Finance House P.J.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

Building a better
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Ernst & Young
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FINANCE HOUSE P.J.S.C.

Report on the Consolidated Financial Statements

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

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Company and the UAE Commercial Companies Law of 1984 (as amended), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the Company; proper books of account have been kept by the Company; and the contents of the report of the Chairman relating to these consolidated financial statements are consistent with the books of account. We further report that 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) or of the articles of association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

Ernst & Young

Signed by:
Andre Kasparian
Partner
Ernst & Young
Registration No. 365

5 February 2014
Abu Dhabi

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2013

	Notes	*2013* *AED'000*	*2012* *AED'000*
ASSETS			
Cash balances	4	**9,497**	8,395
Due from banks	4	**1,093,081**	1,053,635
Investments carried at fair value through other comprehensive income	5	**258,240**	242,362
Investments carried at fair value through profit or loss	5	**201,355**	305,340
Investments carried at amortised cost	5	**284,485**	-
Loans and advances, net	6	**1,478,401**	1,378,785
Islamic financing and investing assets	7	**100,442**	78,295
Investment in associates	8	**30,422**	43,155
Statutory deposit	9	**6,000**	6,000
Property, fixtures and equipment	10	**288,082**	235,491
Intangibles	11	**15,596**	11,678
Investment properties	12	**81,200**	101,563
Interest receivable and other assets	13	**269,409**	257,366
TOTAL ASSETS		**4,116,210**	3,722,065
LIABILITIES			
Customers' deposits	14	**2,178,142**	1,803,671
Due to banks		**207,528**	289,985
Term loans	15	**-**	228,831
Interest payable and other liabilities	16	**864,645**	612,359
Provision for employees' end of service benefits		**7,882**	7,561
Non-convertible sukuk	17	**129,000**	128,600
TOTAL LIABILITIES		**3,387,197**	3,071,007
EQUITY			
Share capital	18	**302,500**	302,500
Treasury shares	22	**(7,213)**	(4,689)
Employees' share-based payment scheme	19	**(1,750)**	(1,750)
Statutory reserve	20	**123,797**	116,112
Revaluation reserve		**18,962**	18,962
Cumulative changes in fair value of investments carried at fair value through other comprehensive income		**(25,336)**	(66,788)
Retained earnings		**171,461**	149,355
Proposed directors' remuneration		**5,404**	4,578
		587,825	518,280
Non-controlling interests	3	**141,188**	132,778
TOTAL EQUITY		**729,013**	651,058
TOTAL LIABILITIES AND EQUITY		**4,116,210**	3,722,065
Commitments and contingent liabilities	23	**1,274,622**	1,080,414

Mr. Mohammed Alqubaisi
CHAIRMAN

Mr. Hamid Taylor
GENERAL MANAGER

The attached notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2013

	Notes	***2013 AED'000***	*2012 AED'000*
Interest income and income from Islamic financing and investing assets	24	**177,733**	193,836
Interest expense and profit distributable to depositors	24	**(49,334)**	(65,159)
Net interest income and income from Islamic financing and investing assets		**128,399**	128,677
Net fee and commission income	25	**43,476**	28,925
Net contract (loss) income	26	**(2,077)**	2,735
Net insurance income	27	**6,336**	284
Profit distributable to sukuk holders		**(8,063)**	(4,130)
Net income from investments	28	**89,294**	76,663
Net income from investment property		**11,890**	7,570
Gain on fair valuation of investment properties	12	**3,706**	9,000
Share of results of associates	8	**(16,070)**	(8,085)
Gain on disposal of associate	8	**5,872**	-
Other operating income, net		**3,657**	1,795
Total operating income		**266,420**	243,434
Salaries and employees related expenses		**(92,125)**	(86,050)
Depreciation of property, fixtures and equipment	10	**(6,071)**	(7,109)
General and administrative expenses		**(45,636)**	(41,682)
Allowance for impairment of loans and advances, net	6	**(37,541)**	(35,153)
Allowance for impairment of Islamic financing and investing assets	7	**(1,341)**	(1,210)
Total operating expenses and allowances		**(182,714)**	(171,204)
Profit for the year		**83,706**	72,230
Attributable to:			
Equity holders of the parent		**76,853**	67,667
Non-controlling interests	3	**6,853**	4,563
		83,706	72,230
Basic and diluted earnings per share attributable to ordinary shares (AED)	29	**0.26**	0.23

The attached notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2013

	Note	*2013* *AED'000*	*2012* *AED'000*
Profit for the year		**83,706**	72,230
Other comprehensive income			
Items that will not be reclassified to statement of income:			
Net gain on financial assets measured at fair value through other comprehensive income		**38,449**	9,161
Directors' remuneration paid		**(4,578)**	(4,179)
		33,871	4,982
Items that may be reclassified to statement of income		**-**	-
		33,871	4,982
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**117,577**	77,212
Attributable to:			
Equity holders of the parent		**108,369**	73,369
Non-controlling interests	3	**9,208**	3,843
		117,577	77,212

The attached notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2013

	Share Capital AED '000	Treasury shares AED '000	Employees' share-based payment scheme AED '000	Statutory reserve AED '000	Revaluation reserve AED '000	Cumulative changes in fair value AED '000	Retained earnings AED '000	Proposed directors' remuneration AED '000	Attributable to shareholders of the parent company AED '000	Non controlling interests AED '000	Total AED '000
2012											
Balance at 1 January 2012	302,500	(4,182)	(1,750)	109,345	18,962	(136,200)	213,064	4,179	505,918	128,935	634,853
Loss on disposal of investments carried at fair value through other comprehensive income	-	-	-	-	-	59,531	(59,531)	-	-	-	-
Profit for the year	-	-	-	-	-	-	67,667	-	67,667	4,563	72,230
Increase (decrease) in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	-	9,881	-	-	9,881	(720)	9,161
Directors' remuneration paid	-	-	-	-	-	-	-	(4,179)	(4,179)	-	(4,179)
Total comprehensive income (expense) for the year	-	-	-	-	-	9,881	67,667	(4,179)	73,369	3,843	77,212
Proposed directors' remuneration	-	-	-	-	-	-	(4,578)	4,578	-	-	-
Cash dividend paid (note 21)	-	-	-	-	-	-	(60,500)	-	(60,500)	-	(60,500)
Transfer to statutory reserve	-	-	-	6,767	-	-	(6,767)	-	-	-	-
Purchase of treasury shares	-	(507)	-	-	-	-	-	-	(507)	-	(507)
Balance at 31 December 2012	302,500	(4,689)	(1,750)	116,112	18,962	(66,788)	149,355	4,578	518,280	132,778	651,058
2013											
Balance at 1 January 2013	302,500	(4,689)	(1,750)	116,112	18,962	(66,788)	149,355	4,578	518,280	132,778	651,058
Loss on disposal of investments carried at fair value through other comprehensive income	-	-	-	-	-	5,358	(5,358)	-	-	-	-
Profit for the year	-	-	-	-	-	-	76,853	-	76,853	6,853	83,706
Increase in fair value of investments carried at fair value through other comprehensive income	-	-	-	-	-	36,094	-	-	36,094	2,355	38,449
Directors' remuneration paid	-	-	-	-	-	-	-	(4,578)	(4,578)	-	(4,578)
Total comprehensive income (expense) for the year	-	-	-	-	-	36,094	76,853	(4,578)	108,369	9,208	117,577
Proposed directors' remuneration	-	-	-	-	-	-	(5,404)	5,404	-	-	-
Cash dividend paid (note 21)	-	-	-	-	-	-	(36,300)	-	(36,300)	-	(36,300)
Transfer to statutory reserve	-	-	-	7,685	-	-	(7,685)	-	-	-	-
Purchase of treasury shares	-	(2,524)	-	-	-	-	-	-	(2,524)	-	(2,524)
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	(798)	(798)
Balance at 31 December 2013	302,500	(7,213)	(1,750)	123,797	18,962	(25,336)	171,461	5,404	587,825	141,188	729,013

The attached notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2013

	Notes	2013 AED'000	2012 AED'000
OPERATING ACTIVITIES			
Profit for the year		**83,706**	72,230
Non-cash adjustments for:			
Depreciation	10	**6,071**	7,109
Gain on fair valuation of investment property	12	**(3,706)**	(9,000)
Loss (gain) on sale of investments carried at amortised cost		**759**	(41,093)
Share of results of associates	8	**16,070**	8,085
Gain on disposal of associate	8	**(5,872)**	-
Gain on disposal of investment property		**(4,297)**	-
Dividend income from investments		**(13,671)**	(11,370)
Gain on disposal of investments carried at fair value through profit or loss		**(14,231)**	(11,441)
Unrealised gain on investments carried at fair value through profit or loss		**(62,151)**	(12,759)
Allowance for impairment of loans and advances	6	**37,541**	35,153
Allowance for impairment of Islamic financing and investing assets	7	**1,341**	1,210
Net movement in provision for employees' end of service benefits		**321**	883
		41,881	39,007
Working capital adjustments:			
Decrease (increase) in due from banks maturing after three months		**60,289**	(25,202)
Increase in Islamic financing and investing assets		**(23,488)**	(10,671)
Increase in loans and advances		**(137,157)**	(205,081)
Increase in interest receivable and other assets		**(12,043)**	(59,407)
Decrease in term loans		**(228,831)**	(179,369)
Increase (decrease) in due to banks maturing after three months		**34,582**	(265,866)
Increase in customers' deposits		**374,471**	255,241
Increase in interest payable and other liabilities		**252,286**	126,507
Net cash from (used in) operating activities		**361,990**	(324,841)
INVESTING ACTIVITIES			
Purchase of investments carried at fair value through other comprehensive income		**(4,454)**	(9,804)
Proceeds from sale of investments carried at fair value through other comprehensive income		**27,025**	51,767
Purchase of investments carried at fair value through profit or loss		**(149,171)**	(16,690)
Proceeds from sale of investments carried at fair value through profit or loss		**329,538**	29,814
Purchase of investments carried at amortised cost		**(310,004)**	(726,259)
Proceeds from sale of investments carried at amortised cost		**24,760**	1,068,245
Proceeds from sale of investment property		**28,366**	-
Addition to investment property		**-**	(4,964)
Purchase of property, fixtures and equipment	10	**(58,662)**	(69,071)
Purchase of intangible asset		**(3,918)**	-
Purchase of investment in associates	8	**(13,666)**	-
Proceeds from sale of investment in associates		**16,201**	-
Dividend income received		**13,671**	11,370
Net cash (used in) from investing activities		**(100,314)**	334,408
FINANCING ACTIVITIES			
Directors' remuneration paid		**(4,578)**	(4,179)
Non-convertible sukuk		**400**	128,600
Purchase of treasury shares		**(2,524)**	(507)
Change in non-controlling interest		**(798)**	-
Dividend paid	21	**(36,300)**	(60,500)
Net cash (used in) from financing activities		**(43,800)**	63,414
NET INCREASE IN CASH AND CASH EQUIVALENTS		**217,876**	72,981
Cash and cash equivalents at 1 January	4	**599,074**	526,093
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	4	**816,950**	599,074

The attached notes 1 to 35 form part of these consolidated financial statements.

1 ACTIVITES

Finance House P.J.S.C. (the "Company") is a Public Joint Stock Company incorporated in Abu Dhabi, United Arab Emirates (U.A.E.) in accordance with the provisions of the U.A.E. Federal Commercial Companies Law No. (8) of 1984 (as amended), the U.A.E. Central Bank, the Monetary System and Organization of Banking Law No. (10) of 1980 and under authority of resolutions of the Board of Directors of the U.A.E. Central Bank relating to Finance Companies.

The Company was established on 13 March 2004 and commenced its operations on 18 July 2004. The Company performs its activities through its head office in Abu Dhabi and its Abu Dhabi, Dubai and Sharjah branches. The principal activities of the Company consist of investments, consumer and commercial financing and other related services.

The registered head office of the Company is at P.O. Box 7878, Abu Dhabi, U.A.E.

The consolidated financial statements of the Group were authorised for issue by the Board of Directors on 5 February 2014.

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of the laws in the U.A.E.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments and properties which are carried at fair value and land which is carried at revalued amount.

The consolidated financial statements of the Group are prepared in U.A.E. Dirhams (AED) which is the functional currency of the Group. All values are rounded to the nearest thousand (AED '000), except otherwise indicated.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (the "Group") as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All intra-group balances, income and expenses and profits and losses resulting from intra-group transactions, are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

2.2 BASIS OF CONSOLIDATION continued

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

2.3 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except for the following new standards and amendments to IFRS effective as of 1 January 2013 which do not have any significant impact on the consolidated financial statements:

***IAS 1 Presentation of Financial Statements* — Presentation of Items of Other Comprehensive Income (Amendments)**
The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on financial assets classified as fair value through other comprehensive income) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 1 Presentation of Financial Statements — 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, 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 Group's financial position or performance.

2.3 CHANGES IN ACCOUNTING POLICIES continued

IAS 19 Employee Benefits (Revised 2011)
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. The application of this revised standard had no impact on the Group.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. The standard does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 requires an entity to disclose information that helps users of its financial statements assess both of the following: (a) For assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements. (b) For fair value measurements using significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income for the period. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

Early adoption of Standards relating to consolidated financial statements

In May 2011, the International Accounting Standards Board ("IASB") issued an amended version of IAS 27 with a new title together with IFRS 10 and IFRS 12. In addition, as a result of its project on joint ventures, the IASB issued, at the same time, IFRS 11 (to replace IAS 31 – Interests in Joint Ventures) and an amended IAS 28. These new standards are mandatory for annual periods beginning on or after 1 January 2013.

In 2012, the Group had voluntarily early adopted these standards for the year ended 31 December 2012 with 1 January 2012 as its date of initial application.

2.4 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 Group's financial statements are disclosed below.

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS
- IFRIC Interpretation 21 - Levies (IFRIC 21)

The Group intends to adopt these standards, if applicable, when they become effective. Furthermore, the Group has assessed the impact from the adoption of the above new and amended standards on its financial position and performance to be insignificant.

2.5 SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents
Cash and cash equivalents comprise of cash and balances with the U.A.E. Central Bank, due from banks which mature within three months from the date of placement, net of balances due to banks maturing within three months from the date of acceptance.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Due from banks
Due from banks are stated at amortised cost using the effective interest rate less any amounts written off and provision for impairment.

Investment in associates
The Group's investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the Group has incurred obligations on its behalf.

The Group's share of the result of operations of associates is included in the consolidated income statement. Unrealized profits and losses from transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate.

Financial assets
Financial assets – initial recognition and subsequent measurement
Date of recognition
All financial assets are initially recognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Initial measurement
All financial assets are initially measured at their fair value plus transaction costs, except for those financial assets measured at fair value through profit or loss.

Subsequent measurement
The subsequent measurement of financial assets depends on the Group's business model for managing those financial assets and their contractual cash flow characteristics.

Transaction costs expected to be incurred on transfer or disposal of a financial instrument are not included in the measurement of the financial instrument.

Financial assets measured at amortised cost
Financial assets are measured at amortised cost only if the asset is held within a business model whose objective is to hold the asset to collect its contractual cash flows and that the contractual terms of the financial asset give rise, on specified dates, to cash flows constituting solely principal and interest on the outstanding principal amount. An inability to meet these two criteria requires the financial asset to be subsequently measured at fair value through profit or loss. However, even where both conditions are met, the Company may elect upon initial recognition to measure the financial asset at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

Debt instruments (including derivatives embedded in financial host assets) meeting these criteria are subsequently measured at amortised cost using the effective interest rate method, adjusted for any impairment charges and transaction costs incurred upon initial recognition. The effective interest rate method calculates an interest rate which exactly discounts estimated future cash receipts through the expected life of the financial asset or a shorter period (where appropriate) to the net carrying amount of the financial asset. After initial measurement at fair value, amounts due from banks and loans and advances are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate method. The amortisation is included in interest income in the income statement. The losses arising from impairment are recognised in the income statement in allowance for impairment of loans and advances.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets continued

Other financial assets measured at fair value through profit and loss

Financial assets which do not meet the amortised cost criteria such as derivatives and financial assets held for trading are measured at fair value through profit or loss. Gains or losses arising on subsequent measurement of these financial assets are recognised in the income statement. The Company determines an asset's fair value in accordance with the Company's accounting policy on fair value as discussed in note 34.

Financial assets held-for-trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend is recorded in net trading income according to the terms of the contract, or when the right to the payment has been established.

Islamic financing and investing assets

Islamic financing assets are financial assets with fixed or expected profit payments. These assets are not quoted in an active market. They arise when the Company provides funds directly to a customer with no intention of trading the receivable.

Murabaha is stated at amortised cost less any provisions for impairment and deferred income.

Istisna'a cost is measured and reported in the financial statements at a value not exceeding the cash equivalent value.

The Ijara is classified as a finance lease, when the Company undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represents finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

Equity investments at fair value through other comprehensive income

Equity investments not held for trading can be designated as being measured at fair value through other comprehensive income at initial recognition and such an election is irrevocable. This designation is made on an instrument-by-instrument basis. Gains or losses arising on subsequent measurement of these equity investments are recognised in other comprehensive income. The gain or loss on disposal of the asset is reclassified to retained earnings and is not recycled to profit or loss. Transaction costs on disposal are taken to the income statement. Dividends received on these equity investments are recognised in the income statement unless the dividend represents recovery of the cost of the investment.

Financial assets designated at fair value through profit or loss

Financial assets classified in this category are those that have been designated by management at initial recognition. Management may designate a financial asset at fair value through profit or loss upon initial recognition only when the first of the following criteria is met. Designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets continued
Financial assets designated at fair value through profit or loss continued
Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in net gain or loss on financial assets designated at fair value through profit or loss. Interest earned is accrued in interest income, using the effective interest rate method, while dividend income is recorded in other operating income when the right to the payment has been established.

Financial assets, other than those designated at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period.

Individually assessed loans
Individually assessed loans represent mainly corporate and commercial loans which are assessed individually and classified by the credit risk unit in order to determine whether any objective evidence exists that a loan is impaired. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. Impairment loss is calculated as the difference between the loan's carrying value and its present impaired value.

Collectively assessed loans
Impairment losses of collectively assessed loans include the allowances calculated on:

- Performing loans
- Retail loans with common features and which are not individually significant

Performing loans
Where individually assessed loans are evaluated and no evidence of loss has been identified, these loans are classified as performing loans portfolios with common credit risk characteristics based on industry, product or loan rating.

Impairment loss includes losses which may arise from individual performing loans that were impaired at the end of the reporting period but were not specifically identified as such as at that date. The estimated impairment is calculated by the Group's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Retail loans with common features and which are not individually significant
Impairment of retail loans is calculated by the Group's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Impaired loans are written off only when all legal and other avenues for recovery or settlement are exhausted.

The carrying amount of loans, advances, Islamic financing and investing assets is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in consolidated income statement.

Derecognition of 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 when:

- The rights to receive cash flows from the asset have expired.
- The Group 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:
  - the Group has transferred substantially all the risks and rewards of the asset, or
  - the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets continued

Derecognition of financial assets continued

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Property, fixtures and equipment
Property, fixtures and equipment are stated at cost less accumulated depreciation and any impairment in value. The carrying amounts are reviewed at each statement of financial position date to assess whether they are recorded in excess of their recoverable amount and, where carrying values exceed the recoverable amount, assets are written down. Land is measured at fair value. Valuations are performed frequently to ensure that the fair value of revalued land does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve included in the equity section of the consolidated statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the revaluation reserve.

Depreciation is provided on a straight-line basis on all property and equipment, other than freehold land which is determined to have an indefinite life.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Motor vehicles	4 years
Furniture, fixtures and equipment	3-5 years
Computer hardware and software	3-4 years

Capital work-in progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated.

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The estimated useful economic life of the intangible asset for the calculation of amortization is as follows:

License	5 years

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Investment properties
Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value which reflects market conditions at the statement of financial position date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the year in which they arise.

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

Insurance receivables
Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

Reinsurance contracts held
In order to minimize financial exposure from large claims, the Group enters into agreements with other parties for reinsurance purposes. Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contract. Once the claim is paid the amount due from the reinsurer in connection with the paid claim is transferred to receivables arising from insurance and reinsurance companies.

At each reporting date, the Group assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policy holders.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire when the contract is transferred to another party.

Financial liabilities and equity instruments
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities
All financial liabilities are initially recognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial liabilities that require delivery of liabilities within the time frame generally established by regulation or convention in the market place.

Financial liabilities, including customers' deposits, due to banks, wakala deposits, term loans and other payables are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Financial liabilities and equity instruments continued
Derecognition of financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. 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. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Repurchase agreements
Assets sold with a simultaneous commitment to repurchase at a specified future date ("Repo") are not derecognised. The counterparty liability for amounts received under these agreements is included in term loans in the consolidated statement of financial position, as appropriate. The difference between the sale and repurchase price is treated as interest expense which is accrued over the life of the repo agreement using the effective interest rate.

Operating segment reporting
An operating segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) which is subject to risks and rewards that are different from those of other segments and whose operating results are regularly reviewed by the Group's Chief Operating decision maker to make decisions about allocation of resources and assess its performance.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Accounts payable and accruals
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the party or not.

Employees' end of service benefits
The Group provides end of service benefits for its employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its U.A.E. national employees, the Group makes contributions to the relevant government pension scheme, calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Foreign currencies
Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the rates of exchange ruling at the consolidated statement of financial position date. Any resultant gains and losses are recognised in the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Fair values
The Group measures financial instruments such as investment carried at fair value through profit or loss and investment carried at fair value through other comprehensive income, and non-financial assets such as investment properties at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 5.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 34.

The management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement. External valuers are involved for valuation of significant assets, such as investment property. Selection criteria for valuers include market knowledge, reputation, independence and whether professional standards are maintained. The management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

The management, in conjunction with the Group's external valuers, also compares changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Recognition of income and expenses

Interest

For all financial instruments measured at amortised cost and interest bearing financial instruments, 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 Group 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 is suspended and not recognised.

Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

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

Murabaha

Murabaha income is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

Istisna'a

Istisna'a revenue and the associated profit margin (difference between the cash price of al-masnoo to the customer and the Company's total Istisna'a cost) is accounted for on a time apportioned basis.

Ijara

Ijara income is recognised on a time apportioned basis over the lease term.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, income is suspended and not recognised.

Income on balances with financial institutions

Income on balances with financial institutions is calculated, on account, based on the expected/anticipated profit rates net of relevant fees and expenses.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

2.5 SIGNIFICANT ACCOUNTING POLICIES continued

Recognition of income and expenses continued

Contract revenue

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the surveys of work performed and completion of a physical proportion of the contracts. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Insurance income

Insurance contract

Insurance contracts are those contracts where the Group has accepted significant insurance risk from another party (the "policyholders") by agreeing to compensate the policyholders if a specified uncertain future event (the "insured event") adversely affects the policyholders.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Premiums earned

Premiums written are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired periods of coverage.

Commissions earned

Profit commission is accounted for as and when received while other commissions are accounted for when earned.

Claims

Claims comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Group.

The Group generally estimates its claims based on previous experience. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Any difference between the provisions at the statement of financial position date and settlements and provisions for the following year is included in the underwriting account for that year.

The Group does not discount its liability for unpaid claims as these are expected to be settled within one year of reporting date.

2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Consolidation of entities in which the Group holds less than majority of voting rights
The Group considers that it controls Islamic Finance House P.J.S.C. and Insurance House P.S.C. even though it owns less than 50% of the voting rights in both the entities as the Group is the largest shareholder of Islamic Finance House P.J.S.C. and Insurance House P.S.C. with a 47.83% and 44.38% equity interest respectively.

Classification of properties
Management decides, on acquisition of a property, whether it should be classified as investment property, property and equipment or as property held for sale.

Properties acquired by the Group are recorded as investment properties if these were acquired for rental purposes or capital appreciation.

Properties held for own use are recorded as property, fixtures and equipment.

Properties are recorded as held for sale if their carrying amounts will be recovered through a sale transaction.

Fair value of investment properties
The Group carries its investment properties at fair value, with changes in fair value being recognised in the consolidated income statement. The Group engaged an independent valuation specialist to assess fair value at 15 December 2013 for its investment property using a valuation methodology based on the 'income method'. The key assumptions used to determine the fair value of the property and sensitivity analyses are disclosed in note 12.

Classification of investments
The Group classifies investments as fair value through profit and loss if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments as fair value through profit and loss depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of profit and loss in the management accounts, they are classified as fair value through profit and loss.

Equity investments not held for trading can be designated as being measured at fair value thorough other comprehensive income at initial recognition.

Investments are classified at amortised cost only if the asset is held within a business model whose objective is to hold the asset to collect its contractual cash flows and that the contractual terms of the financial asset give rise, on specified dates, to cash flows constituting solely principal and interest on the outstanding principal amount.

Impairment losses on loans, advances and Islamic financing and investing assets
The Group reviews its problematic loans, advances and Islamic financing and investing portfolio on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

Collective impairment provisions on loans, advances and Islamic financing and investing assets
In addition to specific provisions against individually significant loans, advances and Islamic financing and investing assets, the Group also makes a collective impairment provision against loans, advances and Islamic financing and investing assets which, although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted. The amount of the provision is based on the historical loss pattern for loans and advances and is adjusted to reflect current economic changes.

Contract cost estimates
When the outcome of a construction contract can be estimated reliably, revenues and costs are recognised by reference to stage of completion of the contract activity at the end of the reporting period. In judging whether the outcome of the construction contract can be estimated reliably, management has considered the detailed criterion for determination of such outcome as set out in IAS 11 'Construction Contracts'. For the purpose of estimating the stage of completion of contract activity, management has considered the forecasts for revenue and costs related to each construction contract. When it is estimated that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Management has considered the costs to be incurred based on analysis and forecast of construction work to be executed.

Fair value of unquoted investments
As described in note 34, the management uses their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Such financial instruments are valued using discounted cash flow and capitalisation of sustainable earnings analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unquoted shares includes some assumptions not supported by observable market prices or rates. Details of assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in note 34.

Provision for outstanding claims
Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Group generally estimates its claims based on previous experience. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters along with the Group's internal legal counsel normally estimate such claims. Management reviews its provisions for claims incurred on a quarterly basis.

Reinsurance
The Group is exposed to disputes with, and possibility of defaults by its reinsurers. The Group monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers.

2.7 DEFINITIONS

The following terms are used in the financial statements with the meaning specified:

Commodities Murabaha
A selling contract for commodities at the purchase price with a defined and agreed profit mark-up. The mark-up may be a percentage of the purchase price or a fixed amount.

Istisna'a
A sale contract, in which the Group (Al Saanee) sells an asset to be developed using its own materials to a customer (Al Mustasnee) according to pre-agreed upon precise specification, at a specific price, installments dates and to be delivered on a specific date. This developed asset can be either developed directly by the Group or through a subcontractor and then it is handed over to the customer on the pre-agreed upon date.

Ijara
A lease agreement whereby the Group (as lessor) leases an asset to the Customer (as lessee), after purchasing/acquiring the specified asset according to the customer's request and promise to lease, either from a third party seller or from the customer itself, against certain rental payments for specified lease term/periods. Whereas, upon fulfillment of all the obligations by the customer (lessee) under the lease agreement, the ownership of the subject asset is transferred from the Group (lessor) to the customer (lessee).

Sukuk
In the content of these notes, these comprise Sharia'a compliant financial instruments representing debt under Murabaha contracts.

Wakala
An agreement between the Group and a customer whereby one party (the principal: the Muwakkil) appoints the other party (the agent: Wakil) to invest certain funds according to the terms and conditions of the Wakala for a fixed fee in addition to any profit exceeding the expected profit as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the Wakil; otherwise, they are borne by the principal.

3 SUBSIDIARIES AND PARTLY-OWNED SUBSIDIARIES

The consolidated financial statements comprise the financial statements of the Company and the following subsidiaries:

Name of subsidiary	*Country of incorporation*	*Ownership interest %* 2013	2012	*Principal activity*
Third Vision Investment L.L.C.	U.A.E.	**100**	100	Management
Finance House Holding L.L.C.*	U.A.E.	**100**	-	Investment and development
National Project House L.L.C.**	U.A.E.	**100**	-	Construction
Benyan Development Company L.L.C.	U.A.E.	**100**	100	Construction
Emirates National Electromechanical L.L.C.	U.A.E.	**100**	100	Electromechanical contracting
FH Capital Limited (D.I.F.C.)	U.A.E.	**100**	100	Investment and asset management
Finance House Sukuk Company 1	Cayman Islands	**100**	100	Sukuk issuance
Islamic Finance House P.J.S.C.	U.A.E.	**47.83**	47.83	Islamic financing services
Insurance House P.S.C.	U.A.E.	**44.38**	44.38	Insurance
Finance House Securities Co L.L.C.	U.A.E.	**65**	65	Brokerage
CAPM Investment P.J.S***	U.A.E.	**100**	-	Investment and asset management

* The Group established a new subsidiary Finance House Holding L.L.C. during the year. The purpose of this subsidiary is to engage in investment and development activities across multiple business sectors.

** The Group established another subsidiary National Project House L.L.C. during the year. The purpose of this subsidiary is to engage in the construction of real estate projects.

*** During the year, the Group acquired an investment banking license through CAPM Investment P.J.S.

3 SUBSIDIARIES AND PARTLY-OWNED SUBSIDIARIES continued

Summarised financial information of subsidiaries with material non-controlling interests is provided below. This information is based on amounts before inter-company eliminations:

	Insurance House P.S.C.		*Islamic Finance House P.J.S.C.*		*Finance House Securities Co. LLC*		*Total*	
	2013 AED '000	2012 AED '000	**2013 AED '000**	2012 AED '000	**2013 AED '000**	2012 AED '000	**2013 AED '000**	2012 AED '000
Non-controlling interests %	**55.62**	55.62	**52.17**	52.17	**35**	35		
Accumulated balance of material non-controlling interests	**76,836**	70,233	**53,240**	52,494	**11,112**	10,051	**141,188**	132,778
Subsidiaries' statement of financial position								
Assets	**254,608**	302,566	**247,371**	263,549	**151,191**	70,794	**653,170**	636,909
Liabilities	**114,338**	175,882	**145,331**	162,928	**119,444**	42,079	**379,113**	380,889
Net assets	**140,270**	126,684	**102,040**	100,621	**31,747**	28,715	**274,057**	256,020
Subsidiaries' revenues and profits (losses)								
Revenue, net	**66,205**	35,393	**10,355**	11,677	**12,790**	2,356	**53,498**	49,426
Net profit (loss) for the year	**9,558**	10,012	**1,112**	541	**2,732**	(3,686)	**13,402**	6,867
Net profit (loss) for the year allocated to non-controlling interest	**5,317**	5,570	**580**	283	**956**	(1,290)	**6,853**	4,563
Total comprehensive income (expense) for the year	**14,382**	9,752	**809**	291	**2,731**	(3,686)	**17,922**	6,357
Total comprehensive income (expense) allocated to non-controlling interest	**7,830**	4,981	**422**	152	**956**	(1,290)	**9,208**	3,843
Subsidiaries' summarized cashflow information								
Operating	**(3,892)**	17,929	**10,320**	751	**58,293**	(12,396)	**64,721**	6,284
Investing	**96,256**	(179,533)	**(5,175)**	890	**(166)**	(2,101)	**90,915**	(180,744)
Financing	**(84,632)**	122,442	**-**	-	**83**	13,859	**(84,549)**	136,301
Net increase (decrease) in cash and cash equivalents	**7,732**	(39,162)	**5,145**	1,641	**58,210**	(638)	**71,087**	(38,159)

4 CASH AND CASH EQUIVALENTS

	2013 AED'000	*2012 AED'000*
Current and demand accounts	**143,474**	60,376
Fixed placements	**745,000**	963,538
Wakala deposits with banks	**13,100**	-
Call accounts	**191,507**	29,721
Due from banks	**1,093,081**	1,053,635
Cash balances	**9,497**	8,395
Due from banks with original maturity of more than three months	**(218,100)**	(278,389)
Due to banks with original maturity of less than three months	**(67,528)**	(184,567)
Net cash and cash equivalents	**816,950**	599,074

Fixed placements with banks of AED 218,100 thousand (2012: AED 278,389 thousand) and due to banks of AED 140,000 thousand (2012: AED 105,418 thousand) are due to mature after three months from the date of placement and are not included in cash and cash equivalents.

5 INVESTMENTS

	At fair value through OCI AED '000	*At fair value through profit or loss AED '000*	*At amortised cost AED '000*	*Total AED '000*
2013				
Equity instruments:				
- Quoted	**98,415**	**198,917**	-	**297,332**
- Unquoted	**149,416**	-	-	**149,416**
Debt instruments:				
- Quoted - fixed rate	-	**2,438**	**284,485**	**286,923**
Investment in managed funds	**10,409**	-	-	**10,409**
	258,240	**201,355**	**284,485**	**744,080**
UAE	**248,618**	**198,917**	**180,189**	**627,724**
Outside UAE	**9,622**	**2,438**	**104,296**	**116,356**
	258,240	**201,355**	**284,485**	**744,080**
2012				
Equity instruments:				
- Quoted	78,562	50,053	-	128,615
- Unquoted	148,131	-	-	148,131
Debt instruments:				
- Quoted - fixed rate	-	255,287	-	255,287
Investment in managed funds	15,669	-	-	15,669
	242,362	305,340	-	547,702
UAE	228,724	93,752	-	322,476
Outside UAE	13,638	211,588	-	225,226
	242,362	305,340	-	547,702

The fair value of the investments carried at amortised cost at 31 December 2013 is AED 266,852 (2012: nil).

The Group enters into asset repurchase transactions whereby it retains substantially all of the risks and rewards of ownership of the assets and accordingly, the assets are not derecognized from the consolidated statement of financial position. The Group has entered into repurchase agreements relating to investments carried at fair value through profit or loss amounting to AED nil (2012: AED 67,874 thousand). The related liability amounting to AED nil (2012: AED 56,295 thousand) is included in term loans.

6 LOANS AND ADVANCES, NET

	2013 AED'000	*2012 AED'000*
Commercial loans	**1,366,828**	1,267,289
Retail finance	**277,543**	298,008
	1,644,371	1,565,297
Less: allowance for impairment		
Specific	**(149,439)**	(170,765)
Collective	**(16,531)**	(15,747)
	1,478,401	1,378,785

6 LOANS AND ADVANCES, NET continued

Loans and advances are stated net of allowance for impairment. The movement in the allowance during the year is as follows:

	2013 *AED'000*	*2012* *AED'000*
At 1 January	**186,512**	162,184
Charge for the year, net	**37,541**	35,153
Written off during the year	**(58,083)**	(10,825)
At 31 December	**165,970**	186,512

7 ISLAMIC FINANCING AND INVESTING ASSETS

	2013 *AED'000*	*2012* *AED'000*
Commodities Murabaha	**45,931**	35,242
Covered card and drawings	**28,114**	19,239
Purchase & lease back	**19,588**	12,403
Ijarah	**10,037**	13,298
	103,670	80,182
Less: allowance for impairment		
Specific	**(2,113)**	(1,339)
Collective	**(1,115)**	(548)
	100,442	78,295

Islamic financing and investing assets are stated net of allowance for impairment. The movement in the allowance during the year is as follows:

	2013 *AED'000*	*2012* *AED'000*
At 1 January	**1,887**	677
Charge for the year	**1,341**	1,210
At 31 December	**3,228**	1,887

7 ISLAMIC FINANCING AND INVESTING ASSETS continued

The gross Ijara and purchase and leaseback and the related present value of minimum Ijara and purchase and leaseback payments are as follows:

	2013 AED'000	2012 AED'000
Gross Ijara and purchase & lease-back		
Less than one year	**10,960**	8,287
Between one and three years	**14,140**	12,298
Between three and five years	**7,752**	6,745
More than five years	**3,222**	4,774
	36,074	32,104
Less: deferred income	**(6,449)**	(6,403)
Net Ijara and purchase and lease-back	**29,625**	25,701
Net present value of minimum Ijara and purchase & lease-back payments		
Less than one year	**8,624**	6,272
Between one and three years	**11,421**	9,660
Between three and five years	**6,574**	5,486
More than five years	**3,006**	4,283
	29,625	25,701

8 INVESTMENT IN ASSOCIATES

The Group has the following investments in associates

	Country of incorporation	*Percentage of holding 2013*	*2012*	*Principal activity*
Mainland Management L.L.C.	United Arab Emirates	**33.33%**	33.33%	Hospitality management services
Universal Hospital L.L.C.	United Arab Emirates	-	30.00%	Owns and manages a hospital

The Group's interest in associates is accounted for using the equity method in the consolidated financial statements. Movement in investment in associates is as follows:

	2013 AED'000	2012 AED'000
At 1 January	**43,155**	51,240
Share of results for the year	**(16,070)**	(8,085)
Additions during the year (i)	**13,666**	-
Disposed off during the year (ii)	**(10,329)**	-
At 31 December	**30,422**	43,155

8 INVESTMENT IN ASSOCIATES continued

Summarised financial information of the associate is set out below.

	2013 *AED 000*	*2012* *AED 000*
Associates' statement of financial position		
Assets	**211,553**	316,894
Liabilities	**(120,287)**	(196,663)
Net assets	**91,266**	120,231
Group's share of net assets	**30,422**	39,296
Goodwill arising on acquisition	**-**	3,859
Carrying amount of investment in associates	**30,422**	43,155
Associates' revenue and loss:		
Revenue	**22,003**	15,660
Loss for the year	**(47,850)**	(24,508)
Group's share of results for the year	**(16,070)**	(8,085)

(i) During the year, the Group subscribed for its share of the additional capital in Mainland Management L.L.C. amounting to AED 13,666 thousand. This transaction did not change the Group's ownership percentage in the associate.

(ii) During the year, the Group disposed its investment in Universal Hospital L.L.C. Gain on disposal of investment amounting to AED 5,872 thousand was recognised in the consolidated statement of income.

9 STATUTORY DEPOSIT

In accordance with the requirement of Federal Law No.6 of 2007, concerning Insurance Companies and Agents, the Group maintains a bank deposit amounting to AED 6,000 thousand (2012: AED 6,000 thousand) and it cannot be utilised without the consent of the UAE Insurance Authority.

10 PROPERTY, FIXTURES AND EQUIPMENT

	Freehold land AED '000	*Furniture fixtures and equipment AED '000*	*Motor vehicles AED '000*	*Computer hardware and software AED '000*	*Capital work in progress AED '000*	*Total AED '000*
2013						
Cost or valuation						
At 1 January 2013	85,667	34,753	6,882	21,359	135,816	284,477
Additions during the year	-	1,757	590	1,671	54,644	58,662
Disposals / transfer	-	(171)	(681)	171	-	(681)
At 31 December 2013	**85,667**	**36,339**	**6,791**	**23,201**	**190,460**	**342,458**
Accumulated depreciation:						
At 1 January 2013	-	27,253	4,816	16,917	-	48,986
Charge for the year	-	3,510	494	2,067	-	6,071
Relating to disposals / transfer	-	(171)	(681)	171	-	(681)
At 31 December 2013	-	**30,592**	**4,629**	**19,115**	-	**54,376**
Net book value:						
At 31 December 2013	**85,667**	**5,747**	**2,162**	**4,046**	**190,460**	**288,082**
2012						
Cost or valuation						
At 1 January 2012	85,667	31,327	6,728	19,449	72,534	215,705
Additions during the year	-	3,426	453	1,910	63,282	69,071
Disposals	-	-	(299)	-	-	(299)
At 31 December 2012	85,667	34,753	6,882	21,359	135,816	284,477
Accumulated depreciation:						
At 1 January 2012	-	22,705	4,398	15,073	-	42,176
Charge for the year	-	4,548	717	1,844	-	7,109
Relating to disposals	-	-	(299)	-	-	(299)
At 31 December 2012	-	27,253	4,816	16,917	-	48,986
Net book value:						
At 31 December 2012	85,667	7,500	2,066	4,442	135,816	235,491

10 PROPERTY, FIXTURES AND EQUIPMENT continued

The freehold land is a plot of land purchased by the Group on which the Group is building its premises. Capital work in progress mainly pertains to the construction of the office premises on the freehold plot of land.

The fair value of land represents management's best estimate of the fair value as of the statement of financial position date with reference to the valuation performed by an accredited independent valuer with a recognized and relevant professional qualification and recent experience in the location and category of the land being valued.

11 INTANGIBLES

	License AED '000	*Goodwill AED '000*	*Total AED '000*
2013			
Carrying value			
At 1 January 2013	-	11,678	11,678
Addition during the year	3,918	-	3,918
At 31 December 2013	**3,918**	**11,678**	**15,596**
2012			
At 1 January 2012 and 31 December 2012	-	11,678	11,678

License
This item represents the amount paid by the Group during the year to acquire an existing investment banking license issued by the Central Bank of UAE.

Goodwill
Goodwill acquired through business combinations relates to the following subsidiaries:

	Islamic Finance House PJSC		***Third Vision Investment L.L.C***		***Total***	
	2013 AED '000	*2012 AED '000*	***2013 AED '000***	*2012 AED '000*	***2013 AED '000***	*2012 AED '000*
Goodwill	**6,705**	6,705	**4,973**	4,973	**11,678**	11,678

Impairment testing of goodwill
The Group performs impairment testing of the goodwill annually on 31 December.

Goodwill relating to Islamic Finance House PJSC
Goodwill arising on the acquisition of Islamic Finance House PJSC has been allocated to the subsidiary as a cash generating unit. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

During the year the Group has performed a goodwill impairment review based on a forecast of the subsidiary's cash flows. The recoverable amount of the cash generating unit was estimated on the basis of its value in use, which is determined by discounting future cash flows from the continuing operation of the cash generating unit. The discount rate applied to the cash flow projections is 20% and the growth rate used to extrapolate the cash flows beyond the five year period is 3%. Based on the results of the goodwill impairment assessment the Group has concluded that the recoverable amount of the cash generating unit is higher than its carrying value.

11 INTANGIBLES continued

Impairment testing of goodwill continued

Goodwill relating to Third Vision Investment L.L.C

Goodwill arising on the acquisition of Third Vision Investment L.L.C. has been allocated to the subsidiary as a cash generating unit. This represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

During the year the Group has performed a goodwill impairment review based on fair value less cost to sell. The Group estimated the fair values of the net assets of the subsidiary which primarily consist of land and property under development and some other assets and liabilities. The fair value of land and property under development has been determined with reference to the valuation performed by an accredited independent valuer using market approach which is a valuation technique that estimates the fair value of assets based on market prices in actual transactions and on asking prices for assets currently available for sale less any related cost to sell the assets. Based on the results of this analysis, the Group has concluded that the recoverable amount of the cash generating unit is higher than its carrying value.

12 INVESTMENT PROPERTIES

	2013 ***AED'000***	*2012* *AED'000*
At 1 January	**101,563**	87,599
Addition during the year	**-**	4,964
Disposed off during the year	**(24,069)**	-
Gain on fair valuation of investment property	**3,706**	9,000
At 31 December	**81,200**	101,563

Investment properties are stated at fair value, based on the valuation performed by an accredited independent valuer with a recognized and relevant professional qualification and recent experience in the location and category of investment properties being valued.

Income method is adopted by the independent valuer for the valuation of the investment property. This method calculates the value of the property by taking the estimated net income of property and capitalising this with an appropriate yield which reflects market sentiment and situation. In this instance, Term and Reversion approach to the Income method is used as subject property is tenanted by a single tenant for the term of 5 years since 2011. Estimated annual market rent income is calculated according to the prevailing market for the reversion. The prime location, maintenance and occupancy levels are also considered.

Following is the description of the valuation technique used and significant unobservable inputs;

	Valuation technique	*Significant unobservable input*	*Range*
Investment property	Income method	*Estimated annual market rent income*	*AED 7.6 – 8.7 million*
		Yield	*8.5% - 9.5%*
		Occupancy level	*95% - 100%*

13 INTEREST RECEIVABLE AND OTHER ASSETS

	2013 AED'000	*2012 AED'000*
Interest receivable	**9,629**	54,383
Profit receivable (i)	**746**	1,104
Prepayments	**15,130**	18,400
Accounts receivable, net of provision for impairment (ii)	**128,536**	70,245
Amounts due from customers under construction contracts (note 31)	**26,801**	25,991
Insurance receivables	**54,063**	22,756
Re-insurance contract assets	**11,438**	6,271
Advance for investments	**302**	42,733
Other assets	**22,764**	15,483
	269,409	257,366

(i) Profit receivable relates to the Wakala deposits with banks and financial institutions, Islamic financing and investing assets and Murabaha agreements.

(ii) As at 31 December 2013, accounts receivable at nominal value of AED 8,723 (2012: AED 6,683) were impaired, and fully provided for.

As at 31 December, the ageing analysis of accounts receivable is as follows:

			Past due but not impaired			
	Total AED	*Neither past due nor impaired AED*	*< 30 days AED*	*30 – 60 days AED*	*61 – 90 days AED*	*>90 days AED*
2013	**128,536**	**65,780**	**57,966**	**93**	**-**	**4,697**
2012	70,245	40,102	13,778	401	1,266	14,698

14 CUSTOMERS' DEPOSITS

	2013 AED'000	*2012 AED'000*
Call and demand deposits	**85,289**	65,111
Time deposits	**1,989,249**	1,593,290
Wakala deposits	**103,604**	145,270
	2,178,142	1,803,671

Analysis of customers' deposits by sector is as follows:

Government	**785,365**	673,351
Corporate	**1,392,777**	1,130,320
	2,178,142	1,803,671

15 TERM LOANS

	2013 AED'000	2012 AED'000
From local commercial banks	-	90,000
From international commercial banks	-	138,831
	-	228,831

16 INTEREST PAYABLE AND OTHER LIABILITIES

	2013 AED'000	2012 AED'000
Interest payable	**11,534**	12,587
Profit payable	**292**	582
Trade payables	**145,821**	26,184
Accrued expenses	**59,080**	67,171
Margin accounts	**438,882**	353,163
Retention under Istissna	**604**	-
Unearned premiums	**53,860**	30,615
Gross claims outstanding	**10,593**	10,976
Other liabilities	**143,979**	111,081
	864,645	612,359

17 NON CONVERTIBLE SUKUK

In June 2012, the Company raised financing by way of a Shari'a compliant subordinated sukuk issued by Finance House Sukuk Company 1 (the issuer and a special purpose vehicle) amounting to AED 150 million and maturing in June 2017. The sukuk carries a profit rate of 6 months EIBOR plus 3% or 6.25% per annum whichever is higher, payable semi annually as periodic distribution amount. Profit distribution accrued as of 31 December 2013 relating to sukuk held by external parties amounted to AED 104 thousand (2012: AED 112 thousand). Sukuk amounting to AED 21 million (2012: AED 21.4 million) were held by subsidiaries of the Group and, accordingly, eliminated in the consolidated statement of financial position.

18 SHARE CAPITAL

	Issue and fully paid 2013 AED'000	2012 AED'000
Authorised, issued and fully paid		
302.5 million shares (2012: 302.5 million shares) of AED 1 each (2012: AED 1 each)	**302,500**	302,500

19 EMPLOYEES' SHARE-BASED PAYMENT SCHEME

The share-based payment scheme is administered by a trustee and gives the Board of Directors the authority to determine which employees of the Group will be granted the shares. The values of shares granted to employees are expensed in the period in which they are granted, and that of the remaining shares are included within shareholders' equity.

During the year, nil shares (2012: nil shares) were granted to employees and outstanding shares not yet granted to employees as of 31 December 2013 were 1,750 thousand (31 December 2012: 1,750 thousand).

20 STATUTORY RESERVE

In line with the provisions of the UAE Federal Commercial Companies Law No. (8) of 1984, (as amended) and the Company's Articles of Association, the Company is required to transfer annually to a statutory reserve account an amount equivalent to 10% of its profit, until such reserve reaches 50% of the share capital of the Company. The statutory reserve is not available for distribution.

21 DIVIDEND

In 2013, a dividend of AED 12 fils per share (total dividend of AED 36,300 thousand) was paid to holders of fully paid ordinary shares. In 2012, the dividend paid was 20 fils per share (total dividend of AED 60,500 thousand).

22 TREASURY SHARES

Treasury shares represent the cost of 2,041 thousand shares of the Company held by a subsidiary as at 31 December 2013 (2012: 1,219 thousand shares).

23 COMMITMENTS AND CONTINGENT LIABILITIES

The Group provides letters of credit and financial guarantees on behalf of customers to third parties. These agreements have fixed limits and are generally for a certain period of time.

Capital commitments represent future capital expenditures that the Group has committed to spend on assets over a period of time.

Irrevocable commitments to extend credit represent contractual irrevocable commitments to make loans and revolving credits.

The Group had the following commitments and contingent liabilities outstanding at year end:

	2013 ***AED'000***	*2012* *AED'000*
Letters of credit	**45,540**	62,176
Letters of guarantee	**1,014,802**	858,612
Capital commitments	**70,838**	70,837
Irrevocable commitments to extend credit	**143,442**	88,789
	1,274,622	1,080,414

All financial guarantees were issued in the ordinary course of business.

24 NET INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING AND INVESTING ASSETS

	2013 AED'000	2012 AED'000
Due from banks	**10,326**	27,008
Loans and advances	**139,079**	138,490
Income from Islamic financing and investing assets	**9,886**	8,260
Others	**18,442**	20,078
Interest income and income from Islamic financing and investing assets	**177,733**	193,836
Customer deposits	**(40,211)**	(50,762)
Profit distributable to depositors	**(2,688)**	(1,828)
Due to banks	**(6,435)**	(12,569)
Interest expense and profit distributable to depositors	**(49,334)**	(65,159)
Net interest income and income from Islamic financing and investing assets	**128,399**	128,677

No interest income is recognised on impaired loans and advances.

25 NET FEE AND COMMISSION INCOME

	2013 AED'000	2012 AED'000
Fee and commission income		
Corporate and commercial finance activities	**26,875**	12,705
Retail finance activities	**26,925**	26,299
	53,800	39,004
Fee and commission expense	**(10,324)**	(10,079)
Net fee and commission income	**43,476**	28,925

26 NET CONTRACT (LOSS) INCOME

	2013 AED'000	2012 AED'000
Contract revenue	**7,437**	112,028
Contract costs	**(9,514)**	(109,293)
Net contract (loss) income	**(2,077)**	2,735

27 NET INSURANCE INCOME

	2013 *AED'000*	*2012* *AED'000*
Net insurance premiums earned		
Gross premiums written	**94,085**	55,173
Change in unearned premium provision	**(15,650)**	(19,869)
Premium income earned	**78,435**	35,304
Re-insurance premiums ceded	**(28,708)**	(13,456)
Change in re-insurance portion of unearned premium provision	**11,438**	5,335
Re-insurance premium ceded	**(17,270)**	(8,121)
	61,165	27,183
Net insurance claims incurred		
Claims paid	**(66,173)**	(21,817)
Outstanding claims expenses	**(1,596)**	(9,266)
Movements in reserves	**(3,513)**	(1,998)
Claims recovered from re-insurers	**26,409**	13,364
	(44,873)	(19,717)
Net insurance commission expense		
Insurance commission income	**1,516**	1,037
Insurance commission expense	**(11,472)**	(8,219)
	(9,956)	(7,182)
Net insurance income	**6,336**	284

28 NET INCOME FROM INVESTMENTS

	2013 *AED'000*	*2012* *AED'000*
Gain on disposal of investments carried at fair value through profit or loss	**14,231**	11,441
Unrealised gain on investments carried at fair value through profit or loss	**62,151**	12,759
Dividends from investments carried at fair value through profit or loss	**2,973**	792
Net income from investments carried at fair value through profit or loss	**79,355**	24,992
Dividend income from investments carried at fair value through other comprehensive income	**10,698**	10,578
(Loss) gain on disposal of investments carried at amortised cost	**(759)**	41,093
Net income from investments	**89,294**	76,663

29 BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year. Diluted earnings per share is determined by adjusting the profit and the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential ordinary shares. As of 31 December 2013, the Company has not issued any instruments which would have a dilutive impact on earnings per share when converted or exercised.

The calculation of basic and diluted earnings per share is based on the following data:

	2013	*2012*
Profit for the year attributable to equity holders of the parent (AED '000)	76,853	67,667
Number of ordinary shares in issue ('000)	**302,500**	302,500
Less: Treasury shares ('000)	**(2,041)**	(1,219)
Less: Employees' share-based payment scheme ('000)	**(1,750)**	(1,750)
	298,709	299,531
Earnings per share (AED)	**0.26**	0.23

30 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Group enters into transactions with associates, major shareholders, directors, senior management and their related concerns at commercial interest and commission rates.

The year end balances in respect of related parties included in the statement of financial position are as follows:

	2013 AED'000	*2012 AED'000*
Loans and advances		
To key management staff	**343**	166
To others	**46,492**	39,045
Other assets		
To others	**38,000**	-
Customers' deposits		
From associates	**-**	261
From others	**9,590**	926

Significant transactions with related parties during the year were as follows:

Interest income		
From key management	**4**	5
From others	**1,154**	558
Interest expense		
To associates	**-**	5
To others	**40**	-
Key management remuneration		
Short term benefits (salaries, benefits and bonuses)	**21,598**	17,956

31 CONSTRUCTION CONTRACTS

	2013 AED'000	2012 AED'000
Construction costs incurred plus recognized profits less recognised losses to date	**736,020**	668,270
Less : Progress billings to date	**709,219**	642,279
	26,801	25,991
Recognised and included in the consolidated financial statements as amounts due from customers under construction contracts (note 13)	**26,801**	25,991

At 31 December 2013, retentions held by customers for contract work amounted to AED 21,960 thousand (2012: AED 15,465 thousand). Advances received from customers for contract work amounted to AED 18,540 thousand (2012: AED 11,888 thousand).

32 SEGMENTAL INFORMATION

For management purposes, the Group is organised into six major business segments:

(i) Commercial and retail financing, which principally provides loans and other credit facilities for institutional and individual customers.

(ii) Investment, which involves the management of the Group's investment portfolio and its treasury activities.

(iii) Islamic financing and investing, which involves one of the Group's subsidiaries principally providing investment, consumer and commercial financing and other related services based on Islamic Sharia's rules and principles.

(iv) Insurance, which involves one of the Group's subsidiaries providing non-life insurance services.

(v) Construction, which involves the Group's subsidiaries performing real estate construction related activities.

(vi) Brokerage, which involves one of the Group's subsidiaries providing brokerage services.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds.

32 SEGMENTAL INFORMATION continued

32.1 Products and services from which reportable segments derive their revenues

Information regarding the Group's reportable segments is presented below:

	Year ended 31 December 2013							
	Commercial and retail financing AED '000	*Investment AED '000*	*Islamic financing and investing AED '000*	*Construction AED '000*	*Brokerage AED '000*	*Insurance AED '000*	*Unallocated AED '000*	*Total AED '000*
Interest income and income from Islamic financing and investing assets	147,159	14,340	9,886	-	-	6,348	-	177,733
Interest expense and profit distributable to depositors	(38,790)	(7,194)	(2,688)	-	-	(662)	-	(49,334)
Net fee and commission income	30,419	-	349		12,708	-	-	43,476
Net contract (loss) income	-	-	-	(2,077)	-	-	-	(2,077)
Net insurance income	-	-	-	-	-	6,336	-	6,336
Profit distributable to sukuk holders	(8,063)	-	-	-	-	-	-	(8,063)
Net investment income	-	89,294	-	-	-	-	-	89,294
Share of results of associates	-	(16,070)	-	-	-	-	-	(16,070)
Other operating income	1,796	21,786	(41)	29	25	1,530	-	25,125
Total operating income	132,521	102,156	7,506	(2,048)	12,733	13,552	-	266,420
Depreciation of property, fixtures and equipment	-	-	(422)	(1,585)	(246)	(826)	(2,992)	(6,071)
Other expenses and charges	(30,679)	(5,219)	(7,168)	(4,504)	(9,689)	(18,105)	(62,397)	(137,761)
Total expenses and other charges	(30,679)	(5,219)	(7,590)	(6,089)	(9,935)	(18,931)	(65,389)	(143,832)
Profit (loss) for the year before impairment	101,842	96,937	(84)	(8,137)	2,798	(5,379)	(65,389)	122,588
Allowance for impairment of loans and advances, net	(37,541)	-	-	-	-	-	-	(37,541)
Allowance for impairment of Islamic financing and investing assets	-	-	(1,341)	-	-	-	-	(1,341)
Profit (loss) for the year after impairment	64,301	96,937	(1,425)	(8,137)	2,798	(5,379)	(65,389)	83,706
Segmental assets	1,517,342	1,889,468	247,371	56,230	151,191	254,608	-	4,116,210
Segmental liabilities	1,476,762	1,430,099	145,331	101,223	119,444	114,338	-	3,387,197
Additions to non-current assets during the year	-	6,840	110	4,687	17	944	49,982	62,580

32 SEGMENTAL INFORMATION continued

32.1 Products and services from which reportable segments derive their revenues continued

	Year ended 31 December 2012							
	Commercial and retail financing AED '000	*Investment AED '000*	*Islamic financing and investing AED '000*	*Construction AED '000*	*Brokerage AED '000*	*Insurance AED '000*	*Unallocated AED '000*	*Total AED '000*
Interest income and income from Islamic financing and investing assets	159,384	19,043	8,875	-	-	6,534	-	193,836
Interest expense and profit distributable to depositors	(52,664)	(10,667)	(1,828)	-	-	-	-	(65,159)
Net fee and commission income	25,387	-	145	-	2,356	1,037	-	28,925
Net contract (loss) income	-	-	-	2,735	-	-	-	2,735
Net insurance income	-	-	-	-	-	284	-	284
Profit distributable to sukuk holders	(4,130)	-	-	-	-	-	-	(4,130)
Net investment income	-	76,663	-	-	-	-	-	76,663
Share of loss in associates	-	(8,085)	-	-	-	-	-	(8,085)
Other operating income	413	16,614	380	796	89	73	-	18,365
Total operating income	128,390	93,568	7,572	3,531	2,445	7,928	-	243,434
Depreciation of property, fixtures and equipment	-	-	(872)	(2,570)	(313)	(598)	(2,756)	(7,109)
Other expenses and charges	(16,212)	(6,290)	(14,258)	(13,972)	(5,873)	(18,872)	(52,255)	(127,732)
Total expenses and other charges	(16,212)	(6,290)	(15,130)	(16,542)	(6,186)	(19,470)	(55,011)	(134,841)
Profit (loss) for the year before impairment	112,178	87,278	(7,558)	(13,011)	(3,741)	(11,542)	(55,011)	108,593
Allowance for impairment of loans and advances, net	(35,153)	-	-	-	-	-	-	(35,153)
Allowance for impairment of Islamic financing and investing assets	-	-	(1,210)	-	-	-	-	(1,210)
Profit (loss) for the year after impairment	77,025	87,278	(8,768)	(13,011)	(3,741)	(11,542)	(55,011)	72,230
Segmental assets	1,540,725	1,775,104	29,449	106,098	70,794	199,895	-	3,722,065
Segmental liabilities	1,261,129	1,245,732	162,928	183,257	42,079	175,882	-	3,071,007
Additions to non-current assets during the year	-	4,972	1,446	69	58	885	61,641	69,071

32 SEGMENTAL INFORMATION continued

32.1 Products and services from which reportable segments derive their revenues continued

Revenue reported above represents revenue generated from external customers. The inter-segment revenues and expenses have been eliminated in full.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

- all liabilities are allocated to reportable segments. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

32.2 Geographical information

The Group primarily operates in the U.A.E. (country of domicile).

32.3 Information about major customers

There is no single customer accounting for more than 10% of the Group's revenues from external customers.

33 RISK MANAGEMENT

33.1 Introduction

Risk is inherent in the Group'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 Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group 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 operational risks.

Risk management structure

In line with the best practice followed in world class financial institutions the overall risk management responsibility lies with the Board of Directors of the Group, under which there is a Board Investment and Credit Committee (BICC) comprising of six board members and the Chief Risk Officer who take responsibility for identifying and controlling the risks.

Board of Directors

The overall risk management responsibility lies with the Board of Directors of the Group. It provides the direction, strategy and oversight of all the activities through various committees.

Audit Committee

The Audit Committee comprises three independent members who represent the Board of Directors of the Group. The Audit Committee has the overall responsibility of assessing the internal audit findings, directing implementation of audit recommendations and overseeing the internal audit activities undertaken within the internal control environment and regulatory compliance framework of the Group. Duties and responsibilities of the Audit Committee are governed by a formally approved Audit Committee Charter which is in line with best practice and control governance.

33 RISK MANAGEMENT continued

33.1 Introduction continued

Asset Liability Committee
The asset liability management process is an act of planning, acquiring, and directing the flow of funds through an organization. The ultimate objective of this process is to generate adequate and stable earnings and to steadily build an organization's equity over time, while taking measured business risks. The Group has a well defined asset liability management policy duly describing the objective, role and function of the Asset Liability Committee which is the body within the Group that holds the responsibility to make strategic decisions to manage balance sheet related risks. The Asset Liability Committee, consisting of the Group's senior management, meets at least once a month.

Board Investment and Credit Committee
All major business proposals of clients are approved through the BICC. The BICC is a sub-committee of the Board of Directors. The approval process and the authorities vested with the BICC members are well defined in a credit policy manual. The policy manual enumerates various procedures to be followed by relationship managers in bringing relationships to the Group. Various aspects of the credit approval process have been defined in the policy which enables efficient approval of the proposals.

Risk Management Unit (RMU)
The RMU is an independent unit reporting to the General Manager. The RMU is responsible for identifying, measuring, monitoring and controlling the risks arising out of various activities in the Group by the different business units. The process is through partnering with the units in identifying and addressing the risks by setting limits and reporting on the utilization thereof.

The RMU also monitors compliance with the regulatory procedures and anti-money laundering monitoring procedures of the Group.

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

Internal Audit
Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee. The Head of Internal Audit has direct reporting lines to the Audit Committee in order to secure independence and objectivity in all audit engagements undertaken within the Group.

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the RMU, and the head of each business division. The report includes aggregate credit exposure, limit exceptions and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the provision for credit losses on a quarterly basis. RMU receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

33 RISK MANAGEMENT continued

33.1 Introduction continued

Risk mitigation
As part of its overall risk management, the Group uses certain instruments to manage exposures resulting from changes in interest rates and foreign currencies.

The Group actively uses collateral to reduce its credit risks.

Risk concentration
Concentrations of credit risk arise when a number of counter parties 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 of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific industries or businesses.

Details of the composition of the loans, advances and Islamic financing and investing portfolio are provided in Note 6 and 7. Information on credit risk relating to investments is provided in Note 33.3.

33.2 Market risk

Market risk is the risk that the fair value and future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and prices of equity and fixed income securities.

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The Group is exposed to interest rate risk on its interest bearing assets and liabilities.

The following table demonstrates the sensitivity of the income statement to reasonably possible changes in interest rates, with all other variables held constant, of the Group's result for the year.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the Group's profit for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2013.

	Effect on profit AED 000
2013	
+100 increase in basis point	**2,531**
-100 decrease in basis point	**(2,531)**
2012	
+100 increase in basis point	4,768
-100 decrease in basis point	(4,768)

33 RISK MANAGEMENT continued

33.2 Market risk continued

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

Foreign currency risk is limited since a significant proportion of the Group's transactions, monetary assets and liabilities are denominated in U.A.E. Dirham and U.S. Dollar. As the U.A.E. Dirham is pegged to the U.S. Dollar, balances in U.S. Dollar are not considered to represent significant currency risk.

Price risk
Price risk is the risk that the fair values of equities and fixed income securities decrease as the result of changes in the levels of equity and fixed income indices and the value of individual instruments. The price risk exposure arises from the Group's investment portfolio.

The following table estimates the sensitivity to a possible change in equity and fixed income markets on the Group's income statement. The sensitivity of the income statement is the effect of the assumed changes in the reference equity and fixed income benchmarks on the fair value of investments carried at fair value through profit or loss.

	Assumed level of change %	***Impact on net income 2013 AED 000***	*Impact on net income 2012 AED 000*
Investments carried at fair value through profit or loss			
Abu Dhabi Securities Market Index	2%	**2,003**	644
Dubai Financial Market Index	2%	**1,975**	357
Fixed income securities	2%	**49**	5,106

The effect on equity (as a result of a change in the fair value of equity instruments carried at fair value through other comprehensive income) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows.

	Assumed level of change %	***Impact on equity 2013 AED 000***	*Impact on equity 2012 AED 000*
Investments carried at fair value through other comprehensive income			
Abu Dhabi Securities Market Index	2%	**1,472**	902
Dubai Financial Market Index	2%	**475**	633
Amman Stock Exchange	2%	**21**	36

The effect of decreases in prices of equity and fixed income securities is expected to be equal and opposite to the effect of the increases shown above.

33 RISK MANAGEMENT continued

33.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by collateral arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counter-parties to mitigate credit risk.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks
The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf. Such payments are collected from customers based on the terms of the letters of guarantee. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

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. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	Gross maximum exposure 2013 AED 000	*Gross maximum exposure 2012 AED 000*
Balances with U.A.E. Central Bank	**12,129**	4,369
Due from banks and financial institutions	**1,080,952**	1,049,266
Loans and advances	**1,478,401**	1,378,785
Islamic financing and investing assets	**100,442**	78,295
Investments (Debt instruments)	**286,923**	255,287
Statutory deposit	**6,000**	6,000
Other assets subject to credit risk	**253,977**	196,233
	3,218,824	2,968,235
Contingent liabilities	**1,060,342**	920,788
Commitments	**143,442**	88,789
Total	**4,422,608**	3,977,812

33 **RISK MANAGEMENT** continued

33.3 **Credit risk** continued

Credit risk concentration

Concentration of risk is managed by customer / counterparty, by geographical region and by industry sector. The funded and non-funded credit exposure to the top 5 borrowers as of 31 December 2013 was AED 288,672 thousand (2012: AED 421,750 thousand) before taking account of collateral or other credit enhancements and AED 41,663 thousand (2012: AED 51,409 thousand) net of such protection, respectively.

The distribution of the Group's financial assets by geographic region and industry sector is as follows:

	2013 *AED 000*	*2012* *AED 000*
Geographic region		
U.A.E.	**3,102,845**	2,831,570
Other Arab countries	**41,658**	1,018
Europe	**5,202**	3,591
U.S.A.	**38,921**	2,056
Rest of the world	**30,198**	130,000
Financial assets subject to credit risk	**3,218,824**	2,968,235
Industry sector		
Commercial and business	**1,340,028**	1,300,582
Personal	**238,815**	237,479
Banks and financial institutions	**1,093,081**	1,053,634
Others	**546,900**	376,540
Financial assets subject to credit risk	**3,218,824**	2,968,235

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 as follows:

- For repurchase and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, inventory, trade receivables and securities
- For personal lending, against post dated cheques and security cheques

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and assesses the market value of collateral obtained during its review of the adequacy of the provision for impairment losses. Management estimates the fair value of collaterals and other credit enhancements held against individually impaired financing assets approximating to be AED 49,100 thousand as at 31 December 2013 (2012: AED 66,213 thousand).

It is the Group's policy to dispose of repossessed assets, other than investment properties, in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

33 RISK MANAGEMENT continued

33.3 Credit risk continued

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset, based on the Group's credit rating system. The amounts presented are net of impairment provisions.

	Neither past due nor impaired			
	Pass grade AED 000	*Watch grade AED 000*	*Past due or individually impaired AED 000*	*Total AED 000*
2013				
Cash and balances with U.A.E. Central Bank	**21,626**	**-**	**-**	**21,626**
Due from banks and financial institutions	**1,080,952**	**-**	**-**	**1,080,952**
Loans and advances	**1,363,641**	**44,579**	**70,181**	**1,478,401**
Islamic financing and investing assets	**97,379**	**-**	**3,063**	**100,442**
Investments (Debt instruments)	**286,923**	**-**	**-**	**286,923**
Statutory deposit	**6,000**	**-**	**-**	**6,000**
Other assets	**253,977**	**-**	**-**	**253,977**
Total	**3,110,498**	**44,579**	**73,244**	**3,228,321**
2012				
Cash and balances with U.A.E. Central Bank	12,764	-	-	12,764
Due from banks and financial institutions	1,049,266	-	-	1,049,266
Loans and advances	1,069,195	160,335	149,255	1,378,785
Islamic financing and investing assets	75,565	2,730	-	78,295
Investments carried at fair value through profit or loss (Debt instruments)	255,287	-	-	255,287
Statutory deposit	6,000	-	-	6,000
Other assets	196,233	-	-	196,233
Total	2,664,310	163,065	149,255	2,976,630

An analysis of past due loans and Islamic financing and investing assets, by age, is provided below.

Aging analysis of past due or impaired loans and Islamic financing and investing assets

	Less than 30 days AED 000	*31 to 60 days AED 000*	*61 to 90 days AED 000*	*More than 91 days AED 000*	*Total AED 000*
2013					
Past due but not impaired	**6,858**	**6,059**	**952**	**9,253**	**23,122**
Impaired	**-**	**-**	**-**	**50,122**	**50,122**
Total past due or impaired	**6,858**	**6,059**	**952**	**59,375**	**73,244**
2012					
Past due but not impaired	18,871	10,802	12,685	43,840	86,198
Impaired loans	-	-	-	63,057	63,057
Total past due or impaired	18,871	10,802	12,685	106,897	149,255

33 RISK MANAGEMENT continued

33.4 Liquidity risk and funding management

Liquidity risk is the risk that an institution will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade 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, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

Analysis of financial assets and financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's assets and liabilities at 31 December 2013 based on contractual maturities.

	Less than 3 months AED 000	*3 months to 1 year AED 000*	*1 year to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
ASSETS					
Cash and balances with U.A.E. Central Bank	21,626	-	-	-	21,626
Due from banks and financial institutions	1,080,952	-	-	-	1,080,952
Loans and advances, net	784,349	302,624	361,154	30,274	1,478,401
Islamic financing and investing assets	31,394	23,020	43,022	3,006	100,442
Investments, including associates	245,569	27,000	131,433	370,500	774,502
Statutory deposit	-	-	-	6,000	6,000
Other assets	218,960	35,017	-	-	253,977
Financial assets	2,382,850	387,661	535,609	409,780	3,715,900
Non-financial assets	15,432	-	288,082	96,796	400,310
Total assets	2,398,282	387,661	823,691	506,576	4,116,210
LIABILITIES					
Due to banks	67,528	140,000	-	-	207,528
Customers' deposits	1,278,705	866,937	32,500	-	2,178,142
Other liabilities	148,642	83,651	648,412	-	880,705
Financial liabilities	1,494,875	1,090,588	680,912	-	3,266,375
Non-financial liabilities	120,822	-	-	-	120,822
Total liabilities	1,615,697	1,090,588	680,912	-	3,387,197

The maturity profile of the Group's assets and liabilities at 31 December 2012 was as follows:

	Less than 3 months AED 000	*3 months to 1 year AED 000*	*1 year to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
ASSETS					
Cash and balances with U.A.E. Central Bank	12,764	-	-	-	12,764
Due from banks and financial institutions	809,644	226,125	13,497	-	1,049,266
Loans and advances, net	310,801	510,589	486,793	70,602	1,378,785
Islamic financing and investing assets	19,434	21,487	32,022	5,352	78,295
Investments, including associates	128,615	121,810	317,739	22,693	590,857
Statutory deposit	-	-	-	6,000	6,000
Other assets	138,988	39,069	18,176	-	196,233
Financial assets	1,420,246	919,080	868,227	104,647	3,312,200
Non-financial assets	-	-	12,565	397,300	409,865
Total assets	1,420,246	919,080	880,792	501,947	3,722,065
LIABILITIES					
Due to banks	183,690	106,295	-	-	289,985
Customers' deposits	1,153,600	617,871	32,200	-	1,803,671
Term loans	228,831	-	-	-	228,831
Other liabilities	197,800	56,668	381,144	7,561	643,173
Financial liabilities	1,763,921	780,834	413,344	7,561	2,965,660
Non-financial liabilities	105,347	-	-	-	105,347
Total liabilities	1,869,268	780,834	413,344	7,561	3,071,007

33 RISK MANAGEMENT continued

33.4 Liquidity risk and funding management continued

Analysis of financial assets and financial liabilities by remaining contractual maturities continued
The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

	Less than 3 months AED 000	*3 to 12 months AED 000*	*1 to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
2013					
Contingent liabilities	**831,405**	**202,726**	**26,211**	**-**	**1,060,342**
Commitments	**214,280**	**-**	**-**	**-**	**214,280**
Total	**1,045,685**	**202,726**	**26,211**	**-**	**1,274,622**
2012					
Contingent liabilities	562,593	324,771	33,424	-	920,788
Commitments	159,626	-	-	-	159,626
Total	722,219	324,771	33,424	-	1,080,414

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

33.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, systems failure, human error, fraud or external events. When required controls fail, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. While the Group cannot expect to eliminate all operational risks, through a control framework and by continuous monitoring and responding to potential risks, the Group is able to manage these risks. Controls include effective segregation of duties, appropriate access, authorisation and reconciliation procedures, staff training and robust assessment processes. The processes are reviewed by risk management and internal audit on an ongoing basis.

33.6 Insurance risk

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

In common with other insurers, in order to minimize financial exposure arising from large insurance claims, the Group, in the normal course of business, enters into arrangements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess of loss reinsurance contracts.

To minimize its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

34 FAIR VALUE MEASUREMENT

While the Group prepares its financial statements under the historical cost convention modified for measurement to fair value of investments carried at fair value and investment properties, in the opinion of management, the estimated carrying values and fair values of financial assets and liabilities, that are not carried at fair value in the financial statements are not materially different, since assets and liabilities are either short term in nature or in the case of deposits and performing loans and advances, frequently repriced. For impaired loans and advances, expected cash flows, including anticipated realisation of collateral, were discounted using the original interest rates, considering the time of collection and a provision for the uncertainty of the cash flows.

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy for the year ended 31 December 2013:

	Date of valuation	*Level 1 AED 000*	*Level 2 AED 000*	*Level 3 AED 000*	*Total AED 000*
ASSETS MEASURED AT FAIR VALUE					
Investment property	15 December 2013	-	-	81,200	81,200
Property, fixtures and equipment (land)	31 December 2012	-	85,667	-	85,667
At fair value through profit or loss					
Quoted equities	31 December 2013	198,917	-	-	198,917
Quoted debt instruments	31 December 2013	2,438	-	-	2,438
		201,355	-	-	201,355
At fair value through other comprehensive income					
Quoted equities	31 December 2013	98,415	-	-	98,415
Unquoted equities	31 December 2013	-	54,303	95,113	149,416
Investment in managed funds	31 December 2013	-	10,409	-	10,409
		98,415	64,712	95,113	258,240
ASSETS FOR WHICH FAIR VALUE IS DISCLOSED					
Investment carried at amortised cost	31 December 2013	266,852	-	-	266,852

The following table shows the analysis of assets recorded at fair value by level of the fair value hierarchy for the year ended 31 December 2012:

	Date of valuation	*Level 1 AED 000*	*Level 2 AED 000*	*Level 3 AED 000*	*Total AED 000*
ASSETS MEASURED AT FAIR VALUE					
Investment property	7 January 2013	-	-	101,563	101,563
Property, fixtures and equipment (land)	31 December 2012	-	85,667	-	85,667
At fair value through profit or loss					
Quoted equities	31 December 2012	50,053	-	-	50,053
Quoted debt instruments	31 December 2012	255,287	-	-	255,287
		305,340	-	-	305,340
At fair value through other comprehensive income					
Quoted equities	31 December 2012	78,562	-	-	78,562
Unquoted equities	31 December 2012	-	51,661	96,470	148,131
Investment in managed funds	31 December 2012	-	15,669	-	15,669
		78,562	67,330	96,470	242,362
ASSETS FOR WHICH FAIR VALUE IS DISCLOSED					
Investment carried at amortised cost	31 December 2012	-	-	-	-

34 FAIR VALUE MEASUREMENT continued

The following is a description of the determination of fair value for assets which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the assets.

Investments carried at fair value through profit or loss
Investments carried at fair value through profit and loss are listed equities and debt instruments in local as well as international exchanges. Valuations are based on market prices as quoted in the exchange.

Investments carried at fair value through other comprehensive income
Investments carried at fair value through other comprehensive income, the revaluation gains / losses of which are recognized through equity, comprise long term strategic investments in listed equities, companies and private equity funds. Listed equity valuations are based on market prices as quoted in the exchange while funds are valued on the basis of net asset value statements received from fund managers. For companies, the financial statements provide the valuations of these investments which are arrived at primarily by discounted cash flow analysis. Fair value of the unquoted ordinary shares has been estimated using DCF model and Price Earning Multiple basis valuation. The valuation requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, credit risk and volatility and price earning multiples. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity investments.

Following is the description of the significant unobservable inputs used in the valuation of unquoted equities categorized under level 3 fair value measurement.

	Valuation technique	*Significant unobservable inputs to valuation*	*Range (Weighted average)*	*Sensitivity of the input to fair value*
Unquoted equities	DCF Method	*Long term growth rate*	2%	1.5% increase (decrease) in the long term growth rate would result in increase (decrease) in the fair value by AED 2.1 million and (AED 0.3 million) respectively.
		Discount rate	15%	1% increase (decrease) in the discount rate would result in (decrease) increase in fair value by (AED 0.8 million) and AED 2.6 million respectively.
		Growth rate in revenue projections	4% - 6%	1% increase (decrease) in the growth rates in cash flows would result in increase (decrease) in fair value by AED 7.9 million and (AED 6 million) respectively.
Unquoted equities	Price Earning Multiple Valuation Basis	PE Multiple	7 – 13	Increase (decrease) in the PE Multiples by 1 would result in increase (decrease) in fair value by AED 5 million

Transfers between categories
During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements (2012: None).

However, during the year, the Group transferred investments carried at amortized cost amounting to AED nil (2012: AED 276,700) to investments carried at fair value through profit or loss categorized under level 1 fair value measurement.

35 CAPITAL ADEQUACY

Capital management
The primary objective of the Group's capital management is to ensure that the Group maintains healthy capital ratios in order to support its business, to maximise shareholders' value and to ensure that the Group complies with externally imposed capital requirements.

The Group 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 Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The capital adequacy ratio calculated in accordance with the U.A.E. Central Bank's guidelines for commercial banks is as follows:

	2013	*2012*
	AED 000	*AED 000*
Total capital base	**833,148**	783,623
Risk weighted assets:		
Statement of financial position items	**3,021,461**	2,633,156
Off statement of financial position exposures	**364,951**	310,707
Total risk weighted assets	**3,386,412**	2,943,863
Total assets ratio (%)	**24.6%**	26.6%