
SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES

**DIRECTORS' REPORT AND CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

SHARJAH ISLAMIC BANK

Directors' Report

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of SHARJAH ISLAMIC BANK ("the Bank") and its subsidiaries ("the Group") for the year ended 31 December 2013.

Financial Highlights

The Group has reported a profit of AED 307.1 million for year ended 31 December 2013 compared to AED 272.0 million for the corresponding prior year, an increase of 12.9%.

Compared to December 2012, total assets increased by AED 3.4 billion to reach AED 21.7 billion, an increase of 18.6%, financing receivables and Ijarah receivable increased by 16.5% (AED 1.8 billion) to reach AED 12.5 billion and customer deposit increased by 5% (AED 566.5 million) to reach AED 11.9 billion.

The Directors propose to the Shareholders a cash dividend of 10% of the par value of share (AED 0.10 per share) amounting to AED 242.6 million (compared to cash dividend of AED 145.5 million AED 0.06 per share on 2012).

The Directors propose the following appropriations for 2013:-

	AED million
1) Proposed cash dividend	242.6
2) Zakat	51.3
3) Proposed Directors' fees	4.0
Total	297.9

After proposed appropriations, total shareholders' funds will amount to AED 4.3 billion.

Directors:-

H.E. Abdul Rahman Mohammed Nasser Al Owais	Chairman
Mr. Ahmed Mohamed Obaid Al Shamsi	Vice Chairman
Mr. Othman Mohammed Sharif Zaman	Member
Mr. Ahmed Ghanim Al Suwaidi	Member
Mr. Ali Bin Salim Al Mazrou	Member
Mr. Emad Yousef Abdulla Saleh Al Monayea	Member
Mr. Mohammad N. Al Fouzan	Member

Auditors:-

KPMG were appointed as auditors of SHARJAH ISLAMIC BANK for the year 2013 at the Annual General Meeting held on 12 March 2013.

KPMG expressed their willingness for their re-appointment for the year ending 31 December 2014.

On behalf of the board

Abdul Rahman Mohammed Nasser Al Owais
Chairman
25 January 2014



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Independent Auditors' Report

The Shareholders
Sharjah Islamic Bank PJSC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Sharjah Islamic Bank PJSC ("the Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of comprehensive income (comprising a consolidated statement of comprehensive income and a separate consolidated income statement), changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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



Independent Auditors' Report (continued)

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law no.8 of 1984 (as amended), Union Law no.10 of 1980 and the Articles of Association of the Bank; that proper financial records have been kept by the Bank; and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Bank's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2013, which may have had a material adverse effect on the business of the Bank or its financial position.

KPMG
Vijendra Nath Malhotra
Registration No. 48B

25 JAN 2014

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013
(Currency: Thousands of U.A.E. Dirhams)

	Notes	2013	2012
Assets:			
Cash and balances with banks and financial institutions	6	2,260,757	1,783,237
International murabaha and wakalah with financial institutions	7	2,876,670	2,372,410
Financing receivables	8	3,961,401	2,778,882
Ijarah receivable	9	8,558,005	7,970,489
Investments securities	11	1,243,649	856,681
Investment properties	12	339,352	223,288
Properties held for sale	13	1,120,268	1,083,034
Other assets	14	461,992	394,381
Property and equipment	15	909,807	853,827
Total assets		21,731,901	18,316,229
Liabilities:			
Customers' deposits	16	11,901,007	11,334,541
Due to banks	17	1,306,433	470,190
Sukuks payable	18	3,295,889	1,464,457
Other liabilities	19	588,730	523,377
Zakat payable		103,935	79,766
Total liabilities		17,195,994	13,872,331
Shareholders' equity:			
Share capital	20	2,425,500	2,425,500
Legal reserve	23	1,330,233	1,328,226
Statutory reserve	23	89,008	89,008
Fair value reserve	23	(42,693)	(34,470)
Retained earnings		733,859	635,634
Total shareholders' equity:		4,535,907	4,443,898
Total liabilities and shareholders' equity		21,731,901	18,316,229

The consolidated financial statements were authorized for issue in accordance with a resolution of Directors on 25 January 2014 and signed on its behalf by:

Abdul Rahman Mohammed Nasser Al Owais
Chairman

Mohammed Ahmed Abdullah
Chief Executive Officer

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 3 and 4.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013
(Currency: Thousands of U.A.E. Dirhams)

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
Income from financing and leasing		692,879	695,234
Profit paid on sukuks		(110,496)	(70,715)
Investments, fees and other income	24	338,824	187,612
Total income		<u>921,207</u>	<u>812,131</u>
General and administrative expenses	25	<u>(387,205)</u>	<u>(336,578)</u>
Net operating income		534,002	475,553
Provisions - net of recoveries	26	(101,621)	(37,391)
Profit before distribution to depositors		<u>432,381</u>	<u>438,162</u>
Distribution to depositors	27	(125,313)	(166,159)
Profit for the year (Attributable to the equity holders of the Bank)		<u>307,068</u>	<u>272,003</u>
Earnings per share (U.A.E. Dirhams)	28	<u>0.13</u>	<u>0.11</u>

The accompanying notes form an integral part of these consolidated financial statements.
The independent auditors' report is set out on page 3 and 4.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPERHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013
(Currency: Thousands of U.A.E. Dirhams)

	<u>2013</u>	<u>2012</u>
Profit for the year (Attributable to the equity holders of the Bank)	307,068	272,003
Other comprehensive income Items that will not be reclassified to profit and loss		
Net change in fair value reserve	(15,826)	(35,191)
Total comprehensive income for the year (Attributable to the equity holders of the Bank)	<u>291,242</u>	<u>236,812</u>

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The independent auditors' report is set out on page 3 and 4.



SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Currency: Thousands of U.A.E. Dirhams)

	2013	2012
Cash flows from operating activities:		
Profit for the year	307,068	272,003
Adjustments:		
Depreciation	27,998	24,416
Amortisations of sukuk issuance cost	2,848	1,395
Provision on customer receivables and ijarah receivable	118,684	45,808
Provision on subsidiaries	(17,033)	(8,447)
Provision for impairment on investment securities	-	441
Revaluation gain on investment properties	(62,140)	(2,200)
Operating profit before changes in operating assets and liabilities	377,425	333,416
Changes in operating assets and liabilities:		
Change in reserve with Central Bank	(138,492)	(48,465)
Change in international murabaha and wakalah with financial institution	(231,832)	(139,250)
Change in financing receivables and ijarah receivable	(1,888,719)	(367,745)
Change in other assets, net	(50,578)	22,266
Change in customers' deposits	566,466	935,688
Change in due to banks	836,243	(430,782)
Zakat payable	24,169	(121,731)
Change in other liabilities	11,650	107,235
Net cash (used in)/provided by operating activities	(493,668)	290,632
Cash flows from investing activities:		
Acquisition of property and equipment	(83,978)	(63,269)
Acquisition in investment properties - net	(53,924)	(30,044)
Acquisition in properties held for sale - net	(37,234)	(38,045)
Change in investments securities - net	(402,794)	(157,778)
Net cash used in investing activities	(577,930)	(289,136)
Cash flows from financing activity:		
Proceeds from sukuk	1,828,584	-
Cash dividends	(145,530)	(145,530)
Net cash provided/(used in) by financing activity	1,683,054	(145,530)
Net increase/(decrease) in cash and cash equivalents	611,456	(144,034)
Cash and cash equivalents, beginning of the year	2,955,505	3,099,539
Cash and cash equivalents, end of year (note 29)	3,566,961	2,955,505

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

The independent auditors' report is set out on page 3 and 4.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

(Currency: Thousands of U.A.E. Dirhams)

	ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK					
	Share capital	Legal reserves	Statutory reserves	Fair value reserve	Retained earnings	Total shareholders' equity
As at 1 January 2012	2,425,500	1,327,617	89,008	(20,481)	584,514	4,406,158
Total comprehensive income for the year						
Profit for the year	-	-	-	-	272,003	272,003
Other comprehensive income						
Net change in fair value reserve	-	-	-	(35,191)	-	(35,191)
Total comprehensive income for the year	-	-	-	(35,191)	272,003	236,812
Transactions with owners recorded directly in equity						
Fair value adjustment	-	-	-	21,202	(21,202)	-
Dividends paid (note 21)	-	-	-	-	(145,530)	(145,530)
Transfer to legal reserve	-	609	-	-	(609)	-
Zakat	-	-	-	-	(51,142)	(51,142)
Board of directors' fees-paid (note 22)	-	-	-	-	(2,400)	(2,400)
Total transactions with owners	-	609	-	21,202	(220,883)	(199,072)
As at 31 December 2012	2,425,500	1,328,226	89,008	(34,470)	635,634	4,443,898
As at 1 January 2013	2,425,500	1,328,226	89,008	(34,470)	635,634	4,443,898
Total comprehensive income for the year						
Profit for the year	-	-	-	-	307,068	307,068
Other comprehensive income						
Net change in fair value reserve	-	-	-	(15,826)	-	(15,826)
Total comprehensive income for the year	-	-	-	(15,826)	307,068	291,242
Transactions with owners recorded directly in equity						
Fair value adjustment	-	-	-	7,603	(7,603)	-
Dividends paid (note 21)	-	-	-	-	(145,530)	(145,530)
Transfer to legal reserve	-	2,007	-	-	(2,007)	-
Zakat	-	-	-	-	(51,303)	(51,303)
Board of directors' fees-paid (note 21)	-	-	-	-	(2,400)	(2,400)
Total transactions with owners	-	2,007	-	7,603	(208,843)	(199,233)
As at 31 December 2013	2,425,500	1,330,233	89,008	(42,693)	733,859	4,535,907

In accordance with the Ministry of Economy & Commerce interpretation of Article 118 of Commercial Law No. 8 of 1984, Directors' remuneration has been treated as an appropriation from equity.

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

The independent auditors' report is set out on page 3 and 4.

SHARJAH ISLAMIC BANK AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Currency: Thousands of U.A.E. Dirhams)

a. Legal status and activities

SHARJAH ISLAMIC BANK ("the Bank") was incorporated in 1975 as a public joint stock company by an Emiri Decree issued by His Highness the Ruler of Sharjah, United Arab Emirates and its listed in Abu Dhabi stock securities. The Bank is engaged in banking activities, financing and investing activities in accordance with its articles of incorporation, Islamic Shari'a principles and regulation of the Central Bank of UAE ("the CBUAE"), which are carried out through its 27 branches (2012: 26 branches) established in United Arab Emirates.

At the extraordinary shareholders' meeting held on 18 March 2001 a resolution was passed to transform the Bank's activities to be in full compliance with the Islamic Shari'a rules and principles. The entire process was completed on 30 June 2002 ("the transformation date"). As a result the Bank transformed its conventional banking products into Islamic banking products during the 6-month period ended 30 June 2002 after negotiation and agreement with its customers.

The consolidated financial statements of the Group comprise the Bank and its fully owned subsidiaries incorporated in United Arab Emirates, Sharjah National Hotels (SNH), Sharjah Islamic Financial Service (SIFS), Contact Marketing and ASAS Real Estate (all together referred to as "the Group"). SNH through its divisions is engaged in operating hotels and resorts, catering and related services, whereas SIFS is involved in conducting intermediation in dealing in local market Shari'a compliant shares. Contact Marketing providing certain support services to the Bank. ASAS Real Estate is involved in the management of Bank's real estate portfolio.

The registered office of the Bank is Post Box No.4, Sharjah, United Arab Emirates.

b. Disclosure policy

The Group has laid down the disclosure policy to ensure compliance with all applicable laws concerning disclosure of material information, including International Financial Reporting Standards, the CBUAE (lead regulator), BASEL II Pillar 3 guidelines laid down by the CBUAE, Emirates Securities and Commodities Authority (ESCA) and Abu Dhabi Financial Market (ADX).

The following are the key features of the Group's disclosure policy concerning disclosure of financial information (consolidated basis):

- **Materiality thresholds**

Information is considered material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions and/or any material information that might affect the share price. The Group, in order to ensure adequate disclosure lays down a materiality threshold, so that no material information is omitted or misstated; at the same time it does not jeopardize its competitive position.

- **Internal controls**

In order to ensure true and fair disclosure, the Group has established controls including detailed procedures for finalisation and review of accounting and financial disclosures. In addition the consolidated financial statements are subject to quarterly reviews and audit procedures by the Group's external auditors.

- **Frequency and medium of disclosure**

Interim consolidated financial results are disclosed on a quarterly basis while complete consolidated financial statements complying with the requirements of IFRS, Basel II Pillar 3 and other guidelines from the CBUAE is made on an annual basis. Disclosures of material financial information are made by the Financial Control Department of the Group in coordination with Marketing Department through the following mediums:

- Sending reviewed quarterly and annual audited consolidated financial statements along with Directors' report to ADX and ESCA;
- Hosting quarterly and annual consolidated financial statements on the Group's website and
- Publication of annual audited consolidated financial statements in Arabic news papers after the approval in the Annual General Meeting (AGM).

c. Basis of preparation

a. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting standards ("IFRS") as issued by International Accounting Standard Board ("IASB"), and comply with the guidance of the CBUAE, Islamic Shari'a principles and applicable requirements of the Federal laws relating to Islamic Banks.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical basis except for the following that are measured at fair value:

- i) financial assets at fair value through profit or loss (FVTPL);
- ii) financial assets at fair value through other comprehensive income (FVTOCI); and
- iii) investment properties.

c. Functional and reporting currency

These consolidated financial statements of the Group have been prepared in UAE Dirhams (AED), which is the Group's functional currency, rounded to the nearest thousand.

d. Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. In particular these estimates and judgements relate to impairment losses on financing receivables, Ijarah receivable and amortised cost, valuation of financial asset FVTPL and FVTOCI, provisions for doubtful debts and slow moving inventories (refer note 30).

d. Summary of significant accounting policies

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- i) IFRS 10 - *Consolidated Financial Statements*
- ii) IFRS 11 - *Joint Arrangements*
- iii) IFRS 12 - *Disclosure of Interests in Other Entities*
- iv) IFRS 13 - *Fair Value Measurement*
- v) IAS 19 - *Employee Benefits*
- vi) Amendments to IFRS 7 - *Disclosures – Offsetting Financial Assets and Financial Liabilities*
- vii) Amendments to IAS 1 - *Presentation of Items of Other Comprehensive Income*
- viii) IFRIC 20 - *Stripping costs in the production phase of a surface mine*
- i) IFRS 10 - *Consolidated Financial Statements*

As a result of the first time adoption of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates other entities. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

The impact of IFRS 10 to the Group is insignificant as their relationships with their investees are not such which exposes them towards variability of returns to exercise Group's control over their investees.

4. Summary of significant accounting policies (continued)

ii) IFRS 12 - Disclosure of Interests in Other Entities

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates and structured entities. The impact of IFRS 12 is insignificant as the Group don't have any joint arrangements or associates.

iii) IFRS 13 - Fair Value Measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurement when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as 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. It replaces and expands the disclosure requirements in other IFRSs, including IFRS 7. As a result of the first time adoption of IFRS 13, the Group has included additional disclosures in its consolidated financial statements.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new definition of fair value, as set out in Note 4, prospectively. The change had no significant impact on the measurements of the Group's assets and liabilities, however, the group has included new disclosures in the consolidated financial statements, which are required under IFRS 13.

iv) Amendments to IFRS 7 - Disclosures - Offsetting Financial Assets and Financial Liabilities

Amendments to IFRS 7, 'Disclosures - Offsetting financial assets and financial liabilities' (the "Amendments to IFRS 7") require additional disclosures to enable users of financial statements to evaluate the effect or the potential effects of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

v) Amendments to IAS 1 - Presentation of Items of Other Comprehensive Income

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its consolidated statement of profit or loss and OCI, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

Significant accounting policies are as follows:

a. Basis of consolidation

i) Subsidiaries

Subsidiaries' are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

When the Group losses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest (NCI) and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

ii) Funds management

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's funds management is set out in note 34.

iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gain arising from transactions with equity accounted investees is eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Summary of significant accounting policies (continued)

iv) Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective such as the Islamic securitisation of particular assets, or the execution of a specific financing transaction. The consolidated financial special purpose entities are included in the Group's consolidated financial statement where the substance of the relationship is the Group controls the special purpose entity.

b. Non-derivative financial instruments

i. Financial assets and liabilities

Financial assets at fair value through profit or loss (FVTPL)

Investments in equity instruments are classified as financial assets at fair value through profit or loss, unless the Group designates them as an investment that is not held for trading and are accordingly carried as at fair value through other comprehensive income (FVTOCI).

Financial assets measured at FVTPL are initially recognised and subsequently measured at fair value, with any gains or losses arising in re-measurement recognised in the consolidated statement of income. All transaction costs are charged to statement of income.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated statement of income when Group's right to receive is established.

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

At initial recognition, the Group can make an irrevocable election (on instrument by instrument basis) to designate other investments under the classification of FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

Financial assets measured at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income.

Dividends on these investments are recognised in the consolidated statement of income when Group's right to receive is established.

Financial assets measured at amortised costs

A financial asset shall be measured at amortised cost if both of the following conditions are met:

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

Financial assets measured at amortised costs are initially measured at fair value plus transaction costs. Subsequently, they are measured at amortised cost using their effective yield less any impairment, with profit recognised in the consolidated statement of income.

Subsequent to the initial recognition, the Group is required to reclassify investments from amortised cost to FVTPL, if the objective of the business model changes so that the amortised cost criteria is no longer met.

Financing receivables

Financing receivables are non - derivative financial assets with fixed or determinable payment that other than investment securities that are not held for trading. They arise when the Bank provides funds directly to a debtor with no intention of trading in the granted facilities. Financing receivables are initially measured at fair value and subsequently measured at their amortised cost. These are reported net of impairment provisions, if any, to reflect the estimated recoverable amounts. The financing receivables mainly comprise Murabaha, Istisna and Qard Hasan.

Murabaha is an agreement for sale of commodities purchased by the Bank based on the promise of the customer to buy the commodities on a cost plus the agreed profit basis.

Qard Hasan receivables are non-profit bearing financing receivables whereby the customer borrows funds for a period of time with an understanding that the same amount shall be repaid at the end of the agreed period.

4. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments (continued)

Financial assets and liabilities (continued)

Ijarah receivable ("Ijarah")

An Ijarah is classified as a finance lease, when the Bank transfers substantially all the risks and rewards incident to an ownership of the Ijarah receivable to the lessee. Ijarah receivable represent finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. The lease agreements provide that the lessor undertakes to transfer the leased property to the lessee upon receiving the final rental payment or the agreed price. Ijarah receivables are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

Impairment

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment for specific assets, or a group of similar assets. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of specific assets or a group of similar assets is calculated as the present value of the expected future cash flows.

Movement in provisions is recognised in the consolidated statement of income. Financial assets are written off only in circumstances where all reasonable restructuring and collecting activities have been exhausted.

ii. Recognition of financial instruments

Investment are recognised on the trade date which is the date on which the Group commits to purchase or sell the securities. Financing receivables and Ijarah are recognised when cash is advanced to the borrowers.

Financial liabilities are recognised on the date when the Bank becomes a party to the contractual provisions of the instrument.

iii. Derecognition of financial instruments

The Group derecognises financial assets when the contractual right to the cash flows from the financial assets expires, or when it transfers the rights to receive the contractual cash flows on the financial assets in a transaction in which substantially all the risk and rewards of the ownership of the financial assets are transferred to other party.

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

iv. Fair value measurement principles

'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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. Prior year's consolidated financial statements defined the basis of fair value measurement for comparatives.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

4. Summary of significant accounting policies (continued)

b. Non-derivative financial instruments (continued)

iv. Fair value measurement principles (continued)

Investments in unlisted funds and securities are fair valued internally by using valuation techniques. Where valuation techniques (such as models) are used to determine fair values these are tested before they are used and models are calibrated to ensure that outputs reflects actual data and comparative market prices.

v. Measurement of financial instruments

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Subsequent to the initial recognition, financial assets at fair value through profit or loss and fair value at other comprehensive income are stated at their fair value. All other financial instruments are measured at amortised cost less impairment loss, if any.

c. Investment properties

Investment properties are stated at fair value determined regularly by an independent valuer. Any gain or loss arising from a change in fair value is recognised in the consolidated statement of income. Further the management assessed the fair values of investment properties internally to reflect the current market conditions.

Leases of assets under which the lessor effectively retains all risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in the consolidated statement of income on a straight-line basis over the term of the lease.

d. Properties held-for-sale

Properties held for sale are measured at a lower of cost and net realisable value (NRV) less impairment loss, if any.

NRV is the estimated selling price, less the estimated selling and other expenses necessary to complete the sale.

e. Revenue recognition

Murabaha

The profit on Murabaha is quantifiable and contractually determined at the commencement of the contract; profit is recognised as it accrues over the period of the contract on an effective yield basis on the balance outstanding at the reporting date.

Ijarah

Income from Ijarah receivable is recognised on an accrual basis on an effective yield basis.

Fees and commissions

Fees and commissions income relating to underwriting and financing activities is recognised as the related service is performed.

Rental income

Rental income from investment properties are recognised in the consolidated statement of income on a straight-line basis over the term of the leases.

Dividend income

Dividend income is recognised in the consolidated statement of income when the Group's right to receive income is established. Usually this is the ex-dividend date for equity securities.

Other income

Other income includes revenue from provision of accommodation, food, beverages and brokerage commission relating to the services provided by the subsidiaries.

Revenue from provision of accommodation, food, beverages and other services is recognised on an accrual basis as the services are rendered.

Commissions are accounted for on the completion of the brokerage deal.

4. Summary of significant accounting policies (continued)

e. Zakat

Zakat is computed in accordance with the Bank's Articles of Association and is approved by the Bank's Fatwa and Shari'a Supervisory Board. Zakat is calculated at 2.577% (to account for the difference between the Gregorian and Lunar calendar) on the Bank's reserves, retained earnings and provision for staff end of service benefits at the year end and it is the Bank's shareholders responsibility to pay the Zakat on their respective share in the Bank's capital and the distributed cash dividends.

f. Translation of foreign currencies

The accounting records of the Group are maintained in UAE Dirhams. Transactions in foreign currencies are translated to UAE Dirhams at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to UAE Dirhams at the foreign exchange ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost, are translated to UAE Dirhams at the foreign exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

g. Other assets

Other assets include profit and other receivables which are stated at amortised cost net of provision for impairment, if any.

h. Other liabilities

These include financial liabilities and other payables. Financial liabilities are measured at fair value on initial recognition. Fair value is determined by discounting the present value of expected future payments at the discount rate that reflects current market assessment of the time value of money for a liability of equivalent average duration.

Subsequent to initial recognition these financial liabilities are stated at amortised cost using the effective yield method.

Other payables are stated at cost and are recognised for amounts to be paid in the future for goods or services received, whether or not billed.

i. Provisions

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

j. Distribution of profit between holders of unrestricted investment deposit and the shareholders

The Bank is complied with Shari'a rules as set out below:

Net gains on all items of income and expenses at the end of each month are the net profit distributable between the shareholders and the holders of unrestricted investment deposits.

- The share of the holders of unrestricted investment deposits is calculated from the net profit on a daily basis after deducting the Bank's agreed upon and declared Mudaraba percentage.
- Due to the amalgamation of unrestricted investment funds with the Bank's funds for the purpose of investment, no priority has been given to either party in the appropriation of profit.

k. Provision for end-of-service benefits

Provision is made for end-of-service benefits payable to expatriate employees in accordance with the U.A.E. labour laws, calculated on the basis of the individual's period of service at the reporting date and included under "Other liabilities".

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

l. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Except for freehold land, property and equipment are depreciated on a straight-line basis over their estimated useful lives, using annual rates of 5% to 33% depending on the type of asset involved.

m. Cash and cash equivalents

Cash and cash equivalents consist of cash and balances with the CBUAE (excluding statutory reserves), current accounts with other banks and financial institutions, international murabaha and wakalah arrangements with residual maturity up to three months from the reporting date.

n. Due to Banks

Amounts due to banks are initially recognised at the fair value of the consideration received, and are subsequently measured at amortised cost using the effective yield method.

o. Customers' deposits

The Bank accepts customer savings and time deposit on a Mudaraba basis, where as current and other similar in nature deposits are accepted on a Qard Hassan (profit free loan) basis.

p. Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net a basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by under IFRS.

q. Fiduciary activities

The Bank is involved in fiduciary activities in its capacity as a portfolio agent that results in the holding or placing of assets on behalf of customers in an equity portfolio. These assets and income arising thereon from the equity portfolio are excluded from these consolidated financial statements, as they are not assets of the Bank.

r. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary share. Basic EPS is calculated by dividing the profit or losses attributable to ordinary shareholders of the Bank by the weighted average number of ordinary share outstanding during the year. Diluted EPS is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

s. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is a person or group of persons that allocates resources and assesses the performance of the operating segments of an entity. The Bank has determined the Bank's management Committee as its chief operating decision maker. All transactions between business segments are conducted on an arm's length basis. Income and expenses directly associated with each segment are included in determining business segment performance.

t. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013 and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

Standards	Description	Effective
IAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
IFRS 10, IFRS 12 and IAS 27 (Amendment)	Investment entities	1 January 2014
FRICI 21	Levies	1 January 2014

4. Summary of significant accounting policies (continued)

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Early application is permitted.

Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when - and only when - the triggering event specified in the legislation occurs.

The Group is still evaluating the potential effect of these standards.

5. Risk management

i. Risk management framework

The Board of Directors ("the Board") is responsible for the overall framework of the risk governance and management. The Board is responsible for determining risk strategy, setting the Group's risk limits and ensuring that risk exposure is monitored, controlled effectively and kept within set limits. It is also responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures, infrastructure and management of all risks related to the Group.

In order to effectively discharge this responsibility, the Board is assisted by three Board Committees and five Management Committees. The briefing about the role and function of each committee is as follows:

Executive Committee (EC)

EC acts as the Board's senior executive management assuring that the Board meets its strategic and operational objectives. EC consists of four members.

Audit Committee (AC)

The AC consists of Board members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the Group's financial reporting processes, maintaining accounting policies, reviewing and approving the financial information;
- Reviewing reports on the internal controls;
- Managing the relationship with the Group's external auditors; and
- Reviewing the internal audit reports and monitors control issues of major significance of the Group.

Risk Management Committee (RMC)

The RMC consists of Board Members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the risks inherent in the businesses of the Bank and the control processes with respect to such risks;
- Reviewing the risk profile of the Bank;
- Managing the Risk Management Compliance and control activities of the Bank;
- Providing a critical assessment of the organisation's business strategies and plans from an Enterprise risk perspective; and
- Ensuring that appropriate policies and procedures are in place for managing risks to which the bank is exposed.

5. Risk management (continued)

i. Risk management framework (continued)

Management Committee (MC)

The scope of management committee includes all cross functional issues that are not covered in the scope of other committees. Typically, MC covers the areas like strategic, policies, human resources, marketing and administrative processes. In addition, the MC is also responsible to liaise with all other units/divisions across the Group.

Investment Committee (IC)

The purpose of the Investments Committee, is to review the quality of the Bank's Investment portfolio on behalf of the Board of Directors, trends affecting the portfolio, the administration of investment related policies, as well as the approval of Investment proposals, including Sukuks and Syndicate Finance within the approval limit set by the BOD.

IT Steering Committee (ITSC)

The ITSC provides strategic and tactical guidance for managing the Group's overall technology systems in the long and short term, to ensure that Information Technology (IT) initiatives are consistent with the strategic business goals of the Group. The ITSC is charged with assisting the Board in:

- Providing guidance in the prioritisation and implementation of technology initiatives and projects (including those related to infrastructure);
- Reviewing IT operations;
- Reviewing IT Security plans, policies and reports relating to the effectiveness of information security, their implementation and measures taken to address any residual risks;
- Reviewing Business Continuity plans, policies and reports relating to the effectiveness of business continuity, their implementation and measures taken to address any residual risks; and
- Reviewing the Group's IT development, strategic opportunities and plans.

Asset and Liability Committee (ALCO)

The objective of ALCO is to derive the most appropriate strategy for the Group in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of profit rate movements, liquidity constraints, and foreign exchange exposure and capital adequacy. The ALCO is also responsible to ensure that all strategies conform to the Group's risk appetite and levels of exposure as determined by the Board of Directors.

The roles of ALCO include the following:

- Develop an effective asset and liability management process and related procedures to oversee and monitor the Group's approved policies and procedures in relation to the management and control of the following risks:
 - Liquidity risk - being the risk from the Group's inability to meet obligations when they become due without incurring unacceptable losses because of an inability to liquidate assets or to obtain adequate funding;
 - Market risk - being the following risks;
 - The risk to earnings from adverse movements in profit rates, exchange rates and market volatility and;
 - The risk from changes in the value of portfolio of financial instruments;
 - Statement of financial position risk - being the following risks;
 - The risk to earnings from changes in profit rates and market volatility in retail and wholesale rates;
 - The risk to value and capital from changes in the value of assets and liabilities as a result of changes in profit rates and market volatility; and
 - The risk from material changes in global and domestic economic conditions generally.

Credit Committee (CC)

CC manages the credit risk of the Group by continuous review of credit limits, policies and procedures, the approval of specific exposures and work out situation, constant revaluation of the loans portfolio and the sufficiency of provisions thereof.

5. Risk management (continued):

i. Risk management framework (continued)

Human Resource Committee (HRC)

HRC manages the resources, performance and requirement of individuals required by Group on time to time basis.

- Risk management group (RMG)

In order to manage the credit, market, operational and IT security risks an RMD is in place. Its role includes the following:

- develop a strategy, policy and framework for risk management such that these are aligned with business requirements;
- provide support to the Group in implementation of the framework;
- bring together analysis of risk concentrations and sensitivities across the Group;
- act as a point of reference for risk and control matters, providing advice to management, sharing best practices and carrying out special reviews as directed by ALCO; and
- provide independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner.

- Compliance

The overall mission and role of compliance is to:

- ensure compliance risks are adequately identified, assessed, monitored and controlled in conjunction with Business and other control functions;
- ensure senior management is fully informed of significant compliance issues including "KYC" and "AML", and plans for their resolution;
- contribute to a "no surprise" compliance culture by educating and communicating compliance awareness throughout the Group;
- align annual compliance plans with business strategies and goals; and
- meet regulatory expectations.

- Internal audit

The role of the internal audit department within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides a independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures. It also provides consulting services which are advisory in nature, and are generally performed at the specific request of the AC.

It is led by the head of internal audit who reports to the AC of the Board of Directors, with administrative reporting to the Chief Executive Officer (CEO).

To perform its role effectively, internal audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel.

- Internal control

The role of the internal control department is to ensure that the Group has a sound internal control system in place, meeting international standards and fulfilling the requirements of the Group's management and external regulatory bodies. The functions and responsibilities of the Internal control department include:

- Ensuring that the Group's operational policies, processes and controls are adhered to;
- Ensuring that proper internal controls are in place and that they are functioning as designed in a timely and effective manner;
- Periodic review of the Group's internal control system in order to identify areas where internal controls may be weak, not present and areas where there appear to be excessive controls resulting in operational inefficiency so as to suggest ways to rectify the same;
- Enable the management to conduct an annual review of the efficiency of the internal control system and report its findings; and
- Follow up of the operational activities from a preventive and detective angle and oversee operational controls being exercised to ensure that these are timely and effective.

5. Risk management (continued):**ii. Financial risk management**

The Group has exposure to the following primary risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

Risk is inherent to the Group's business and activities. The Group's ability to identify, assess, monitor and manage each type of risk to which the Group is exposed is an important factor in its financial stability, performance and reputation.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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, products and services offered.

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

a. Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's financing receivables, ijarah receivable, balances with banks and financial institutions, international murabaha and wakalah with financial institutions, other assets and in debt securities.

The Group manages its credit risk exposure through diversification of its financing activities and investments to avoid concentration of risk with individuals or group of customers in specific location or business.

In addition, the Group manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

Regular audits of business units and Group credit processes are undertaken by internal audit division.

Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentration of credit risk by industrial sector for financing receivables and Ijarah receivable are presented in notes 8b and 9b.

Concentration of credit risk by geographical distribution of due from banks and international murabaha and wakalah arrangements with financial institutions is set out in note 6 and 7.

The Group measure its exposure to credit risk by reference to gross carrying amount of financial assets less amounts offset, profit suspended and impairment losses, if any.

Collaterals and securities

The Group holds collateral and securities against financing receivable and Ijarah in the form of cash margins, personal guarantees, and mortgages over properties or other securities over assets. Estimates of credit risk mitigation relating to financing receivables and Ijarah are based on the value of collateral assessed at the time of financing, and are subsequently monitored on a periodic basis. A quantification of the extent to which collateral and other credit enhancements mitigate credit risk is shown below:

	Against neither past due nor impaired		Against past due but not impaired		Against individually impaired	
	2013	2012	2013	2012	2013	2012
Mortgage of property	5,463,436	5,156,382	1,834,603	2,359,709	554,453	487,157
Listed shares	249,025	63,764	82,303	128,765	-	-
Cash lien and others	154,501	160,269	2,882	-	-	-
Carrying amount	5,866,962	5,380,415	1,919,788	2,488,474	554,453	487,157

5. Risk management (continued):

ii. Financial risk management (continued):

b. Credit risk (continued)

Impairment of financial Assets

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment for specific assets, or a group of similar assets. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of specific assets or a group of similar assets is calculated as the present value of the expected future cash flows.

Financial assets are written off only in circumstances where all reasonable restructuring and collecting activities have been exhausted. The Bank establishes an allowance for impairment losses that represents its estimate for incurring losses in its financing portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures after considering guidance provided by Central Bank, and a collective financing receivable and ijarah loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Financial assets with renegotiated terms

Financial assets with renegotiated terms are those that have been restructured due to deterioration in the borrower's financial position and where the Group has made concession that it would not otherwise consider.

	Bank and financial institutions		Investment securities		Financing receivable and Ijarah receivable		Others, loans and advances	
	2013	2012	2013	2012	2013	2012	2013	2012
Carrying amount - net	2,919,411	2,378,806	975,703	615,486	12,519,406	10,749,371	-	-
Individually impaired								
Substandard	-	-	-	-	572,694	550,470	-	-
Doubtful	-	-	-	-	74,944	110,780	-	9,890
Loss	-	-	-	-	48,627	6,262	23,492	223,106
Gross amount	-	-	-	-	696,265	667,512	23,492	232,996
Profit in suspense	-	-	-	-	(7,297)	(7,094)	(19,388)	(75,843)
Specific allowance for impairment	-	-	-	-	(268,115)	(176,828)	(4,104)	(157,147)
Total	-	-	-	-	420,853	483,590	-	6
Neither past due nor impaired	2,919,411	2,378,806	975,703	615,486	12,190,013	10,337,234	-	-
Collective allowance for impairment	-	-	-	-	(91,460)	(71,453)	-	(6)
Carrying amount	2,919,411	2,378,806	975,703	615,486	12,519,406	10,749,371	-	-
Past due but not impaired more than 90 days:	-	-	-	-	535,035	495,491	-	-

Bank and financial institutions exclude cash in hand and cash reserve deposits with the CBUAE.

The group also has the credit risk exposure in other assets amounting to AED 199.0 million (2012: AED 246.5 million), out of which AED 174.5 million (2012: AED 150.7 million) is impaired. Specific provision of AED 27.8 million (2012: AED 44.8 million) and profit in suspense of AED 104.6 million (2012: AED 69.8 million) are recognised in these consolidated financial statement against the impaired assets. The Group's exposure to credit risk relating to off balances sheet commitments are disclosed in note 32. These are neither past due nor impaired.

5. Risk management (continued):**ii. Financial risk management (continued):****a. Credit risk (continued):****Settlement risk**

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by ensuring that a trade date is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit limits monitoring process. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group risk.

b. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It includes the risk of the inability to fund assets at appropriate maturities and rates and the inability to liquidate assets at reasonable prices and in an appropriate timeframe and inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

The Group's approach to manage liquidity risk is to ensure that, management has diversified funding sources and closely monitors liquidity to ensure adequate funding.

All liquidity policies and procedures are subject to review and approval by ALCO.

Exposure to liquidity risk

The Group's contractual maturities of financial instruments are summarised in the table below based on the contractual repayment arrangements and does not take account of the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of financial instruments have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is to be maintained.

31 December 2013

	Less than 3 months	3 months to 1 year	1-5 Year	Over 5 Year	Total
Assets					
Cash and balances with banks and financial institutions	1,160,757	1,100,000	-	-	2,260,757
International murabaha and wakalah with financial institutions	2,392,640	484,030	-	-	2,876,670
Financing receivables	180,033	360,356	2,304,861	1,116,151	3,961,401
Ijarah receivable	614,129	325,575	1,820,159	5,798,142	8,558,005
Investments securities	45,263	109,698	642,951	445,737	1,243,649
	4,392,822	2,379,659	4,767,971	7,360,030	18,900,482
Liabilities					
Customers' deposits	(9,779,492)	(2,121,515)	-	-	(11,901,007)
Due to banks	(1,306,433)	-	-	-	(1,306,433)
Sukuk payable	-	-	(3,295,889)	-	(3,295,889)
Other liabilities	(343,442)	-	(245,288)	-	(588,730)
	(11,429,367)	(2,121,515)	(3,541,177)	-	(17,092,059)

5. Risk management (continued)

ii. Financial risk management (continued)

b. Liquidity risk (continued)

31 December 2012	Less than 3 months	3 months to 1 year	1-5 Year	Over 5 Year	Total
Assets					
Cash and balances with banks and financial institutions	953,737	829,500	-	-	1,783,237
International murabaha and wakalah with financial institutions	1,880,213	492,197	-	-	2,372,410
Financing receivables	684,710	283,885	1,770,123	40,164	2,778,882
Ijarah receivable	536,249	259,090	2,292,268	4,882,882	7,970,489
Investments securities	474,636	35,613	298,683	47,749	856,681
	<u>4,529,545</u>	<u>1,900,285</u>	<u>4,361,074</u>	<u>4,970,795</u>	<u>15,761,699</u>
Liabilities					
Customers' deposits	(8,384,525)	(2,950,016)	-	-	(11,334,541)
Due to banks	(470,190)	-	-	-	(470,190)
Sukuk payable	-	-	(1,464,457)	-	(1,464,457)
Other liabilities	(365,652)	(28,624)	(129,101)	-	(523,377)
	<u>(9,220,367)</u>	<u>(2,978,640)</u>	<u>(1,593,558)</u>	<u>-</u>	<u>(13,792,565)</u>

Cash and balances with banks and financial institutions include mandatory deposits with the CBUAE (refer note 29). The Group's expected cash flows may vary from this analysis, for example, demand deposits from customers are expected to maintain a stable or increasing balance.

The residual maturity analysis has not been presented. The Group follows Shari'a principles and contractual returns are not guaranteed and are on profit or loss sharing basis.

c. Market risks

Market risk is the risk that the Group's income and / or value of a financial instrument will fluctuate because of changes in market prices such as profit rates, foreign exchange rates and market prices of equity.

Profit rate risk

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

The Bank is not significantly exposed to risk in terms of the re-pricing of its liabilities since primarily in accordance with Islamic Shari'a, the Bank does not provide a contractual rate of return to its depositors.

Currency risk

Currency risk is managed on the basis of limits determined by the Board of Directors and a continuous assessment of the Bank's open position and current and expected exchange rate movements. The Bank does not engage in foreign exchange trading and where necessary matches currency exposures inherent in certain assets with liabilities in the same or correlated currency.

The Board of Directors has set limits on positions by currency. Positions are closely monitored by ALCO to ensure positions are maintained within established limits.

At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

Currency Net position	2013	2012
US dollar	(479,089)	(243,930)
Sterling pound	(1)	75
Euro	(4,528)	38
Bahrani Dinar	7,454	7,371
Qatari Riyal	315	(11)
Saudi Riyals	277	755
Kuwaiti Dinar	40,123	37,355
Omani Riyal	15,602	15,944

5. Risk management (continued)**ii. Financial risk management (continued)****c. Currency risk (continued)**

The exchange rate of AED against US Dollar is pegged since November 1980 and the Group's exposure to currency risk is limited to that extent.

Equity price risk

Equity price risk arises from the change in fair value of equity instruments. The Group manages this risk through diversification of investment in terms of geographical distribution and industry concentration.

The table summarises the impact of change in equity prices by $\pm 10\%$ on profit and other comprehensive income of the Group.

	2013		2012	
	Effect on profit	Effect on other comprehensive income	Effect on profit	Effect on other comprehensive income
Financial assets at fair value through profit or loss	10,693	-	9,766	-
Financial assets at fair value through other comprehensive income	-	16,101	-	14,323

d. Operational risks

Operational risk is the risk of a direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage, to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Group has established a framework of policies and procedures to identify, assess, control, manage and report risks. The Risk Management Committee identify and manage operational risk to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Internal Audit Division. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

iii. Capital management**Regulatory capital**

The Group's lead regulator, the CBUAE, sets and monitors regulatory capital requirements.

The Group's objectives when managing capital are as follows:

- Safeguard the Group's ability to continue as a going concern and increase returns for shareholders; and
- Comply with regulatory capital requirements set by the CBUAE.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group's regulatory capital adequacy ratio is set by the CBUAE. The Group has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the year. The Group has adopted a standardised approach for Credit risk and Market risk and a Basic Indicator approach for Operational Risk as a starting point and is working towards migrating to foundation internal rating based (IRB) and advanced IRB as per time line set by CBUAE.

5. Risk management (continued):**d. Capital management (continued)**

- Tier 1 capital, which includes ordinary share capital, translation reserve and retained earnings
- Tier 2 capital, which includes fair value reserves relating to unrealised gains / losses on financial assets classified as FVTPL, FVTOCI and collective impairment provision.

The following limits have been applied for Tier 2 capital:

Total tier 2 capital shall not exceed 67% of tier 1 capital

Subordinated liabilities shall not exceed 50% of total tier 1 capital

Collective impairment provision shall not exceed 1.25% of total risk weighted assets.

The table below summarises the composition of regulatory capital of the Group:

	Basel II	
	2013	2012
Tier 1 capital		
Ordinary share capital	2,425,500	2,425,500
Retained earnings	713,751	662,093
Statutory and special reserve	89,008	89,008
Legal Reserve	1,330,233	1,328,225
Total tier 1 capital base	4,558,492	4,504,826
Tier 2 capital		
Fair value reserve	(42,693)	(34,470)
Collective impairment provisions	91,460	71,459
Total tier 2 capital base	48,767	36,989
Total capital base	4,607,259	4,541,815
On balance sheet	21,902,330	18,338,865
Off balance sheet	1,144,517	979,667
Risk weighted assets:		
Credit risk	13,971,313	11,758,565
Market risk	33,995	552,277
Operational risk	855,848	772,697
Risk weighted assets	14,861,156	13,083,539
Tier 1 ratio	30.67%	34.43%
Capital adequacy ratio	31.0%	34.71%

Risk weighted capital requirement

The Group has adopted the standardised approach for credit risk, market risk and basic indicator approach for operational risk for regulatory reporting purposes. The Group's risk weighted capital requirement for credit, market and operation risk are given below:

Risk weights for credit risk

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard Portfolio approach mentioned under the CBUAE Basel II Capital Adequacy Framework. The descriptions of the counterparty classes along with the risk weights used to derive the risk weighted assets are as follows:

Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on central banks and sovereigns are risk weighted in accordance with their ratings from acceptable ECAIs, except that, for all GCC sovereigns a 0% weight has been applied.

5. Risk management (continued)

iii. Capital management (continued)

Claims on public sector entities (PSEs)

Domestic currency claims on GCC non commercial PSE were treated as claims on GCC sovereign if their central bank or monetary authority treats them as such. Foreign currency claims on GCC PSE were treated one grade less favorable than its sovereign i.e. 20% risk weight were applied. Claims on other foreign non commercial PSE were treated one grade less favorable than its sovereign. Claims on commercial PSE were treated as claims on corporate.

Claims on multilateral development banks (MDBs)

All MDBs are risk weighted in accordance with the banks credit rating except for those members listed in the World Bank Group which are risk weighted at 0%.

Claims on banks

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims denominated in local currency were assigned more favorable risk weighting. No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

Claims on corporate portfolio

Claims on corporate are risk weighted in accordance with ratings from acceptable ECAs. Risk weightings for unrated corporate claims are assigned at 100%.

Claims on regulatory retail exposures

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due loans), if it meets the criteria mentioned in the CBUAE BASEL-II guidelines.

Claims secured by residential property

A preferential risk weight of 35% was applied on claims that did not exceed AED 10 million and the claim was secured by residential property with LTV of up to 85%. Other claims secured on residential property were risk weighted 100%.

Claims secured by commercial property

100% risk weight was applied on claims secured by commercial property.

Past due exposures

The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk weighted as follows:

150% risk weight when specific provisions are less than 20% of the outstanding amount of the financing; and

100% risk weight when specific provisions are greater than 20% of the outstanding amount of the financing.

Equity portfolios

0% risk weight was applied on equity in trading book. Equity in banking book was risk weighted at 100%.

The risk weighted at 100% for other exposures.

5. Risk management (continued):

iii. Capital management (continued)

Risk weighted assets as per standardised approach is set out below:

31 December 2013

Assets classes (on net basis)	On balance sheet - net	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assets
			Exposure before CRM	CRM	After CRM	
Claims on sovereigns	4,450,902	76,979	4,527,881	(25)	4,527,856	61,827
Claims on non-central government public sector entities (PSES)	2,788,920	22	2,788,942	-	2,788,942	345,306
Claims on banks	3,184,115	10,047	3,194,162	-	3,194,162	1,248,194
Claims on corporate	3,057,771	982,659	4,040,430	(28,123)	4,012,307	4,039,484
Claims included in the regulatory retail portfolio	3,981,405	53,803	4,035,208	(19)	4,035,189	3,758,967
Claims secured by residential property	25,148	-	25,148	-	25,148	20,700
Claims secured by commercial real estate	72,300	-	72,300	-	72,300	72,300
High risk categories	11,539	-	11,539	-	11,539	17,309
Past due financing receivables	947,555	21,007	968,562	(46,126)	922,436	1,297,940
Other assets	3,382,675	-	3,382,675	-	3,382,675	3,109,286
Total claims	21,902,330	1,144,517	23,046,847	(74,293)	22,972,554	13,971,313
Total credit risk						<u>13,971,313</u>

31 December 2012

Assets classes (on net basis)	On balance sheet - net	Off balance sheet	Credit risk mitigation (CRM)			Risk weighted assets
			Exposure before CRM	CRM	After CRM	
Claims on sovereigns	3,633,861	87,565	3,721,426	(25)	3,721,401	-
Claims on non-central government public sector entities (PSES)	2,056,203	75	2,056,278	-	2,056,278	38,720
Claims on banks	2,426,693	11,447	2,438,140	-	2,438,140	1,079,977
Claims on corporate	2,446,946	830,527	3,277,473	(13,599)	3,263,874	3,263,874
Claims included in the regulatory retail portfolio	3,364,288	50,002	3,414,290	(17,150)	3,397,140	3,251,002
Claims secured by residential property	34,189	-	34,189	-	34,189	29,216
Claims secured by commercial real estate	101,737	-	101,737	-	101,737	101,737
High risk categories	18,825	-	18,825	-	18,825	28,237
Past due financing receivables	974,814	51	974,865	(35,298)	939,567	1,329,400
Other assets	3,281,309	-	3,281,309	-	3,281,309	2,636,402
Total claims	18,338,865	979,667	19,318,532	(66,072)	19,252,460	11,758,565
Total credit risk						<u>11,758,565</u>

5. Risk management (continued):

iii. Capital management (continued)

Risk weights for market risk

Capital requirement for market risk is calculated using the standardised approach. The capital requirement for market risk is analysed into capital requirement for profit rate risk, equity risk, foreign exchange risk.

A summary of the capital requirement for market risk under standardised approach under Basel II is set out below

	2013	2012
Equity position risk	2,632	525,156
Foreign currency risk	31,363	27,121
	<u>33,995</u>	<u>552,277</u>

Risk weight for operational risk

The capital requirement for operation risk is calculated using the basic indicator approach. The total capital requirement is calculated as 15% of last three years average income which amounts to AED 855.8 thousand (2012: AED 772.7 thousand).

6. Cash and balances with banks and financial institutions:

Cash	271,580	251,026
Deposits with CBUAE	1,946,436	1,525,815
Due from banks (Note 6.1)	42,741	6,396
	<u>2,260,757</u>	<u>1,783,237</u>

6.1 Due from banks - by geographical distribution

GCC countries	31,429	1,831
Europe	6,964	3,530
USA	3,385	-
North America	363	-
Others	600	1,035
	<u>42,741</u>	<u>6,396</u>

7. International murabaha and wakalah with financial institutions:

International murabaha and wakalah represent transactions with local and international banks with residual maturity less than one year from the reporting date.

Wakala arrangements	2,559,071	2,297,194
International murabaha	317,599	75,216
	<u>2,876,670</u>	<u>2,372,410</u>

International murabaha and wakalah with financial institutions by geographical distribution:

Within UAE	2,252,260	1,826,969
GCC countries	440,760	471,981
Others	183,650	73,460
	<u>2,876,670</u>	<u>2,372,410</u>

8. Financing receivables :

Financing receivables are secured by acceptable forms of collateral to mitigate the related credit risk. Financing receivables comprise the following:

a) By type

Vehicle murabaha	391,713	371,414
Goods murabaha	2,577,649	1,439,866
Real estate murabaha	136,151	215,293
Other murabaha receivable	546,025	494,957
Syndicate murabaha	377,919	114,990
Qard hasan	98,327	282,729
Visa receivables	35,969	35,733
Istisna	23,228	3,593
Provision for impaired financing receivables	(225,580)	(179,693)
	<u>3,961,401</u>	<u>2,778,882</u>

(Currency: Thousands of U.A.E. Dirhams)

8. Financing receivables (continued):

b) By sector	2013	2012
Government departments and authorities	96,533	117,295
Construction	354,262	59,095
Manufacturing	222,406	251,180
Transportation	132,044	58,748
Real estate	7,827	353
Trading	764,925	465,055
Financial institutions	156,996	94,945
Other services	110,114	181,188
Individual	2,316,569	1,723,791
Others	25,305	6,925
Provision for impaired financing receivables	(225,580)	(179,693)
	<u>3,961,401</u>	<u>2,778,882</u>
c) Impairment provision for financing receivables		
Balance, beginning of the year	179,693	153,754
Written off during the year	(8,137)	(656)
Additional provision for the year	70,542	36,094
Recoveries and write-backs during the year	(16,518)	(9,499)
	<u>225,580</u>	<u>179,693</u>

9. Ijarah receivable:

Ijarah receivable are finance leases, which comprise the following:

a) Net investment

Gross investment	8,692,000	8,039,077
Provision for impaired ijarah receivable	(133,995)	(68,588)
	<u>8,558,005</u>	<u>7,970,489</u>

b) By sector

Government departments and authorities	4,787,066	3,944,431
Construction	454,824	803,791
Manufacturing	223,042	126,360
Transportation	159,605	186,844
Real estate	163,540	233,323
Trading	338,868	221,225
Other services	261,621	332,403
Individual	2,248,212	2,179,200
Financial institutions	55,222	11,500
Provision for impaired Ijarah receivable	(133,995)	(68,588)
	<u>8,558,005</u>	<u>7,970,489</u>

c) Impairment provision for Ijarah receivable

Balance, beginning of the year	68,588	48,208
Additional provision for the year	73,407	25,380
Recoveries and write-backs during the year	(8,000)	(5,000)
	<u>133,995</u>	<u>68,588</u>

d) The net investment in Ijarah receivable comprises:

Less than one year	939,704	795,339
Between one and five years	1,820,159	2,292,268
More than five years	5,798,142	4,882,882
	<u>8,558,005</u>	<u>7,970,489</u>

10. Loans and advances:

a) Loans and advances, net

Loans and advances	4,104	157,152
Less: provisions for impaired loans and advances	(4,104)	(157,152)
	<u>-</u>	<u>-</u>

(Currency: Thousands of U.A.E. Dirhams)

10. Loans and advances (continued)

Loans and advances are all domestic:

b) Impairment provision for loans and advances

	2013	2012
Balance at the beginning of the year	157,152	157,348
Written off during the year	(152,385)	-
Recoveries and write-backs during the year	(663)	(196)
	<u>4,104</u>	<u>157,152</u>

11. Investments securities:

Investments comprise the following:

- Financial assets at fair value through profit or loss	190,343	491,689
- Financial assets at fair value through other comprehensive income	340,655	143,227
- Financial assets measured at amortised cost	712,651	221,765
	<u>1,243,649</u>	<u>856,681</u>

Investments securities - by category

Debt securities	975,703	615,485
Equities and funds	267,946	241,196
	<u>1,243,649</u>	<u>856,681</u>

Investments securities - by geographical distribution

- Financial assets at fair value through profit or loss:		
Domestic	89,054	73,460
International	101,289	418,229
	<u>190,343</u>	<u>491,689</u>
- Financial assets at fair value through other comprehensive income		
Domestic	187,242	4,408
International	153,413	138,819
	<u>340,655</u>	<u>143,227</u>
- Financial assets measured at amortised cost		
Domestic	358,937	174,121
International	353,714	47,644
	<u>712,651</u>	<u>221,765</u>

Investments securities - by quoted / unquoted

- Financial assets at fair value through profit or loss:		
Quoted	137,589	405,515
Unquoted	52,754	86,174
	<u>190,343</u>	<u>491,689</u>
- Financial assets at fair value through other comprehensive income		
Quoted	187,242	4,408
Unquoted	153,413	138,819
	<u>340,655</u>	<u>143,227</u>
- Financial assets measured at amortised cost		
Quoted	678,229	185,140
Unquoted	34,422	36,625
	<u>712,651</u>	<u>221,765</u>



12. Investment properties

	Completed properties	Properties - under construction	Total
Balance as at 1 January 2013	220,550	2,738	223,288
Additions	42,403	11,521	53,924
Revaluation gain	62,140	-	62,140
As at 31 December 2013	<u>325,093</u>	<u>14,259</u>	<u>339,352</u>
Balance as at 1 January 2012	177,207	13,837	191,044
Additions	16,508	13,536	30,044
Revaluation gain	2,200	-	2,200
Under construction properties completed during the year	24,635	(24,635)	-
As at 31 December 2012	<u>220,550</u>	<u>2,738</u>	<u>223,288</u>

	2013	2012
- Investment properties by geographical distribution:		
Domestic	333,150	217,086
International	6,202	6,202
	<u>339,352</u>	<u>223,288</u>

The carrying amount of investment property is the fair value of the property as determined by an independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued and is reviewed by the Board of Directors on a yearly/annual basis. Fair values were determined based on open market value basis significant assumption taken by the valuer are mentioned on note 30.

13. Properties held for sale (Domestic):

	Completed Properties	Properties held for sale - under construction	Total
Balance as at 1 January 2013	1,020,463	62,571	1,083,034
Addition	24,293	126,208	150,501
Disposal	(112,267)	(1,000)	(113,267)
As at 31 December 2013	<u>932,489</u>	<u>187,779</u>	<u>1,120,268</u>
Balance as at 1 January 2012	1,020,803	24,186	1,044,989
Addition	6,120	38,385	44,505
Disposal	(6,460)	-	(6,460)
As at 31 December 2012	<u>1,020,463</u>	<u>62,571</u>	<u>1,083,034</u>

14. Other assets:

Prepaid expenses	36,105	35,971
Profit receivable - net	143,648	208,848
Sundry debtors	73,240	35,930
Assets available for sale - murabaha assets	15,798	14,522
Others	72,177	51,817
Reimbursements under acceptances	121,024	47,293
	<u>461,992</u>	<u>394,381</u>

(Currency: Thousands of U.A.E. Dirhams)

15. Property and equipment:

	Freehold land & buildings	Equipment, furniture & fittings	Computer equipment	Motor vehicles	Capital - work in progress	Total
Cost - 2013						
As at 1 January 2013	833,740	89,307	60,073	3,362	87,419	1,073,901
Additions	354	6,690	2,273	1,509	88,952	99,778
Transfer to investment properties	-	-	-	-	(11,884)	(11,884)
Disposals	(25,108)	(3,069)	(6,119)	(248)	-	(34,544)
Capitalised	90,568	31,407	2,264	-	(124,239)	-
As at 31 December 2013	899,554	124,335	58,491	4,623	40,248	1,127,251
Accumulated depreciation - 2013						
As at 1 January 2013	103,883	79,217	34,548	2,426	-	220,074
Additions	10,761	7,830	8,871	536	-	27,998
Disposals	(21,238)	(3,058)	(6,119)	(213)	-	(30,628)
As at 31 December 2013	93,406	83,989	37,300	2,749	-	217,444
Net book value						
As at 31 December 2013	806,148	40,346	21,191	1,874	40,248	909,807
As at 31 December 2012	729,857	10,090	25,525	936	87,419	853,827

16. Customers' deposits:

	2013	2012
Current accounts	4,063,641	3,505,599
Saving accounts	1,445,706	1,222,990
Watany/call accounts	383,262	265,558
Time deposits	5,812,295	6,210,989
Margins	196,103	129,405
	<u>11,901,007</u>	<u>11,334,541</u>

17. Due to banks:

On demand	111,597	16,246
Term deposit	1,194,836	453,944
	<u>1,306,433</u>	<u>470,190</u>

18. Sukuks payable

Name of issuer	Maturity date	31 December 2013		31 December 2012	
		Carrying value	Profit rate	Carrying value	Profit rate
SIB Sukuk Company II Limited	25 May 2016	1,465,840	4.715%	1,464,457	4.715%
SIB Sukuk Company III Limited	15 April 2018	1,830,049	2.95%	-	-
Total		<u>3,295,889</u>		<u>1,464,457</u>	

The Bank through a Shari'a compliant Sukuk financing arrangements raised two Sukuks of US\$ denominated medium term finance amounting to: US\$ 400 million (AED 1.46 billion) on 24 May 2011; and US\$ 500 million (AED 1.83 billion) on 14 April 2013. These Sukuks are listed in London Stock exchange and Irish Stock exchange respectively.

The terms of the arrangement include transfer of certain Ijarah receivable of the Bank (the "Co-owned assets") basis to SIB Sukuk Company II Limited and SIB Sukuk Company III Limited, collectively called as ("the Issuers"), special purpose vehicles formed for issuance of Sukuks. In substance, the co-owned assets remain in control of the Bank, accordingly these assets continue to be recognised by the Bank. In case of any default, the Bank has provided an undertaking to make good all losses to the Sukuk holders.

18. Sukuks payable (continued)

The Issuers will pay the semiannual distribution amount from the returns received in respect of the leased assets. Such proceeds are expected to be sufficient to cover the semiannual distribution amount payable to Sukuk holders on each semiannual distribution date. Upon maturity the Bank has undertaken to repurchase the assets at the exercise price of US\$ 400 million (AED 1.46 billion) and US\$ 500 million (AED 1.83 billion).

19. Other liabilities:

Depositors' profit payable	47,450	59,142
Accrual and provision	7,877	7,635
Accounts payable	78,315	58,812
Provision for staff benefits	38,212	29,364
Profit Reserve	29,183	18,133
Managers' cheques	51,489	93,889
Obligations under acceptances	121,024	47,293
Sundry creditors	212,573	208,190
Others	2,607	919
	<u>588,730</u>	<u>523,377</u>

20. Share capital:

The Bank's issued and fully paid share capital comprises 2,425,500,000 shares of AED 1.0 each.

	2013		2012	
	No. of shares	Value	No. of shares	Value
Share capital	2,425,500,000	2,425,500	2,425,500,000	2,425,500

21. Proposed cash dividend and Bonus Share :

The Directors propose to the Shareholders a cash dividend of 10% of the par value of share (AED 0.10 per share) amounting to AED 242.6 million (2012: cash dividend of AED 145.5 million (AED 0.06 per share) for 2012).

22. Proposed directors' remuneration:

In accordance with the Ministry of Economy & Planning interpretation of Article 118 of Commercial Companies Law No. 8 of 1984, the proposed directors' remuneration of AED 4.0 million (2012: AED 2.4 million) has been treated as a as an appropriation from equity and is included in retained earnings.

23. Reserves :

In accordance with the Bank's Articles of Association and Article (82) of Union Law No. 10 of 1980, the Bank transfers 10% of annual profits, if any, to the legal reserve until it equals 50% of the share capital. Also, in accordance with its Articles of Association, 10% of annual profits, if any, maybe transferred to a statutory reserve until it is suspended by an ordinary general meeting upon a proposal by the Board of directors. The Statutory reserve can be utilised for the purposes determined by the ordinary general meeting upon recommendations of the Board of Director. The movements in reserves are as follows:

	Legal reserve	Statutory reserve	Fair value reserve
Balance at 1 January 2013	1,328,226	89,008	(34,470)
Transfer to reserve	2,007	-	-
Fair value adjustment	-	-	7,603
Change in fair-value of financial assets	-	-	(15,826)
Balance at 31 December 2013	<u>1,330,233</u>	<u>89,008</u>	<u>(42,693)</u>

The fair value reserve comprises the cumulative net change in fair values of financial assets through other comprehensive income.

(Currency: Thousands of U.A.E. Dirhams)

	<u>2013</u>	<u>2012</u>
24. Investments, fees and other income:		
Fees and commissions	132,980	76,352
Net gains from dealing in foreign currencies	18,452	18,336
Income from investments securities	26,393	58,940
Income from sale of properties held for sale	38,919	-
Revaluation gain on investment properties	62,140	2,200
Rent income	10,857	8,913
Income from subsidiary companies	33,499	22,135
Other operating income	15,584	736
	<u>338,824</u>	<u>187,612</u>
25. General and administrative expenses:		
Staff costs	258,366	231,607
Depreciation	27,998	24,416
Other general and administrative expenses	100,841	80,555
	<u>387,205</u>	<u>336,578</u>
26. Provision - net of recoveries :		
a) provision for customer receivables – net of recoveries		
Provision made during the year	(143,948)	(61,462)
Recoveries during the year	25,264	15,654
	<u>(118,684)</u>	<u>(45,808)</u>
b) Other provision – net of recoveries		
Impairment provision – investment securities	-	(441)
Impairment Provision - customer receivables – SIFS , net	17,033	8,447
	<u>17,033</u>	<u>8,006</u>
c) Other recoveries		
Other recoveries during the year	30	411
	<u>30</u>	<u>411</u>
Total provision - net of recoveries	<u>(101,621)</u>	<u>(37,391)</u>
27. Distribution to depositors:		
The distribution of profit between depositor and shareholders is made in accordance with the methods approved by the Bank's Fatwa and Shari'a Supervisory Board effective from 1 July 2002. The Bank has adopted the "Common Pool Method" for distribution of profit between depositors and shareholders. The application of the above method resulted in:		
Appropriation to depositors	114,263	162,448
Transfer from profit equalisation reserve	11,050	3,711
	<u>125,313</u>	<u>166,159</u>
28. Basic and diluted earnings per share:		
The calculation of earnings per share is based on earnings of AED 307.1 million (2012: AED 272.0 million) for the year divided by the number of shares outstanding during the year. There is no dilution impact on basic earnings per share.		
29. Cash and cash equivalents:		
Cash and cash equivalents comprise of		
Cash and balances with banks and financial institutions	2,260,757	1,783,237
Wakala arrangements with financial institutions	2,152,640	1,880,212
	<u>4,413,397</u>	<u>3,663,449</u>
Less cash reserves with CBUAE	(846,436)	(707,944)
Cash and cash equivalents	<u>3,566,961</u>	<u>2,955,505</u>

Cash reserves with CBUAE are non-profit bearing and not available to fund day-to-day operations of the Bank.



30. Key accounting estimates, and judgments in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year and the resultant provisions and fair value. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In particular, considerable judgment is required by management in respect of the following:

Impairment losses on financing receivables, Ijarah and other assets

The Group reviews its portfolios of financing receivables and ijarah receivable to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio within financing receivables and ijarah receivable before the decrease can be identified with an individual receivable in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss. Experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Valuation of financial instruments

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable 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 in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which 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 for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments

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

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark profit rates, credit spreads in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group has an established control framework with respect to the measurement of fair values. This framework includes a valuation function, which is independent of front office management and reports to the Investment Committee, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements.

30. Key accounting estimates, and judgments in applying accounting policies (continued)

Specific controls include:

- i. verification of observable pricing;
- ii. re-performance of model valuations ;
- iii. a review and approval process for new models and changes to models involving valuation function;
- iv. calibration and back-testing of models against observed market transactions at regular intervals;
- v. analysis and investigation of significant valuation movements; and
- vi. review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month, by Investment Committee.

Significant valuation issues are reported to the Investment Committee.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Note	Level 1	Level 2	Level 3	Total
31 December 2013					
Financial assets					
Investment securities - FVTPL	11	137,589	-	52,754	190,343
Investment securities - FVTOCI		187,242	-	153,413	340,655
Total		324,831	-	206,167	530,998
Non financial assets					
Investment properties		-	-	339,352	339,352
31 December 2012					
Financial assets					
Investment securities - FVTPL	11	405,515	-	53,117	458,632
Investment securities - FVTOCI		4,408	-	171,876	176,284
Total		409,923	-	224,993	634,916
Non financial assets					
Investment properties		-	-	223,288	223,288

There has been no transfer between any level during the year.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the hierarchy for investment securities:

	2013		2012	
	FVTPL	FVTOCI	FVTPL	FVTOCI
Balance as at 1 January	53,117	171,876	55,583	207,317
losses :	(363)	(10,625)	(2,334)	(15,227)
Addition	-	-	-	9,920
Disposals	-	(7,838)	(132)	(30,134)
Balance as at 31 December	52,754	153,413	53,117	171,876
Non financial assets				
			2013	2012
Balance as at 1 January			223,288	191,044
Revaluation			62,140	2,200
Additions			53,924	30,044
Balance at 31 December			339,352	223,288

30. Key accounting estimates, and judgments in applying accounting policies (continued)

Unobservable inputs used in measuring fairvalue

The investment banking division constantly monitors the progress of its investments by conducting its own valuation assessment along with information provided by the fund manager. Depending on the nature of the underlying asset, quantitative methods are used such as residual value, DCF/scenario analysis or comparable market valuation. Qualitative methods which involve taking into consideration the market & economic outlook are also employed.

The effect of unobservable input on fairvalue measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects.

	Effect on profit or loss		Effect on OCI	
31 December 2013	Favorable	Unfavorable	Favorable	Unfavorable
	39,210	(39,210)	15,341	(15,341)
	Effect on profit and loss		Effect on OCI	
31 December 2012	Favorable	Unfavorable	Favorable	Unfavorable
	27,640	(27,640)	17,187	(17,187)

30. Key accounting estimates, and judgments in applying accounting policies (continued)

Financial instruments not measured at fair value (continued)

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
31 December 2013					
Financial assets					
Cash and balances with banks and financial institutions	-	2,260,757	-	2,260,757	2,260,757
International murabaha and wakalah with financial institutions	-	2,876,670	-	2,876,670	2,876,670
Financing receivables	-	3,961,401	-	3,961,401	3,961,401
Ijarah receivables	-	8,558,005	-	8,558,005	8,558,005
Financial assets measured at amortised cost	691,828	-	34,422	726,250	712,651
Other assets	-	393,907	-	393,907	393,907
Total	691,828	18,050,740	34,422	18,776,990	18,763,391
Financial Liabilities					
Customers' deposits	-	11,901,007	-	11,901,007	11,901,007
Due to banks	-	1,306,433	-	1,306,433	1,306,433
Sukuk payable	3,332,619	-	-	3,332,619	3,295,889
Other liabilities	-	522,367	-	522,367	522,367
Total	3,332,619	13,729,807	-	17,062,426	17,025,696

- In respect of those financial assets and financial liabilities measured at amortised cost, which are of short term nature (up to 1 year), management believes that carrying amount is equivalent to it's fair value.
- In respect of investments in sukuks, management has used the quoted price for disclosure of their fair values.
- Financing to customers are fair valued based on DCF which takes into account original underlying cash borrower credit grading and expected prepayments. These features are used to estimate expected cash flows and discounted at risk-adjusted rates. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.
- Fair values of customer deposits and due to banks is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

30. Key accounting estimates, and judgments in applying accounting policies (continued)

Valuation of investment property

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Group's investment property portfolio annually.

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment properties, as well as the significant unobservable inputs used.

The Group has taken the highest and best use fair values for the fair value measurement of its investment properties.

Valuation technique	Significant unobservable inputs	Interrelationship between key unobservable inputs and fair value measurements
Open market value	Expected market rental growth rate	The estimated fair value increase/decrease if: Expected market rental growth rate were higher
	Risk adjusted discount rates	The risk adjusted discount rates were lower/higher
	Free hold property	The property is not free hold
	Free of covenants , third party rights and obligations	The property is subject to any covenants, rights and obligations
	Statutory and legal validity	The property is subject to any adverse legal notices / judgment
	Condition of the property	The property is subject to any defect / damages

31. Segment reporting

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

a. Government and corporate

Within this business segment the Bank provides companies, institutions and government departments with a range of Islamic financial products and services.

b. Retail

The retail segment provides a wide range of Islamic financial services to individuals.

c. Investment and treasury

This segment mainly includes income on investments of the Bank and other money market activities.

d. Subsidiaries

SNH through its divisions is engaged in operating hotels and resorts, catering and related services and Sharjah Islamic Financial service which is offering brokerage services for trading in Islamic Shari'a compliant shares.

	Corporate and government	Retail	Investment and treasury	Hospitality and brokerage	Total
Consolidated statement of income:					
For the year ended 31 December 2013:					
Income from murabaha and leasing	382,576	250,692	59,611	-	692,879
Profit paid on sukuk	-	-	(110,496)	-	(110,496)
Investments, fees and other income	74,785	42,117	188,160	-	305,062
Income for subsidiaries	-	-	-	33,499	33,499
Unallocated income	-	-	-	-	263
Total income	457,361	292,809	137,275	33,499	921,207
General and administrative expenses	-	-	-	(35,066)	(35,066)
General and administrative expenses - unallocated	-	-	-	-	(352,139)
Net operating income	457,361	292,809	137,275	(1,567)	534,002
Provisions- net of recoveries	(24,481)	(93,062)	(1,111)	17,033	(101,621)
Profit before distribution to depositors	432,880	199,747	136,164	15,466	432,381
Distribution to depositors	(70,507)	(43,118)	(638)	-	(114,263)
Distribution to depositors -unallocated	-	-	-	-	(11,050)
Profit for the year	362,373	156,629	135,526	15,466	307,068
Consolidated statement of financial position:					
As at 31 December 2013:					
Assets					
Segment assets	7,959,594	4,681,058	7,595,136	705,016	20,940,804
Unallocated assets	-	-	-	-	791,097
Total assets	7,959,594	4,681,058	7,595,136	705,016	21,731,901
Liabilities					
Segment liabilities	6,571,526	5,546,898	4,602,321	19,764	16,740,509
Unallocated liabilities	-	-	-	-	455,485
Total liabilities	6,571,526	5,546,898	4,602,321	19,764	17,195,994

31. Segment reporting (continued)

	Corporate and government	Retail	Investment and treasury	Hospitality and brokerage	Total
Consolidated statement of income:					
For the year ended 31 December 2012:					
Income from murabaha and leasing	423,466	231,681	40,087	-	695,234
Profit paid on Sukuk	-	-	(70,715)	-	(70,715)
Investments, fees and other income	35,268	36,701	93,150	-	165,119
Income for subsidiaries	-	-	-	22,135	22,135
Unallocated income	-	-	-	-	358
Total income	458,734	268,382	62,522	22,135	812,131
General and administrative expenses	-	-	-	(17,217)	(17,217)
General and administrative expenses - unallocated	-	-	-	-	(319,361)
Net operating income	458,734	268,382	62,522	4,918	475,553
Provisions- net of recoveries	(828)	(36,772)	(8,238)	8,447	(37,391)
Profit before distribution to depositors	457,906	231,610	54,284	13,365	438,162
Distribution to depositors	(104,882)	(55,909)	(1,657)	-	(162,448)
Distribution to depositors -unallocated	-	-	-	-	(3,711)
Profit for the year	353,024	175,701	52,627	13,365	272,003
Consolidated statement of financial position:					
As at 31 December 2012:					
Assets					
Segment assets	6,626,698	4,227,248	6,210,208	715,740	17,779,894
Unallocated assets	-	-	-	-	536,335
Total assets	6,626,698	4,227,248	6,210,208	715,740	18,316,229
Liabilities					
Segment liabilities	6,485,172	4,896,662	1,934,647	61,932	13,378,413
Unallocated liabilities	-	-	-	-	493,918
Total liabilities	6,485,172	4,896,662	1,934,647	61,932	13,872,331

(Currency: Thousands of U.A.E. Dirhams)

31. Segment reporting (continued)
Geographical Distribution for Assets and Liabilities

Assets 2013:	Total	GCC	Other Arab Countries	North America	USA	Europe	Asia	Other
Cash and balances with banks and financial institutions	2,260,757	2,249,445	417	363	3,385	6,964	183	-
International murabaha and wakalah with financial institutions	2,876,670	2,693,020	-	-	-	183,650	-	-
Financing receivables	3,961,401	3,839,413	-	-	-	107,669	14,319	-
Financing ijarah	8,558,005	8,558,005	-	-	-	-	-	-
Investments securities	1,243,649	917,718	7,778	-	9,376	120,753	188,024	-
Investment properties	339,352	333,150	6,202	-	-	-	-	-
Properties held for sale	1,120,268	1,120,268	-	-	-	-	-	-
Other assets	461,992	461,992	-	-	-	-	-	-
Property and equipment	909,807	909,807	-	-	-	-	-	-
Total assets	21,731,901	21,082,818	14,397	363	12,761	419,036	202,526	-
Liabilities 2013:								
Customers' deposits	11,901,007	11,876,876	4,394	-	-	10,951	8,768	18
Due to banks	1,306,433	1,303,445	-	-	-	2,228	728	32
Sukuk payable	3,295,889	1,548,643	73,276	12,856	19,283	783,451	832,669	25,711
Other liabilities and zakat payable	692,665	692,665	-	-	-	-	-	-
Shareholders' Equity	4,535,907	4,535,907	-	-	-	-	-	-
Total liabilities and shareholder's equity	21,731,901	19,957,536	77,670	12,856	19,283	796,630	842,165	25,761

31. Segment reporting (continued)
Geographical Distribution for Assets and Liabilities (continued)

Assets 2012:	Total	GCC	Other Arab Countries	North America	USA	Europe	Asia	Other
Cash and balances with banks and financial institutions	1,783,237	1,778,672	407	-	-	3,530	245	383
International murabaha and wakalah with financial institutions	2,372,410	2,298,950	-	-	-	73,460	-	-
Financing receivables	2,778,882	2,735,290	-	-	-	43,592	-	-
Financing ijarah	7,970,489	7,970,489	-	-	-	-	-	-
Investments securities	856,681	700,063	6,416	2,290	-	147,654	258	-
Investment properties	223,288	217,086	6,202	-	-	-	-	-
Properties held for sale	1,083,034	1,083,034	-	-	-	-	-	-
Other assets	394,381	394,381	-	-	-	-	-	-
Property and equipment	853,827	853,827	-	-	-	-	-	-
Total assets	18,316,229	18,031,792	13,025	2,290	-	268,236	503	383
Liabilities 2012:								
Customers' deposits	11,334,541	11,324,629	82	-	-	9,809	21	-
Due to banks	470,190	450,262	141	7,706	-	11,781	300	-
Sukuk payable	1,464,457	554,655	72,358	12,856	16,528	497,324	310,736	-
Other liabilities	603,143	603,143	-	-	-	-	-	-
Shareholders' Equity	4,443,898	4,443,898	-	-	-	-	-	-
Total liabilities and shareholder's equity	18,316,229	17,376,587	72,581	20,562	16,528	518,914	311,057	-

32. Contingencies and commitments :

The Bank provides financial guarantees and letter of credit to meet the requirements of the Bank's customers. These agreements have fixed limits and expirations and are not concentrated in any period.

The amounts reflected for guarantees represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

These contingent liabilities have off balance-sheet credit risk as only the related fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Many of the contingent liabilities will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

	<u>2013</u>	<u>2012</u>
a) Letter of credit - by sector:		
Corporate	<u>179,550</u>	<u>143,115</u>
	<u>179,550</u>	<u>143,115</u>
b) Letter of guarantee - by sector:		
Government of sharjah	76,999	87,603
Government departments and authorities	-	20
Corporate	923,880	657,376
Retail and others	<u>49,303</u>	<u>44,335</u>
	<u>1,050,182</u>	<u>789,334</u>

Others

The Bank has issued a financial commitment to the Planning and Survey Department of UAE/Sharjah amounting to AED 147.1 million Dirhams against sale of properties held for sale, under development till the completion of this projects. (2012 : AED 181.5 million).

In addition a financial commitments of AED 80.0 Million which comprises of AED 20.0 million issued to Abu Dhabi securities exchange, AED 30.0 million to Dubai Financial Market and AED 30.0 million to UAE Central Bank against conducting brokerage operations for Sharjah Islamic Financial Services (2012 : AED 80.0 million).

33. Related parties:

The Bank has transactions in the ordinary course of business with directors, staff of the Bank and entities of which they are principal owners.

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

	<u>2013</u>	<u>2012</u>
Government of Sharjah receivables	1,718,247	1,335,056
Government departments and authorities receivables	2,836,138	2,649,513
Other financing receivables and investing activities	915,239	757,856
Government of Sharjah deposits	31,759	24,964
Government department & authority deposits	1,566,573	1,492,718
Other deposits	269,728	284,931
Contingent liabilities	173,264	159,146
Income from financing and investing activities	291,037	284,171
Depositors' share of profit	19,093	27,501

Key management compensation includes salaries and other short term benefits of AED 16.6 million in 2013 (2012: AED 14.9 million) and post employment benefits of AED 0.9 million in 2013 (2012: AED 0.9 million).

No impairment loss has been recognised against balances outstanding with key management personnel and other related parties.

34. Fiduciary activities:

The Bank has launched a shari'a compliant investment fund 'Tharwa Islamic Equity Portfolio' ("the fund") during 2005. The Bank in its capacity as a portfolio agent of the fund is responsible for certain fiduciary activities on behalf of customers investing in the fund. At the reporting date, the net assets value per unit of the fund was AED 11.7 million (2012: AED 8.6 million).

35. Comparatives figures:

Certain prior year comparatives have been reclassified in order to conform to current year's presentation. The comparatives set out in these consolidated financial statements represent the activities of the Group.