources, and capital demand, in the form of cushion against unexpected losses. The Bank's quantification models have been subject to external scrutiny and validation.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

26 FIDUCIARY ASSETS

	2013 AED'000	2012 AED'000
Balance as at 31 December	1,488,000	668,826

The Bank manages investments on behalf of its customers. These investments are held by the Bank in a fiduciary capacity and are, accordingly, not included in these financial statements as assets of the Bank.