NOOR BANK

Noor Islamic Bank P.J.S.C.

Directors' report and financial statements for the year ended 31 December 2013

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Directors' report and financial statements for the year ended 31 December 2013

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Directors' report for the year ended 31 December 2013

The Board of Directors are pleased to submit their report on the activities of Noor Islamic Bank P.J.S.C. ("the Bank") together with the audited financial statements for the year ended 31 December 2013.

Principal activities

The principal activities of the Bank are carrying out banking, financing and investing activities through various Islamic financing instruments such as Murabahah, Wakalah, Tawarruq, Istisna, Islamic sukukand Ijarah. The activities of the Bank are conducted in accordance with the Islamic Shari'a principles and in compliance withthe provisions of the Memorandum and Articles of Association of the Bank.

Results

The statement of financial position of the Bank as of 31 December 2013, together with its income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended are set out in the accompanying financial statements.

Dividends

The Board of Directors do not propose any dividend for the year ended 31 December 2013.

Composition of the Board of Directors

The Board of Directors of the Bank comprised of following individualsduring the year ended 31 December 2013:

H.H. Sheikh Ahmed bin Mohammad bin Rashid Al Maktoum (Chairman)
H.E.Lt. Gen. Musabbeh Rashid Musabbeh Al Fattan (Vice Chairman)
H.E. Abdullah Bin Mohammed Ghobash*
Mr. Soud Ahmad Abdulrahman Ba'alawy
Mr. Essa Abdulfattah Kazim Al Mulla
H.E. Sultan Ahmad Sultan bin Sulayem
Mr. Mohamed Alabbar
Mr. Abdulla Ahmed Mohd Al Habbai
Mr. Abdulla Mohd Rashed Al Huraiz**
Mr. Hussain Ahmad Dhaen Al Qemzi

* Appointed effective 25 March 2013
** Resigned effective 24 March 2013

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors on 27 March 2014

…………………….	…………………….
Director	Director

Independent auditors' report to the shareholders of
Noor Islamic Bank P.J.S.C.

Report on the financial statements

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

PricewaterhouseCoopers, Emaar Square, Building 4, Level 8, PO Box 11987, Dubai, United Arab Emirates
T: +971 (0)4 304 3100, F: +971 (0)4 330 4100, www.pwc.com/middle-east

Independent auditors' report to the shareholders of
Noor Islamic Bank P.J.S.C. (continued)

Opinion

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

Report on other legal and regulatory requirements

As required by the UAE Federal Law No (8) of 1984, as amended, we report that:

a) we have obtained all the information we considered necessary for the purpose of our audit;

b) the financial statements comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, and the Articles of Association of the Bank;

c) the Bank has maintained proper books of account and the financial statements are in agreement therewith;

d) the financial information included in the Directors' report is consistent with the books of account of the Bank; and

e) nothing has come to our attention, which causes us to believe that the Bank has breached any of the applicable provisions of the UAE Federal Law No (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2013.

Further, as required by the UAE Union Law No (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

PricewaterhouseCoopers
27March 2014

Amin H Nasser
Registered Auditor Number 307
Dubai, United Arab Emirates

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Noor Islamic Bank P.J.S.C.

Statement of financial position
as at 31 December 2013

	Note	2013 AED'000	2012 AED'000
ASSETS			
Cash and balances with the UAE Central Bank	4	3,491,896	1,373,748
Due from banks	5	2,340,657	3,016,714
Investments in Islamic financing instruments	6	14,345,215	10,876,914
Investments in Islamic sukuk	7	1,811,289	1,716,282
Investment properties	8	213,800	83,948
Other assets	9	179,735	173,681
Property and equipment	10	768,899	713,293
Total assets		23,151,491	17,954,580
LIABILITIES AND EQUITY			
Liabilities			
Depositors' account	11	19,434,502	14,823,112
Due to banks	12	853,218	625,435
Other liabilities	13	420,517	322,595
Total liabilities		20,708,237	15,771,142
Equity			
Share capital	14	3,307,895	3,157,895
Subscribed share capital	14	-	150,000
Statutory reserve	15	89,108	63,566
Revaluation surplus on land and buildings	10	7,587	-
Cumulative changes in fair value of available-for-sale Islamic sukuk		(1,525)	1,669
Accumulated losses		(959,811)	(1,189,692)
Total equity		2,443,254	2,183,438
Total liabilities and equity		23,151,491	17,954,580

These financial statements were approved by the Board of Directors on27 March 2014and signed on its behalf by:

…………
Director

……….
Director

NOOR BANK

Noor Islamic Bank P.J.S.C.

Income statement
for the year ended 31 December 2013

	Note	2013 AED'000	2012 AED'000
Income			
Income from Islamic financing and sukuk	16	678,686	592,163
Depositors' share of profit	17	(270,930)	(293,015)
Net income from Islamic financing		407,756	299,148
Fee and other income, net of charges	18	211,646	205,055
Gain on investments in Islamic sukuk	19	7,311	42,448
Change in fair value of investment properties	8	5,852	5,290
Total income		632,565	551,941
Expenses			
General and administration expenses	20	(181,297)	(133,646)
Staff costs	21	(183,072)	(142,599)
Depreciation	10	(23,895)	(33,726)
Total expenses		(388,264)	(309,971)
Net operating profit		244,301	241,970
Impairment charge on Islamic financing instruments	6	(43,850)	(166,394)
Reversal of impairment loss on land and buildings	10	54,972	-
Profit for the year		255,423	75,576

NOOR BANK

Noor Islamic Bank P.J.S.C.

Statement of comprehensive income
for the year ended 31 December 2013

	Note	2013 AED'000	2012 AED'000
Profit for the year		255,423	75,576
Other comprehensive income			
Items that will not be reclassified to income statement			
- Gain on revaluation of land and buildings	*10*	7,587	-
Items that may be subsequently reclassified to income statement			
Fair value reserve on available-for-sale Islamic sukuk			
- Net changes in fair value	*7*	(1,840)	28,764
- Net realised gain transferred to income statement	*19*	(1,354)	(28,854)
Total other comprehensive income/(loss)		4,393	(90)
Total comprehensive income for the year		259,816	75,486

The accompanying notes on pages 9 to 56 form an integral part of these financial statements.

NOOR BANK

Noor Islamic Bank P.J.S.C.

Statement of changes in equity
for the year ended 31 December 2013

	Share capital AED'000	Subscribed share capital AED'000	Statutory reserve AED'000	Revaluation surplus on land & buildings AED'000	Cumulative changes in fair value of available-for- sale investments in Islamic sukuk AED'000	Accumulated losses AED'000	Total AED'000
At 1 January 2012	3,157,895	-	56,008	-	1,759	(1,257,710)	1,957,952
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	75,576	75,576
Net changes in fair value	-	-	-	-	28,764	-	28,764
Net realised gain transferred to income statement on disposal of available-for-sale investments in Islamic sukuk	-	-	-	-	(28,854)	-	(28,854)
	-	-	-	-	(90)	75,576	(75,486)
Other equity movements							
Subscription for issued share capital (Note 14)	-	150,000	-	-	-	-	150,000
Transfer to statutory reserve(Note 15)	-	-	7,558	-	-	(7,558)	-
At 31 December 2012	3,157,895	150,000	63,566	-	1,669	(1,189,692)	2,183,438
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	255,423	255,423
Revaluation ofland and buildings (Note 10)	-	-	-	7,587	-	-	7,587
Net changes in fair value	-	-	-	-	(1,840)	-	(1,840)
Net realised gain transferred to income statementon disposal of available-for-sale investments in Islamic sukuk	-	-	-	-	(1,354)	-	(1,354)
	-	-	-	7,587	(3,194)	255,423	259,816
Other equity movements							
Shares capital issued (Note 14)	150,000	(150,000)	-	-	-	-	-
Transfer to statutory reserve (Note 15)	-	-	25,542	-	-	(25,542)	-
At 31 December 2013	**3,307,895**	**-**	**89,108**	**7,587**	**(1,525)**	**(959,811)**	**2,443,254**

The accompanying notes on pages 9 to 56 form an integral part of these financial statements.

NOOR BANK

Noor Islamic Bank P.J.S.C.
Statement of cash flows
for the year ended 31 December 2013

	Note	2013 AED'000	2012 AED'000
Operating activities			
Profit for the year		255,423	75,576
Adjustments for:			
Impairment loss on Islamic financing instruments	6	43,850	166,394
Change in fair value of investment properties	8	(5,852)	(5,290)
Reversal of impairment loss on property	10	(54,972)	-
Property and equipment disposed/written off	10	8	107
Amortisation of discount on Held to Maturity sukuk		1,869	133
Gain on investments in Islamic sukuk		(7,311)	(42,448)
Depreciation of property and equipment	10	23,895	33,726
Operating cash flows before changes in operating assets and liabilities		256,910	228,198
Changes in operating assets and liabilities:			
Statutory reserve with the UAE Central Bank	4	(329,494)	195,744
Due from banks	5	676,057	(626,833)
Investments in Islamic financing instruments	6	(3,636,151)	182,372
Net proceeds from disposal of/(purchases of) in Islamic sukuk – Held for trading		(24,299)	(88,555)
Other assets	9	(6,054)	189,782
Depositors' account	11	4,611,390	2,963,044
Due to banks	12	227,783	(1,994,747)
Other liabilities	13	97,922	(116,254)
Net cash generated from operating activities		1,874,064	932,751
Investing activities			
Additions to investment properties	8	-	(60,585)
Purchase of Islamic sukuk - Available for sale investments		(6,308,222)	(5,309,179)
Proceeds from Islamic sukuk - Available for sale investments		5,895,441	5,032,532
Purchase of Islamic sukuk – Held to maturity		(181,189)	-
Maturity proceeds from Islamic sukuk - Held to maturity		525,511	-
Investments in certificate of deposits	4	100,000	(100,000)
Additional investment in other equity investments	9	-	(5,000)
Additions to property and equipment	10	(16,951)	(6,224)
Net cash from / (used in) investing activities		14,590	(448,456)
Financing activity			
Subscription received towards subscribed share capital	14	-	150,000
Net increase in cash and cash equivalents		1,888,654	634,295
Cash and cash equivalents at beginning ofthe year		800,230	165,935
Cash and cash equivalents at end of the year	4	2,688,884	800,230

The accompanying notes on pages 9 to 56 form an integral part of these financial statements.

1 Incorporation and principal activities

Noor Islamic Bank (P.J.S.C.) ("the Bank") was incorporated on 26 March 2007 as a Public Joint Stock Company under UAE Federal Law No. 8 of 1984 (as amended) and is regulated by the Central Bank of the United Arab Emirates ("UAE"). The Bank has its registered office at Emaar Square, Building No. 1, Sheikh Zayed Road, P.O. Box 8822, Dubai, UAE. The Bankwas registered with the Securities and Commodities Authority ("SCA") on 26 April 2007 and commenced its operations thereafter.

The principal activities of the Bank are carrying out banking, financing and investing activities through various Islamic instruments such as Murabahah, Wakalah, Tawarruq, Ijarah, Istisna'and Islamic sukuk. The activities of the Bank are conducted in accordance with the Shari'a rules and principles as applied and interpreted by the Bank's Fatwa and Shari'a Supervisory Board and in compliance with the provisions of the Memorandum and Articles of Association of the Bank.

Noor Investment Group LLC ("NIG"), the parent company, holds 91% of the shareholding in the Bank.

2 Basis of preparation

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board (IASB).

2.2 Basis of measurement

These financial statements have been prepared under the historical cost basis, except for the fair value measurement of following items in the statement of financial position:

- Financial assets and liabilities held for trading.
- Investments in Islamic sukuk classified as available-for-sale and fair value through income statement.
- Investment properties.
- Land and buildings classified under property and equipment.

2.3 Functional and presentation currency

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

2 Basis of preparation (continued)

2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described as follows:

(a) Impairment of investments in Islamic financing instruments

The Bank also reviews its financing portfolio to assess impairment on a regular basis. In determining whether an impairment loss should be recognised, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence also may include observable data indicating that there has been an adverse change in the collections from customers in a group. Management uses estimates based on historical loss experience for financing with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Classification of investments in Islamic sukukas Held-to-Maturity ("HTM")

In accordance with IAS 39 guidance, the Bank classifies its investments in Islamic sukuk with fixed or determinable payments and fixed maturities as HTM which requires significant judgment in evaluatingBank's intention and ability to hold such investments until maturity. Except for certain specific circumstances, any sale or reclassification of a more than insignificant amount of HTM investments would result in the reclassification of all HTM investments as available-for-sale, and would prevent the Bank from classifying investments in Islamic sukuk as HTM for the current and the following two financial years.

(c) Fair valuation of investment properties and land and buildings under property and equipment

The fair valuation of investment properties andbuildings and certain plots of land classified under property and equipment is based on estimated value as determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS"). The fair valuation of remaining plots of land is determined by the Dubai Land Department. In undertaking the valuation the valuation expertshave made a number of assumptions and relied upon various sources of information. Management reviews the assumptions based on their reasonable knowledge and other information available about the property.

2 Basis of preparation (continued)

2.4 Use of estimates and judgements (continued)

(d) Estimated useful life and residual value of property, plant and equipment

The Bank's management determines the estimated useful lives and related depreciation charges for its property and equipment at least on an annual basis. The Bank carries out a review of the useful lives of property, plant and equipment at the reporting date and makes necessary changesto the useful life of the property and equipment, if required. Residual value in case of all property and equipment are assumed to be "AED 1".

2.5 Changes in accounting policies and disclosures

(a) New standards, amendments to published standards or IFRIC interpretations effective for the Bank's accounting period beginning on 1 January 2013

Amendments to IAS 1 'Financial statement presentation' require the Bank to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially re-classifiable to income statement subsequently (reclassification adjustments).

IFRS 10'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent entity. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

IFRS 11 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted.

IFRS 12 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

IFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

The disclosure requirements under amendments to IAS 1 and IFRS 13 have included in these financial statements. None of the above other new standards or amendments have a material impact on the Bank's financial statements.

2 Basis of preparation (continued)

2.5 Changes in accounting policies and disclosures (continued)

(b) New standards and amendments to published standards issued but not effective for the financial year beginning 1 January 2013 and not early adopted by the Bank

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Bank, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. In cases where the fair value option is taken for financial liabilities, IFRS 9 requires that the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. At its November 2013 meeting, the International Accounting Standards Board has tentatively decided that the mandatory effective date of IFRS 9 will be no earlier than annual periods beginning on or after 1 January 2017. The date shown on this item is a 'placeholder' based on this date, and not an actual effective date. The date will be updated with the actual effective date once it is known.

Amendments to IAS 36 'Impairment of assets' have removed certain disclosures requirements for recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment will be effective for the accounting period beginning on or after 1 January 2014.

Amendment to IAS 19, 'Employee benefits' (effective 1 July 2014) clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service.

Management is yet to assess IFRS 9's full impact on the Banks financial statements. Other IFRSs or IFRIC interpretations that are not yet effective are not expected to have a material impact on the Bank's financial statements.

3 Significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these financial statements:

3.1 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, as part of other customer related trading income under “fee and other income, net of charges”.

3.2 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of less than three months, excluding statutory deposits required to be maintained with the UAE Central Bank.

3.3 Due from banks

Amounts due from banks are initially recognised at fair value and subsequently measured at amortised cost less any amounts written off and provision for impairment, if any. Impairment of amounts due from banks is assessed as outlined in the accounting policy of impairment of financial assets (Note 3.8).

3.4 Investments in Islamic financing instruments

Investments in Islamic financing instruments are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments that are not quoted in an active market.

Investments in Islamic financing instruments are initially measured at fair value including acquisition charges associated with the investments in Islamic financing instruments, if any.

Investments in Islamic financing instruments are subsequently measured at amortised cost using the effective profit rate method.

Following the initial recognition, subsequent transfers between the various classes of investments in Islamic financing instruments is not ordinarily permissible.

3 Significant accounting policies (continued)

3.5 Investments in Islamic sukuk

3.5.1 Classification

The Bank classifies its investments in Islamic sukukin the following categories: Held-to-Maturity ("HTM")investments in Islamic sukuk, Available-For-Sale ("AFS") investments in Islamic sukukand financial assets at fair value through income statement ("FVTPL"). Management determines the classification of its investments at initial recognition.

Held-to-maturity

Investments in Islamic sukukat HTM are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount from the HTM category, the entire category would be reclassified as AFS.

Available-for-sale

Investments in Islamic sukukat AFS are those non-derivative financial assets that are designated as AFS or are not classified as (a) investments in Islamic financing instruments, (b) HTM investments or (c) financial assets at fair value through income statement.

Financial assets and financial liabilities at fair value through theincome statement

Investments in Islamic sukuk at FVTPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

3.5.2 Recognition and measurement

Regular-way purchases and sales are recognized on trade-date – the date on which the Bank commits to purchase or sell the asset. Investments in Islamic sukuk are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through income statement. Financial assets carried at fair value through income statement are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments in Islamic sukuk have expired or have been transferred and the Bank has transferred substantially all risk and rewards of ownership. AFS and FVTPL financial assets are subsequently measured at fair value. HTM financial assets are subsequently carried at amortized cost using the effective profit rate method. Impairment on investments in Islamic sukukclassified as HTM is assessed as outlined in the accounting policy of impairment of financial assets.

Gains and losses arising from changes in the fair value of AFS financial assets are recognised in other comprehensive income, until the investments in Islamic sukukis derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity through other comprehensive income is recognized in the income statement.

3 Significant accounting policies (continued)

3.5 Investments in Islamic sukuk(continued)

3.5.2 Recognition and measurement (continued)

Gains or losses arising from changes in the fair value of the FVTPL category are presented in the income statement within gain on investments in Islamic sukuk in the period in which they arise.

Foreign currency gains and losses arising on AFS monetary financial assets are directly recognised in the income statement.

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. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. The fair values of quoted investments in active markets are based on current bid prices, as the Bank considers the bid to be most representative of fair value, if the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. In rare cases when the fair value of unlisted securities cannot be determined reliably, the securities are carried at cost less impairment.

Profit earned whilst holding investments in Islamic sukuk is reported as part of income from Islamic financing andsukuk in the income statement.

The Bank assesses at each reporting date whether there is objective evidence thatinvestmentsin Islamic sukukare impaired. In the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered in determ
loss on that financial asset previously recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement if there are subsequent increases in fair value. If, in a subsequent period, the fair value of a sukukinstrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment is reversed through the income statement.

3.6 Property and equipment

Property and equipment are stated at cost less accumulated depreciation except for land and buildings, which are carried at fair value based on periodic valuations by an external independent valuer, less subsequent depreciation on buildings.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

3 Significant accounting policies (continued)

3.6 Property and equipment (continued)

Increases in the carrying amount arising on revaluation of land and buildings are recognised in the statement of other comprehensive income. Increases that offset previous decreases of the same asset arerecognised in the income statement to the extent that it reverses a revaluation decrease of the sameasset previously recognised in the income statement. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in the statement of other comprehensive income; all other decreases are charged to the income statement. Each year, the difference between the depreciation charge based on the revalued carrying amount of the asset and depreciation charge based on the asset's original cost or previous revalued amount is transferred from the revaluation reserve to retained earnings.

Land is not depreciated but is tested for impairment (Note 3.9). Depreciation on other fixed assets is calculated on the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	25
Leasehold improvements	10
Furniture, fittings and equipment	5
Vehicles	5
Computer equipment and software	3-5

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Capital work in progress is stated at cost incurred from the date of commencement of the project to the date on which it is commissioned. When commissioned, capital work in progress is transferred to the appropriate category of property and equipment and depreciated in accordance with the Bank's accounting policies.

3.7 Investment property

Investment property comprises property held for rental yields and for capital appreciation. It is not held for purposes of the Bank's own use as part of property and equipment. Investment property is initially recognized at cost, including transaction expenses. Subsequent to initial recognition, investment property is carried at fair value.

Fair value of the investment property is determined on the basis of valuation undertaken by an independent valuer who holds a recognised and relevant qualification and has recent experience in the location and category of the investment property being valued. Gains and losses arising from changes in the fair value are recognized in the income statement in the period in which they arise.

3 Significant accounting policies (continued)

3.8 Impairment of investments in Islamic financing instruments

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If Islamic financing instrumenthas a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of Islamic financing instruments that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets reflect and are directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

3 Significant accounting policies (continued)

3.8 Impairment of investments in Islamic financing instruments(continued)

When a financial asset is uncollectable, it is written off against the related provision for impairment. If no related provision exists, it is written off to the income statement. Subsequent recoveries are credited to the income statement. If the amount of impairment subsequently decreasesdue to an event occurring after the write down, the release of the provision is credited to the income statement.

When the terms and conditions of financial assets that have been classified as past due are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether the financial asset remains past due.

3.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed for possible reversal of impairment at each reporting date.

3.10 Fiduciary activities

Assets and the income arising on the Bank's fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these financial statements. Income earned by the Bank from its fiduciary services is recognised in accordance with the accounting policy on fees and other income (Note 3.15).

3.11 Depositors' accountand amounts due to banks

Depositors' accountand amounts due to banks are initially recognized at fair value less transaction costs. Subsequently, they are measured at amortized cost using the effective profit rate method. Amortized cost is calculated by taking into account any discount or premium on settlement.

3 Significant accounting policies (continued)

3.12 Employee benefits

i) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the income statement in the periods during which services are rendered by employees.

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security.

ii) Defined benefit plan

The provision for defined benefit obligation for the end of service benefits due to non-UAE nationals in accordance with the UAE Labour Law is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using profit rates on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The provision arising is disclosed as 'provision for employee's end of service benefits' in the statement of financial position.

3.13 Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

3.14Revenue recognition on investments in Islamic financing instruments

Income from Islamic financing and sukuk and Depositors' share of profitare recognized in the income statement for all profit-bearing Islamic financing instruments below using the effective profit rate method.

The effective profit rate method is a method of calculating the amortised cost of a financing asset or liability and of allocating the income from Islamic financing and sukuk and depositors' share of profit. The effective profit rate is the rate that exactly discounts the estimated future cash payments over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financing asset or liability.

3 Significant accounting policies (continued)

3.14Revenue recognition on investments in Islamic financing instruments(continued)

3.14.1 Murabahah

Definition

An agreement whereby the Bank sells to a customer a physical asset, commodity, goods, or shares, which the Bank has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin. The settlement specified in the agreement is normally either on deferred lump sum basis or an instalment basis.

Revenue recognition

Income on Murabahah financing is recognized on a time apportioned basis over the period of the Murabahah contract, using the effective profit rate method.

3.14.2 Ijarah

Definition

An agreement whereby the Bank (lessor) leases to a customer (lessee) a service or the usufruct of an owned or rented physical asset which either exists currently or is to be constructed in future (forward lease), for a specific period of time and against certain rental instalments. The ownership of the leased asset remains in the hands of the Bank throughout the lease period. The Ijarah could end by transferring the ownership of the asset to the lessee through an independent mode at the end of the agreement.

Revenue recognition

Income from Ijarah investments are recognized on a time apportioned basis over the lease term, using the effective profit rate method.

3.14.3 Mudarabah

Definition

An agreement between the Bank and its customer where one of them provides the funds and is called Rab al-Mal and the other provides efforts and expertise and is called the Mudarib. The Mudarib is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudarabahprofit. The Mudarib is responsible for all losses arising from misconduct, negligence or violation of the conditions of the agreement. In all other instances, the losses are borne by the Rab-al-Mal.

Revenue recognition

Income or losses on Mudarabah investments, where the Bank is the Rab-al-Mal are recognized on an accruals basis if they can be reliably estimated. Otherwise, income is recognized on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

3 Significant accounting policies (continued)

3.14 Revenue recognition on investments in Islamic financing instruments (continued)

3.14.4 Wakalah

Definition

An agreement whereby the Bank provides a certain sum of money to an agent who invests it according to specific conditions in return for a fee (a lump sum of money or a percentage above the anticipated profits).

Revenue recognition

The estimated income from a Wakalah is recognized on an accrual basis over the period of the investment, adjusted by the actual income when received.

3.14.5 Tawarruq

Definition

An agreement between two parties, whereby the Bank will, directly or indirectly, buy an asset and immediately sell it to a customer on a deferred payment basis. The Bank on behalf of the customer then sells the same asset to a third party for immediate delivery and payment. The customer is given the sales proceeds and has a deferred payment obligation at a marked-up price to the Bank.

Revenue recognition

Income or losses on Tawarruq financing are recognized on an accruals basis.

3.14.6 Istisna'

Definition

An agreement whereby the Bank (Al-Saane') sells an asset to be developed using its own materials to a customer (Al-Mustasne') according to pre-agreed specification, at a specific price, and date. The asset can be developed directly by the Bank or another party on completion and is delivered to the customer on the agreed date.

Revenue recognition

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

3 Significant accounting policies (continued)

3.15 Fees and other income

Fees and other income from banking services provided are recognized on an accrual basis when the service has been provided.

Foreign exchange income is recognised as and when the underlying customer related exchange transactions are completed.

3.16 Zakat

Zakat is computed in accordance with the Bank's Fatwa and Shari'a Supervisory Board decisions and it is the Bank's shareholders' responsibility to pay the Zakat on their respective share.

3.17 Allocation of profit

Allocation of profits between depositors and shareholders is calculated according to the Bank's standard procedures and is approved by the Bank's Fatwa and Shari'a Supervisory Board.

3.18 Financial guarantees

Financial guarantees are initially recognized in the financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. The premium received is recognized in the income statement over the life of the guarantee.

3.19 Government grants

Non-monetary grants in the form of land received from the government are initially recognized at fair value and credited to the income statement when there is reasonable assurance that the grant will not be revoked.

3.20 Repossessed property

In certain circumstances, property is repossessed following the foreclosure on Islamic financings that are in default. When the Bank acquires a property that was originally pledged as collateral in full and final settlement against Islamic financing, the property is measured at the lower of its carrying amount and fair value less costs to sell, if sale of the property is highly probable, management is committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan is initiated. If there is no such intention, the property is classified as investment property (Note 3.7).

3 Significant accounting policies (continued)

3.21 Islamic derivative financing instruments

a) Promise to Buy or Sell Currencies

Promises to buy or sell currencies are promises to either buy or sell a specified currency at a specified price and date in the future. The actual transactions are executed on the value dates, by exchanging the purchase or sell offers and acceptances between the counterparties.

b) Islamic swaps

Islamic swaps are based on a Waa'd (promise) structure between two parties to buy a specified Shari'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. Islamic swaps comprise profit rate swaps and currency swaps. In case of profit rate swaps, counterparties generally exchange fixed and floating rate profit payments by executing the purchase / sale of commodity under "Murabahah Sale Agreement" in a single currency. In case of Islamic currency swaps, fixed or floating profit payments as well as cost of underlying commodity are exchanged in different currencies, by executing the purchase or sale of commodities under "Murabahah Sale Agreements".

Islamic derivatives financing instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

4 Cash and balances with the UAE Central Bank

	2013 AED'000	2012 AED'000
Cash in hand	82,185	100,520
Current account with the UAE Central Bank	606,699	94,710
Certificate of deposits with the UAE Central Bank	2,000,000	705,000
Statutory deposit with the UAE Central Bank	803,012	473,518
	3,491,896	1,373,748
Less: Certificate of deposits having original maturity of more than 3 months	-	(100,000)
Less: Statutory deposit with the UAE Central Bank	(803,012)	(473,518)
Cash and cash equivalents	2,688,884	800,230

The statutory deposit with the UAE Central Bank is not available to finance the day to day operations of the Bank, except in crisis situation. Cash in hand, current account balances and statutory deposit with the UAE Central Bank are non-profit bearing. Certificates of deposit with the UAE Central Bank carry a profit rate of 0% - 0.08% (2012: 0% - 0.5%) per annum.

5 Due from banks

	2013 AED'000	2012 AED'000
Deposits with banks	904,565	2,638,441
Current accounts with banks	171,190	91,562
Export bills	1,264,902	286,711
	2,340,657	3,016,714

6 Investments in Islamic financing instruments

Wakalah	4,315,070	4,105,511
Tawarruq	1,674,046	1,218,141
Ijarah	3,085,525	3,118,688
Murabahah	6,695,150	4,050,208
Gross investments in Islamic financing instruments	15,769,791	12,492,548
Less : allowance for impairment	(1,424,576)	(1,615,634)
Net investments in Islamic financing instruments	14,345,215	10,876,914

Movement in allowance for impairment:

At 1 January	1,615,634	1,464,092
Charge for the year (refer Note (i) below)	43,850	166,394
	1,659,484	1,630,486
Written off during the year	(234,908)	(14,852)
At 31 December	1,424,576	1,615,634

(i) Charge for the year is recovery/releaseamounting to AED 240 million.

Investments in Islamic financing instruments that have been restructured or are in the process of restructuring are set out below:

	Year ended 31 December	
	2013 AED'000	2012 AED'000
Corporate and SME	2,391,616	2,040,724
Retail	111,573	129,658
	2,503,189	2,170,382

6 Investments in Islamic financing instruments (continued)

The investments in Islamic financing instruments are summarised as follows:

	2013 AED'000	2012 AED'000
Performing	13,930,644	8,370,145
Past due but not impaired	339,901	1,016,505
Impaired	1,499,246	3,105,898
Gross investments in Islamic financing instruments	15,769,791	12,492,548
Less : allowance for impairment	(1,424,576)	(1,615,634)
Net investments in Islamic financing instruments	14,345,215	10,876,914

Below isthe analysis of impaired balances:

	2013 AED'000	2012 AED'000
Impaired but not past due	89,630	222,878
Past due and impaired	1,409,616	2,883,020
	1,499,246	3,105,898

Summary of past due but not impaired:

	2013 AED'000	2012 AED'000
0 – 29 days	230,018	398,891
30 – 59 days	70,609	39,881
60 – 89 days	23,674	5,151
90 days and above	15,600	572,582
	339,901	1,016,505

6 Investments in Islamic financing instruments (continued)

Economic sector risk concentration (refer to note 24for related party credit risk concentration)of investments in Islamic financing instruments is as follows:

	2013 AED'000	2012 AED'000
Agriculture and allied activities	220,938	147,813
Construction & real estate	1,829,896	1,978,032
Financial Institutions	4,153,021	4,127,085
Manufacturing	319,626	467,344
Consumer financings and credit cards	3,347,520	2,916,549
Trade	2,786,053	1,251,525
Transport, storage and communication	1,782,856	1,034,165
Mining and quarrying	5,118	10,831
Other services	1,324,763	559,204
Gross investments in Islamic financing instruments	15,769,791	12,492,548
Less: allowance for impairment	(1,424,576)	(1,615,634)
Net investments in Islamic financing instruments	14,345,215	10,876,914

7 Investments in Islamic sukuk

	2013 AED'000	2012 AED'000
Available-for-sale	1,270,574	859,632
Held to maturity	327,104	673,295
Held for trading	213,611	183,355
	1,811,289	1,716,282

At 31 December 2013, the fair value of the held to maturity Islamic sukukportfolio was AED 332 million (2012: AED 681 million).

At 31 December 2013, the Bank recognised anet fair value loss on available-for-sale investments in Islamic sukuk of AED 3.2 million (2012: loss of AED 0.09 million) in other comprehensive income under "cumulative changes in fair value of available-for-sale investments in Islamic sukuk".

At 31 December 2012, Islamic sukuk with amarket value of AED 283 millionwere pledged as collateral against a Wakalah deposit from a bank (Note 12).

The Bank holds certain Islamic sukuk in a fiduciary capacity on behalf of customers without recourse to itself and, accordingly, these sukuk are not included in the Bank's Islamic sukuk portfolio as at 31 December 2013 (Note 23).

8 Investment properties

	2013 AED'000	2012 AED'000
At 1 January	83,948	18,073
Additions during the year	124,000	60,585
Change in fair value during the year	5,852	5,290
At 31 December	213,800	83,948

The carrying value of investment propertiesrepresents their fair value as determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS").

9 Other assets

	2013 AED'000	2012 AED'000
Accrued income from Islamic financing and sukuk	137,590	129,759
Due from related parties (Note 24)	9,659	9,063
Equity investments in related companies (Note (i) below)	26,530	26,530
Prepayments andadvances	5,956	8,329
	179,735	173,681

(i) Equity investments in related companies at 31 December 2013 and 31 December 2012, held as available-for-sale financial assets, represent the Bank's share of its investment in the following entities:

	Shareholding structure	
	Noor Islamic Bank P.J.S.C.	*Noor Investment Group LLC (Note 1)*
Noor Takaful Family P.J.S.C.	10%	90%
Noor Takaful General P.J.S.C.	10%	90%
Premium Marketing LLC	10%	90%
Noor BPO LLC	30%	70%

10 Property and equipment

	Land AED'000	Buildings AED'000	Leasehold improvements AED'000	Vehicles AED'000	Computer and office equipment AED'000	Capital work in progress AED'000	Total AED'000
Cost/fair value							
At 1 January 2013	573,453	103,616	35,273	1,670	149,973	6,534	870,519
Revaluation surplus	47,739	14,819	-	-	-	-	62,558
Additions during the year	-	-	967	325	4,498	11,161	16,951
Transfers	-	-	10	-	5,734	(5,744)	-
Disposals and write-offs	-	-	-	(250)	-	(8)	(258)
At 31 December 2013	621,192	118,435	36,250	1,745	160,205	11,943	949,770
Depreciation							
At 1 January 2013	-	13,614	14,639	806	128,167	-	157,226
Charge for the year	-	4,539	3,592	283	15,481	-	23,895
Disposals and write-offs	-	-	-	(250)	-	-	(250)
At 31 December 2013	-	18,153	18,231	839	143,648	-	180,871
Net book value							
At 31 December 2013	621,192	100,282	18,019	906	16,557	11,943	768,899

The fair value of the Bank's land and buildings was determined by an independent valuation expert in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS") and as reduced by factors attributed to management's assessment. Upon revaluation, an amount of AED 7.6 million has been recognised in the revaluation reserve under "other comprehensive income" and anamount of AED 55 million has been recognised in the income statement,which represents reversal of impairment loss is on land and buildings previously recognised in theincome statement.

10 Property and equipment (continued)

	Land AED'000	Buildings AED'000	Leasehold improvements AED'000	Vehicles AED'000	Computer and office equipment AED'000	Capital work in progress AED'000	Total AED'000
Cost / fair value							
At 1 January 2012	573,453	103,616	35,110	1,465	148,888	3,325	865,857
Additions during the year	-	-	163	855	1,890	3,316	6,224
Transfers	-	-	-	-	107	(107)	-
Disposals and write-offs	-	-	-	(650)	(912)	-	(1,562)
At 31 December 2012	573,453	103,616	35,273	1,670	149,973	6,534	870,519
Depreciation							
At 1 January 2012	-	9,076	11,118	1,211	103,550	-	124,955
Charge for the year	-	4,538	3,521	245	25,422	-	33,726
Disposals and write-offs	-	-	-	(650)	(805)	-	(1,455)
At 31 December 2012	-	13,614	14,639	806	128,167	-	157,226
Net book value							
At 31 December 2012	573,453	90,002	20,634	864	21,806	6,534	713,293

10 Property and equipment (continued)

(i) Buildings are located at Emaar Square, Dubai, and are used as the Bank's Head Office premises;

(ii) Land comprises certain vacant plots granted by the Government of Dubai to the Bank at various locations in Dubai and areintended to be held for future use by the Bank.

11 Depositors' account

	2013 AED'000	2012 AED'000
Wakalah deposits	13,209,617	11,834,900
Mudarabah – savings	2,038,453	1,039,375
Mudarabah- term	304,713	290,098
Margin accounts	35,518	19,452
Qard-E-Hasan (escrow accounts)	923,487	19,396
Qard-E-Hasan (current accounts)	2,922,714	1,619,891
	19,434,502	14,823,112

Wakalah deposits include an amount of AED 771 million (2012: AED 771 million) received from theMinistry of Finance during the period ended 31 December 2008. During the year ended 31 December 2009, the Bank entered into an agreement with the Ministry of Finance to convert the medium term Wakalah deposit into Tier II capital effective 31 December 2009 for the purpose of regulatory capital calculations. In accordance with the agreement, the deposit is due for maturity on 31 December 2016 and has ananticipated profit rate for each year until maturity. The agreement also contains provisions that the Wakalah deposit shall be converted into Tier I capital, in the event of any default by the Bank.

12 Due to banks

	2013 AED'000	2012 AED'000
Investment deposits	576,661	610,078
Current accounts	276,557	15,357
	853,218	625,435

At 31 December 2012, Islamic sukuk with a market value of AED 283 million were pledged as collateral against a Wakalah deposit of AED 186 million obtained from a bank (Note 7).

13 Other liabilities

	2013 AED'000	2012 AED'000
Accrued expenses	100,466	73,927
Sundry disbursements payable	66,637	26,035
Accrued depositors' share of profit	62,896	93,293
Managers cheques	57,549	23,270
Employees' end of service benefits(Note 22)	17,612	13,662
Deferred income from Islamic financing and sukuk	11,120	12,629
Late payment amount collected (Note (i) below)	5,589	7,996
Switch fee payable	4,133	3,749
Promise to buy or sell currency (Note (ii) below)	641	1,236
Other payables	93,874	66,798
	420,517	322,595

(i) Late payment amount collected pertains to the delay in payments by customers. The Fatwa and Shari'a Supervisory Board decides on an amount allowable to be taken by the Group to cover the actual cost due to the delay in payment by the customers. The remaining amount and any such additional income received, which the Fatwa and Shari'a Supervisory Board determines to be non-Shari'a compliant, is donated to charity under its supervision.

(ii) Represents mark-to-market fair valuation of Promise to buy or sell currency contracts held by the Group for its currency risk management purposes. The outstanding commitments on such contracts amounted to AED 1.4 billion at 31 December 2013 (31 December 2012: AED 1.7 billion).

14 Share capital

	2013 AED'000	2012 AED'000
Authorised, issued and fully paid up share capital:		
3,307.9 million shares (2012: 3,157.9 million shares) of AED 1 each	3,307,895	3,157,895
Subscribed share capital	-	150,000
	3,307,895	3,307,895

The subscribed share capital at 31 December 2012 had been subscribed to by NIG (Note 1) at par value in 2012 for the purpose of holding the shares, when issued, as trustee for the beneficial interest of the Employee Share Scheme granted to key management personnel of the Bank. The subscribed share capital was fully paid up and approved by the Board of Directors of the Bank and the UAE Central Bank. During the year, the subscribed share capital has been converted into the statutory share capital of the Bank upon completion of the necessary administrative and legal formalities.

14 Share capital (continued)

The Employee Share Scheme has been established for certain key management personnel of the Bank for services provided to NIG and its subsidiaries and, accordingly, any expense resulting from grants of awards under the Employee Share Scheme isborne by NIG.

15 Statutory reserve

The UAE Federal Law No. 8 of 1984 (as amended), and the UAE Union Law No. 10 of 1980 (as amended) and the Articles of the Bank, require that 10% of the net profit for the year should be transferred to a statutory reserve until such time as the balance in the reserve equals 50% of the issued share capital. Accordingly, an amount of AED 25.5 million (2012: 7.6 million) has been transferredto the statutory reserve for the year ended 31 December 2013.This reserve is not available for distribution.

16 Income from Islamic financing and sukuk

	2013 AED'000	2012 AED'000
Tawarruq	148,350	123,733
Wakalah	158,116	145,183
Ijarah	120,465	99,389
Murabahah	170,369	162,796
	597,300	531,101
Profit income on Islamic sukuk	81,386	61,062
Total income from Islamic financing and sukuk	678,686	592,163

17 Depositors' share of profit

Wakalah deposits	256,762	278,422
Mudarabah deposits	4,336	6,829
Mudarabah accounts	9,832	6,648
Murabahah	-	1,116
	270,930	293,015

18 Fee and other income, net of charges

Facility arrangement and processing fees	105,960	66,337
Trade services related fees	38,684	33,216
Fees from credit cards	10,800	15,056
Foreign exchange and other income	56,202	90,446
	211,646	205,055

19 Gain on investments in Islamic sukuk

Held for trading	5,957	13,594
Available-for-sale – realised gains	1,354	28,854
	7,311	42,448

	2013 AED'000	2012 AED'000
20 General and administrative expenses		
Facilities management	46,980	38,861
Outsourced services	60,105	50,254
Marketing and advertisement	39,759	12,820
Legal and professional	10,536	8,989
Communication costs	7,476	7,849
Printing and stationery	5,538	4,809
Other expenses	10,903	10,064
	181,297	133,646
21 Staff costs		
Salaries and allowances	164,004	125,975
Provision for employees' end of service benefits (Note 22)	4,487	5,637
Others	14,581	10,987
	183,072	142,599

22 Provision for employees' end of service benefits

	2013 AED'000	2012 AED'000
At 1 January	13,662	12,652
Provided during the year	4,487	5,637
Paid during the year	(537)	(4,627)
At 31 December	17,612	13,662

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at the reporting date, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law.The expected liability at the date of leaving the service has been discounted to net present value using a discount rate of 4.48% (2012: 3%). Management has assumed average annual increment/promotion costs of 3% (2012: 5%). The present value of the obligation as at 31 December 2013 is not materially different from the provision computed in accordance with the UAE Labour Law.

23 Fiduciary assets

At 31 December 2013, the Bank heldIslamic sukukwith a market value of AED 684million (2012: AED 284 million) in a fiduciary capacity on behalf of customers' without recourse to itself. Accordingly, then Islamic sukuk are not included as part of the Bank's own Islamic sukuk portfolio (Note 7).

24 Related party balances and transactions

The Bank, in the normal course of business, enters into transactions with individuals and other business enterprises that fall within the definition of a related party as defined in IAS 24, Related party Disclosures. Significant balances and transactions with related parties are as follows:

<u>Related party balances:</u>

	31 December 2013			31 December 2012		
	Shareholders and other related parties AED'000	Key management personnel AED'000	Total AED'000	Shareholders and other related parties AED'000	Key management personnel AED'000	Total AED'000
Investments in Islamic financing instruments, net, comprising Dubai Government related entities	3,956,570	4,894	3,961,464	4,154,111	14,993	4,169,104
Depositors' account	777,489	36,928	814,417	496,410	47,177	543,587
Due from related parties and other assets (Note 9)	36,189	-	36,189	35,593	-	35,593
Accrued income from Islamic financing instruments (Note 9)	13,932	4	13,936	29,792	6	29,798
Accrued depositors' share of profit (Note 13)	7,432	47	7,479	9,025	388	9,413

24 Related party balances and transactions (continued)

Related party transactions:

	Year ended 31 December 2013			Year ended 31 December 2012		
	Shareholders and other related parties AED'000	Key management personnel AED'000	Total AED'000	Shareholders and other related parties AED'000	Key management personnel AED'000	Total AED'000
Income from Islamic financing and sukuk	75,958	124	76,082	48,999	150	49,149
Depositors' share of profit	5,673	52	5,725	5,059	29	5,088
General and administration expenses recharged	58,425	-	58,425	47,091	-	47,091
Remuneration to key management personnel	-	20,190	20,190	-	21,001	21,001

25 Commitments and contingent liabilities

(a) Contingent liabilities

	2013 AED'000	2012 AED'000
Letters of credit	641,678	727,682
Guarantees	2,134,249	925,198
Undrawn credit commitments	3,731,128	3,656,760
Total	6,507,055	5,309,640

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as financings. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Undrawn credit commitments represent unused portions of authorisations to extend credit in the form of financing, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss for an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers' maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of finance authorisations being drawn by the customer and, second, from these drawings subsequently not being paid as due. The Bank monitors the term to maturity of the credit commitments because longer term commitments generally have a greater degree of credit risk than the shorter term commitments. The total outstanding contractual amount of the commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

(b) Capital commitments

At 31 December 2013, the bank has capital commitments of AED 35 million (2012: AED 32 millionmainly relating to purchase of office units)mainly relating to purchase of furniture, fixtures, computer equipment and development/up-gradating of software.

26 Risk management

The Bank takes financial risk under the following categories in its day to day operations:

- Credit risk
- Liquidity risk
- Market risks
- Operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank'smanagement of capital.

Risk management philosophy and framework

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, emerging best practices and products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the following committees, which are responsible for overseeing, developing and monitoring the Bank`s risk management policies in their specified areas:

Executive Committee

The Executive Committee is responsible for ensuring that the Bank has an adequate and appropriate system of risk management and internal controls with the support of the Audit Committee and Risk Committee.

Risk Committee

The Risk Committee is responsible for providing an oversight on the health of the Bank's credit portfolio as well as for compliance with overall risk management policies and procedures established within the Bank. The Risk Committee comprises of at least three members (including at least one non-executive director and one 'risk expert' as determined by the Board of Directors) and the Chief Risk Officer is a permanent invitee.

26 Risk management (continued)

Risk management philosophy and framework (continued)

Audit Committee

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, compliance with laws and regulations, compliance with code of conduct and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit Committee

The Credit Committee is responsible for taking credit decisions, recommending credit policies, and the future direction of the credit activities in the Bank. The Board of Directors has delegated its authority to Credit Committee to approve, sub-delegate, direct, monitor and review the Bank's financing activities, and to ensure that the credit policies are adhered to, and credit operations are conducted in the most effective manner.

Operational Risk Committee

The Operational Risk Committee is responsible for overseeing, managing and ensuring that all aspects of Operational Risk policies and standards are effectively implemented, and the framework to monitor and report Operational Risk issues is functioning effectively to protect the interests of the Bank and promotes high level Operational Risk management culture in the Bank.

Management Committee

The Management Committee is responsible for overseeing and managing day-to-day business to attain sustained performance excellence, by conscientiously taking into account the prevalent and future risk environment, consistent with the Bank's vision, mission and strategy in accordance with good corporate governance principles, and in line with the significant stakeholders' expectations.

Asset Liability Committee ("ALCO")

The responsibility of ALCO is to actively monitor and manage committed and outstanding assets and liabilities, and to recommend appropriate funding, investment, and hedging strategies. In addition, the ALCO is also responsible for ensuring continuous liquidity required for growth while complying with the regulatory requirements.

26 Risk management (continued)

26.1 Credit risk

Credit risk is the risk emanating when a counter party of the Bank does not fulfil its contractual obligation or the quality of an issuer deteriorates. It arises principally from financing, trade finance and treasury activities. The credit process is consistent for all forms of credit risk to a single obligor. Overall exposure is evaluated on an ongoing basis to ensure a broad diversification of credit risk. Potential concentrations by country, product, industry, and risk grade are regularly reviewed to avoid excessive exposure and ensure a broad diversification.

The Bank's total credit portfolio and therefore the maximum exposure to credit risk before collateral held or other credit enhancements is as follows:

	2013 AED'000	2012 AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from banks	2,340,657	3,016,714
Investments in Islamic financing instruments	14,345,215	10,876,914
Investments in Islamic sukuk	1,811,289	1,716,282
Other assets	173,779	165,352
	18,670,940	15,775,262
Credit risk exposures relating to off-balance sheet items are as follows:		
Contingencies and commitments	6,507,055	5,309,640

The above table represents a worst case scenario of credit risk exposure of the Bank at the reporting date without taking into account any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position at the reporting date.

At 31 December 2013, 77% (2012: 69%) of the total maximum exposure arises from investments in Islamic financing instruments for which credit quality and risk concentration are disclosed in Note 6. Balances due from banks are held with reputable organisations within and outside UAE, where the risk of default is considered low.

26 Risk management (continued)

26.1 Credit risk (continued)

The table below presents an analysis of the investments in Islamic sukuk based on ratings obtained from external rating agencies:

	2013 AED'000	2012 AED'000
AA- to AA	513,500	441,653
B+ to BBB+	821,176	968,336
Unrated	476,613	306,293
Total	1,811,289	1,716,282

The unrated investments in Islamic sukuk is with the Government of Dubai and local reputed companies.

Following are the risk management policies adopted by the Bank to ensure credit quality and minimise the risk of concentration.

(a) Credit rating and measurement

The risk rating system is the basis for determining the credit risk of the Bank's asset portfolio(except the consumer assets) and thus asset pricing, portfolio management, determining finance loss provisions and reserves and the basis for credit approval authority delegation. A standard numeric credit risk-grading system is being used by the Bank which is based on the Bank's internal estimate of probability of default, with customers or portfolios assessed against a range of quantitative and qualitative factors, including taking into account the counterparty's financial position, past experience and other factors.

Performing clients are rated on a scale of NRR1 to NRR7, each grade being associated with a Probability of Default ("PD"). Non-performing clients are rated NP-1, NP-2 and NP-3, corresponding to the Substandard, Doubtful and Loss classifications as per *Clarifications and Guidelines Manual for Circular No. 28/2012* issued by the UAE Central bank. The Bank's internal credit grades have also been mapped to external agency ratings for better comparison.

(b) Credit approval

Major credit exposures to individual counterparties, groups of connected counterparties and portfolios of retail exposures are reviewed and approved by the Bank's Credit Committee ("CC") within the authorities delegated by the Board of Directors.

26 Risk management (continued)

26.1 Credit risk (continued)

(c) Credit monitoring

The Bank regularly monitors credit exposures and external trends which may impact risk management outcomes. Internal risk management reports are presented to the Chief Risk Officer and Board Risk Committee, containing information on key variables; portfolio delinquency and financing impairment performance.

All Corporate exposures accounts are monitored carefully for performance and reviewed formally on an annual basis or earlier. Bank has robust policies for client visits and monitoring of accounts to make sure that any concerns on the quality of the accounts are addressed well in time. An exposure is categorised as watch list or non-performing as per UAE Central Bank guidelines.

All non performing accounts are monitored closely by the Remedial Management Unit of the Bank directly reporting to the Chief Risk Officer. Such accounts are re-evaluated and remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account etc.

With respect to the Bank's consumer portfolio, asset quality is monitored closely with 30/60/90/ days past due accounts and delinquency trends are monitored continuously for each Consumer Product of the Bank. Individual customer behaviour is also tracked which forms an input for future financingdecisions. Accounts which are past due are subject to collection process, managed independently by the risk function. Write-off and provisioning of the Consumer portfolio is done strictly as per the UAE Central Bank guidelines.

(d) Credit mitigation

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools. Additional support in the form of collateral and guarantee is obtained where required. The reliance that can be placed on these credit mitigation resources is carefully assessed in light of issues such as legal enforceability, market value and counterparty risk of the guarantor. Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and letters of credit etc. Risk mitigation policies control the approval of collateral types.

Collateralis valued in accordance with the Bank's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Collateral held against impaired financings is maintained at fair value.

26 Risk management (continued)

26.1 Credit risk (continued)

(d) Credit mitigation (continued)

Collateral and other credit enhancements possessed or called upon

During the year, the Bank obtained assets by taking possession of collateral as follows:

	31 December 2013			31 December 2012		
	Retail AED'000	Corporate and SME AED'000	Total AED'000	Retail AED'000	Corporate and SME AED'000	Total AED'000
Property	21,895	124,910	146,805	4,546	-	4,546
Vehicles	1,270	-	1,270	792	-	792
	23,165	124,910	148,075	5,338	-	5,338

Repossessed collateral is disposed of as per the bank's approved policy.

(e) Offsetting financial instruments

The Bank has not entered in significant master netting arrangement with counterparties which enable them to settle transactions on net basis. In absence of such agreements the financial asset and liabilities are settled on gross basis.

26.2 Liquidity risk

Liquidity risk is the risk to the Bank's earnings or capital arising from its inability to meet its obligations as they fall due, without incurring significant costs or losses. A bank's ability to withstand either temporary or longer-term disruptions in its ability to fund some or all of its activities in a timely manner and at a reasonable cost depends on the adequacy of its liquidity contingency plans. The Bank's Asset Liability Committee ("ALCO") actively monitors and manages all committed and outstanding assets and liabilities, to recommend appropriate funding, investment and hedging strategies. In addition to that, ALCO ensures adequate liquidity exists to sustain the growth while complying with regulatory requirements.

26 Risk management (continued)

26.2 Liquidity risk (continued)

a) The following table presents the cash flow analysis of remaining contractual maturities of Bank's financial liabilities on an undiscounted basis, relating to both principal and profit payments:

At 31 December 2013	Carrying amount AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Total AED'000
Depositors' account	19,434,502	10,584,996	7,963,250	1,136,994	-	19,685,240
Due to banks	853,218	487,443	-	378,484	-	865,927
Other liabilities	409,397	391,785	-	-	17,612	409,397
	20,697,117	11,464,224	7,963,250	1,515,478	17,612	20,960,564
At 31 December 2012						
Depositors' account	14,823,112	7,531,819	6,223,961	1,302,587	-	15,058,367
Due to banks	625,435	446,573	187,426	-	-	633,999
Other liabilities	309,966	116,563	179,741	-	13,662	309,966
	15,758,513	8,094,955	6,591,128	1,302,587	13,662	16,002,332

At 31 December 2013,depositors' account, include a concentration of AED 5.6 billion (2012: AED 4.4 billion from five customers) received from five customers. Although the depositors' account due for maturity within 3 months are contractually of a short term nature, these deposits tend to be renewed on maturity and, therefore, remain with the Bank for the longer term.

26 Risk management (continued)

26.2 Liquidity risk (continued)

b) Maturity profile of financial assets and financial liabilities

At 31 December 2013	Upto 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	More than 5 years AED'000	Total AED'000
Assets					
Cash and balances with the UAE Central Bank	3,491,896	-	-	-	3,491,896
Due from banks	2,014,369	326,288	-	-	2,340,657
Investments in Islamic financing instruments	1,782,923	3,082,841	5,903,449	3,576,002	14,345,215
Investments in Islamic sukuk	1,484,185	146,376	180,728	-	1,811,289
Other assets	173,779	-	-	-	173,779
Total	8,947,152	3,555,505	6,084,177	3,576,002	22,162,836
Liabilities					
Depositors' accounts	10,508,636	7,051,348	1,874,518	-	19,434,502
Due to banks	485,918	-	367,300	-	853,218
Other liabilities	409,397	-	-	-	409,397
Total	11,403,951	7,051,348	2,241,818	-	20,697,117
Net liquidity gap	(2,456,799)	(3,495,843)	3,842,359	3,576,002	1,465,719
Cumulative gap	(2,456,799)	(5,952,642)	(2,110,283)	1,465,719	-

26 Risk management (continued)

26.2 Liquidityrisk (continued)

b) Maturity profile of financial assets and financial liabilities

At 31 December 2012	Upto 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	More than 5 years AED'000	Total AED'000
Assets					
Cash and balances with the UAE Central Bank	1,273,748	75,000	25,000	-	1,373,748
Due from banks	2,856,444	160,270	-	-	3,016,714
Investments in Islamic financing instruments	892,425	3,139,868	4,942,888	1,901,733	10,876,914
Investments in Islamic sukuk	1,088,833	479,439	148,010	-	1,716,282
Other assets	165,352	-	-	-	165,352
	6,276,802	3,854,577	5,115,898	1,901,733	17,149,010
Liabilities					
Depositors' account	7,488,943	6,858,878	475,291	-	14,823,112
Due to banks	441,787	183,648	-	-	625,435
Other liabilities	309,966	-	-	-	309,966
Total	8,240,696	7,042,526	475,291	-	15,758,513
Net liquidity gap	(1,963,894)	(3,187,949)	4,640,607	1,901,733	1,390,497
Cumulative gap	(1,963,894)	(5,151,843)	(511,236)	1,390,497	-

26 Risk management (continued)

26.3 Market risk

Market risk is the potential impact of adverse price movements such as benchmark rates, foreign exchange prices and commodity prices on the earnings/economic value of an asset held by the Bank. The exposure to market risk occurs throughout the contract which may negatively affect the earnings and capital of the Bank. The market risk unit is responsible for monitoring and reporting this risk in the Bank.

(a) Profit rate risk

The following table summarises the financial assets and liabilities of the Bank, which are subject to profit rate risk, at carrying amounts categorised by the earlier of contractual re-pricing or maturity dates. The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amount of assets and liabilities that mature or re-price in a given period:

At 31 December 2013 **Assets**	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Total AED'000	Profit rate %
Cash and balances with the UAE Central Bank	3,491,896	-	-	-	3,491,896	-
Due from banks	2,014,369	326,288	-	-	2,340,657	1.69
Investments in Islamic financing instruments	7,353,088	4,243,867	1,287,793	1,460,467	14,345,215	4.53
Investments in Islamic sukuk	-	234,175	1,506,077	71,037	1,811,289	2.88
	12,859,353	4,804,330	2,793,870	1,531,504	21,989,057	
Liabilities						
Depositors' account	10,508,637	7,822,269	1,103,597	-	19,434,503	1.29
Due to banks	485,918	-	367,300	-	853,218	1.49
	10,994,555	7,822,269	1,470,897	-	20,287,721	
Net position	1,864,798	(3,017,939)	1,322,973	1,531,504	1,701,336	

26 Risk management (continued)

26.3 Market risk (continued)

(a) Profit rate risk (continued)

At 31 December 2012	Up to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	More than 5 years AED'000	Total AED'000	Rate of return %
Assets						
Cash and balances with the UAE Central Bank	1,273,748	75,000	25,000	-	1,373,748	0.03
Due from banks	2,856,444	160,270	-	-	3,016,714	0.68
Investments in Islamic financing instruments	6,448,677	3,309,205	1,047,552	71,480	10,876,914	4.18
Investments in Islamic sukuk	180,848	541,386	949,833	44,215	1,716,282	3.51
	10,759,717	4,085,861	2,022,385	115,695	16,983,658	
Liabilities						
Depositors' account	7,488,943	6,858,878	475,291	-	14,823,112	2.02
Due to banks	441,787	183,648	-	-	625,435	1.37
	7,930,730	7,042,526	475,291	-	15,448,547	
Net position	2,828,987	(2,956,665)	1,547,094	115,695	1,535,111	

The impact of an 1% increase/decrease in the profit rate of the Bank's net position is AED 17 million (2012: AED 15 million) on the Bank's equity at 31 December 2013 and income statement for the year ended 31 December 2013. The analysis is based on the assumptions that all other variables will remain constant.

26 Risk management (continued)

26.3 Market risk (continued)

(b) Foreign currency risk

Foreign currency risk represents the risk of change in the fair value of Islamic financing instruments due to changes in foreign exchange rates.The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows through setting limits on the level of exposure by currency. At the end of the year, the Bank had the following significant net foreign currency exposures:

At 31 December 2013	AED AED'000	US$ AED'000	EUR AED'000	Others AED'000	Total AED'000
Assets					
Cash and balances with the UAE Central Bank	3,355,317	136,579	-	-	3,491,896
Due from banks	214,766	1,680,897	255,761	189,233	2,340,657
Investments in Islamic financing instruments	12,720,685	1,623,645	885	-	14,345,215
Investments in Islamic sukuk	27,929	1,783,360	-	-	1,811,289
Other assets	64,651	107,545	1,557	26	173,779
	16,383,348	5,332,026	258,203	189,259	22,162,836
Liabilities					
Depositors' account	17,657,321	1,420,464	311,570	45,147	19,434,502
Due to banks	189,839	663,353	26	-	853,218
Other liabilities	338,108	21,862	49,116	311	409,397
	18,185,268	2,105,679	360,712	45,458	20,697,117
Net on-balance sheet foreign currency exposure	(1,801,920)	3,226,347	(102,509)	143,801	1,465,719

At 31 December 2013, the net on-balance sheet foreign currency exposure under "others" mainly relates to QAR 157 million equivalent to AED 158 million (2012: GBP 74 million equivalent to AED 439 million). In order to manage the net open exposure in QAR and EUR as of 31 December 2013, the Bank has taken contracts to buy/sell QAR 200 million equivalent to AED 202 million and EUR 20 million equivalent to AED 104 million, respectively (2012: Taken contracts to sell GBP 73 million equivalent to AED 432 million) (Refer Note 13 (ii)).

The impact of an 1% increase/decrease in the foreign exchange rates of the Bank's net on-balance sheet items is AED 0.4 million on the Bank's equity at 31 December 2013 and income statement for the year ended 31 December 2013 (2012: AED 4 million). The analysis is based on the assumptions that all other factors will remain constant.

26 Risk management(continued)

26.3 Market risk (continued)

(b) Foreign currency risk (continued)

At 31 December 2012	AED AED'000	US$ AED'000	EUR AED'000	Others AED'000	Total AED'000
Assets					
Cash and balances with the UAE Central Bank	1,306,208	67,540	-	-	1,373,748
Due from banks	1,559,675	720,568	288,488	447,983	3,016,714
Investments in Islamic financing instruments	10,367,569	436,786	72,559	-	10,876,914
Investments in Islamic sukuk	572,641	1,143,641	-	-	1,716,282
Other assets	129,540	13,151	1,554	142	144,387
	13,935,633	2,381,686	362,601	448,125	17,128,045
Liabilities					
Depositors' account	14,084,261	348,480	378,394	11,977	14,823,112
Due to banks	105,459	517,057	2,873	46	625,435
Other liabilities	276,573	15,891	17,495	6	309,965
	14,466,293	881,428	398,762	12,029	15,758,512
Net on-balance sheet foreign currency exposure	(530,660)	1,500,258	(36,161)	436,096	1,369,533

26 Risk management (continued)

26.3 Market risk (continued)

(c) Price risk

The Bank is exposed to price risk arising from publicly traded investments in Islamic sukuk classified as Available-for-sale and Held-for-trading in the financial statements.

A 5% increase/decrease in the prices will have an impact of AED 10.7million on the Bank's equity and income statement as at and for the year ended 31 December 2013 (2012: AED 9.2 million)relating to held-for-trading portfolio and an impact of AED 63.5 million on the Bank's equity as at 31 December 2013 (2012: AED 43 million) relating to Available-for-sale portfolio. The analysis is based on the assumptions that all other variables will remain constant.

26.4 Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in an active market for identical financial instruments.
- Level 2 – Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

26 Risk management (continued)

26.4 Fair value hierarchy (continued)

The financial instruments measured at fair value as per the hierarchy are disclosed in the table below:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
As at 31 December 2013			
Financial assets at fair value			
Investments in Islamic sukuk			
- Classified as AFS	1,270,574	-	-
- Classified as Held for Trading	213,611	-	-
	1,484,185	-	-
Financial liabilities			
Promise to buy or sell currency	-	641	-
As at 31 December 2012			
Financial assets at fair value			
Investments in Islamic sukuk			
- Classified as AFS	859,632	-	-
- Classified as Held for Trading	183,355	-	-
	1,042,987	-	-
Financial liabilities			
Promise to buy or sell currency	-	1,236	-

At 31 December 2013, the carrying value of the Bank's financial assets and liabilities measured at amortised cost, approximate their fair values.

26 Risk management (continued)

26.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed processes, technology and infrastructure within the Bank, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory compliance requirements and generally accepted standards of corporate behaviour.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation,assets and personnel with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development of employees for operational risk awareness;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with Bank's operational risk standards is supported by a programme of periodic reviews undertaken by Internal Audit and a dedicated Operational Risk Team. The results of their reviews are discussed with the management of the business unit to which they relate and senior management of the Bank.

26 Risk management (continued)

26.6 Capital managementand capital adequacy as per Basel II requirement

The Bank manages its capital considering both regulatory and economic capital. The Bank calculates its risk asset ratio in accordance with requirements and guidelines established by theUAE Central Bank prescribing the ratio of total capital to total risk-weighted assets which is currently set at a minimum of 12% (2012: 12%).This is in line with the assessment and reporting of capital adequacy ratio in accordance with the Basel II Accord as follows:

	2013 AED'000	2012 AED'000
Tier I Capital		
Share capital	3,307,895	3,157,895
Legal reserves	63,566	56,008
Accumulated losses	(934,270)	(1,257,710)
	2,437,191	1,956,193
Tier II Capital		
Subordinated term investment (refer note (i) below)	462,553	616,737
Collective impairment provision	206,428	162,314
Asset revaluation reserve	(1,525)	1,669
	667,456	780,720
Deductions from Tier I & Tier II Capital		
Investment in other equity investments (Note 9)	(25,000)	(26,530)
Total regulatory capital	3,079,647	2,710,383
Risk weighted assets		
Credit risk	16,514,205	12,985,097
Market risk	85,143	59,618
Operational risk	932,890	828,131
Risk weighted assets	17,532,238	13,872,846
Capital adequacy ratio on regulatory capital	17.57%	19.54%
Risk asset ratio on Tier I capital	13.90%	14.10%

(i) Subordinated term investment represents deposit received from the UAE Federal Government, Ministry of Finance and classified as Depositors' accountin the statement of financial position (Note 11). Deposit has been reduced by 40% in computing Tier II capital in current year in accordance with the requirements and guidelines established by the UAE Central Bank.

26 Risk management (continued)

26.6 Capital managementand capital adequacy as per Basel II requirement (continued)

Asset classes in 2013	On balance sheet gross outstanding	Off balance sheet net exposure after credit conversion factors (CCF)	Credit risk mitigation (CRM) Exposure before CRM	CRM	After CRM	Risk weighted assets
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Claims on sovereigns	3,976,912	-	3,976,912	-	3,976,912	229,794
Claims on non-central government public sector entities	5,583,976	-	5,583,976	(733,756)	4,850,220	4,727,047
Claims on banks	3,020,459	125,845	3,146,304	(18,502)	3,127,802	1,824,660
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	5,749,317	1,553,206	7,146,171	(1,504,395)	5,641,776	5,705,342
Claims included in the regulatory retail portfolio	1,345,833	-	1,345,833	-	1,345,833	1,010,417
Claims secured by residential property	1,590,413	7,003	1,597,416	-	1,597,416	823,588
Claims secured by commercial real estate	494,001	-	494,001	-	494,001	494,001
Past due financing	1,527,705	-	348,383	-	348,383	432,233
Other assets	1,562,920	-	1,562,920	-	1,562,920	1,267,123
	24,851,536	1,686,054	25,201,916	(2,256,653)	22,945,263	16,514,205

The Bank has rearranged its asset classes during 2013 in accordance with the UAE Central Bank circular no: 3823/2012. Therefore, at 31 December 2013, certain figures have been regrouped or reclassified to conform to the new circular requirements.

Notes to the financial statements for the year ended 31 December 2013 (continued)

26 Risk management (continued)

26.6 Capital managementand capital adequacy as per Basel II requirement (continued)

Asset classes in 2012	On balance sheet gross outstanding	Off balance sheet net exposure after credit conversion factors (CCF)	Credit risk mitigation (CRM) Exposure before CRM	CRM	After CRM	Risk weighted assets
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Claims on sovereigns	1,557,212	-	1,557,212	-	1,557,212	-
Claims on non-central government public sector entities	957,218	-	957,218	-	957,218	9,173
Claims on banks	3,477,735	17,872	3,495,607	-	3,495,607	1,190,457
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	7,467,235	1,218,076	8,420,169	(533,230)	7,886,939	8,169,778
Claims included in the regulatory retail portfolio	1,269,516	-	1,269,516	(54,339)	1,215,177	911,887
Claims secured by residential property	1,308,347	13,807	1,322,155	-	1,322,155	655,817
Claims secured by commercial real estate	626,013	-	626,013	-	626,013	626,013
Past due financing	1,681,713	-	229,441	-	229,441	235,689
Other assets	1,470,159	-	1,470,159	-	1,470,159	1,186,283
	19,815,148	1,249,755	19,347,490	(587,569)	18,759,921	12,985,097

26 Risk management (continued)

26.6 Capital managementand capital adequacy as per Basel II requirement (continued)

Gross exposures and credit risk mitigation:

	2013		2012	
	Exposure AED'000	Risk weighted assets AED'000	Exposure AED'000	Risk weighted assets AED'000
Gross exposure prior to credit risk mitigation	25,201,916	16,514,205	19,347,490	12,985,097
Less: eligible financial collateral	(2,256,653)	(2,256,653)	(587,569)	(587,569)
Net exposure after CRM	22,945,263	14,257,552	18,759,921	12,397,528

Capital requirement for market risk under standardised approach as at 31 December 2013:

	2013		2012	
	Risk weighted assets AED'000	Capital charge AED'000	Risk weighted assets AED'000	Capital charge AED'000
Profit rate risk	83,676	10,041	57,553	6,909
Foreign exchange risk	1,467	176	2,065	248
	85,143	10,217	59,618	7,157

Capital charge for year ended 31 December 2013 has been calculated at 12% (2012: 12%).