

40th

Annual Report
2013



بنك الشارقة
Bank of Sharjah



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



HH Sheikh Mohammed Bin Rashid Al Maktoum
Vice President, Prime Minister and Ruler of Dubai



HH Dr. Sheikh Sultan Bin Mohammed Al Qasimi
Member of the Supreme Council, Ruler of Sharjah and its Dependencies



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Honorary Chairman
His Highness Doctor Sheikh Sultan Bin Mohammed Al Qasimi



Chairman
Mr. Ahmed Abdalla Al Noman



Vice Chairman
Sheikh Mohammed Bin Saud Al Qasimi



Sheikh Saif Bin Mohammed Butti Al Hamed



H.E. Humaid Nasser Al Owais



Mr. Abdul Rahman Bukhatir



Mr. Abdul Aziz Hassan Al Midfa



Mr. Abdul Aziz Mubarak Al Hasawi



Mr. Saud Al Besharah



Mr. Francois Dauge



Mr. Jean-Jacques Santini



Mr. Varouj Nerguizian
Executive Director & General Manager

Board of Directors

Chairman's Speech

Dear Shareholders,

On behalf of the Board of Directors and myself, I wish to welcome you to the 40th Ordinary General Assembly.

I would like to express our appreciation for your continued support to our national institution. I take this opportunity to extend, on your behalf and on behalf of the Board Members, our sincerest gratitude to HH the President Sheikh Khalifa Bin Zayed Al Nahyan, the Vice President Prime Minister; HH Sheikh Mohammed Bin Rashid Al Maktoum, HH Doctor Sheikh Sultan Bin Mohammed Al Qasimi, Ruler of Sharjah, and to their Highnesses the Rulers, Members of the Supreme Council for their leadership and their vision in leading our country to prosperity and development. In 2013.

The Bank celebrated its 40th anniversary and on this occasion our new head office in Al Khan will soon be inaugurated, and the cornerstone for our future headquarters in the Al Taawon area will be laid; which once completed will mark Sharjah's skyline as an architectural landmark.

2013 brought about political, security and economic developments that altered international relations and rocked the stability of the regional and global political scenes, ushering in a new multipolar world order. Our Arab region suffered throughout this year, with the spreading of unrest that escalated into severe conflicts and bloody confrontations.

On a more positive note, 2013 upended the economic stagnation that had demurred since 2008 and introduced growth that touched financial performance indicators from global equity markets to international business. Locally, the celebrations of the 42nd National Day were further intensified with Dubai and the UAE being named host for Expo 2020. Nationals and residents alike viewed this overwhelming success as a culmination of the long, successful path of achievements throughout the Union's 42 years.

Your bank's performance during 2013 was remarkable, as the consolidated net profit increased by 27% to reach AED 353 million, while the total comprehensive income grew by an impressive 59% to reach AED 433 million. Total assets touched the threshold of AED 25 billion, a 9% growth over the previous year's figures.

Based on these outstanding results, I am pleased to advise you that the Board of Directors submits for your kind approval the distribution of 9.116% cash dividend and 60 million Buy Back shares representing 2.86% of the capital, equivalent to 16% taking into consideration the share price, compared to 10% cash in 2012.

Recognising the importance of being an upstanding corporate citizen of Sharjah and the UAE, Bank of Sharjah was true to its corporate responsibility mandate in 2013, supporting various charitable institutions and local community groups, including organizations which are advocates for environmental responsibility and public health, among others, through sponsorship, donations or contributions.

The Bank helps a range of humanitarian foundations, such as Sharjah City for Humanitarian Services that focuses on caring for children with special needs, and educational institutions such as the American University of Sharjah, as well as other organizations in the UAE that focus on serving children with disabilities, the blind, families and sports.

I would like to express our sincerest gratitude to HH Doctor Sheikh Sultan Bin Mohammed Al Qasimi, Member of the Supreme Council Ruler of Sharjah, our Honorary Chairman, for his continued patronage and support.

I extend our appreciation to the Monetary Authorities of the UAE, especially the UAE Central Bank, the Securities and Commodities Authority, the Abu Dhabi Exchange, and to all our Customers and our local and foreign Correspondents.

Also I would like to give special thanks to the Management and Staff of the Bank for their services, devotion and commitment.

Finally, I have the honor to submit to you the Board of Directors report for the year 2013.

*Ahmed Abdalla Al Noman
Chairman of the Board
Sharjah, 15 March 2014*



Board of Directors' Report to the General Assembly

2013 brought about political, security and economic developments that altered international relations, and rocked the stability of the regional and world political scenes, ushering in a new multipolar world order. The US dominance in international affairs was challenged by the emerging political roles of big economic powers such as Russia, China and Brazil.

The Arab region suffered throughout 2013 with spreading unrest that escalated into severe conflicts and bloody confrontations. Other parts of the world, notably in Africa and Asia, were the scenes of popular uprisings and confrontations along political, economic and even ethnic divides.

2013 upended the economic stagnation that had demurred since 2008 and introduced growth that touched financial performance indicators from global equity markets to international business.

On the global political level, the Syrian crisis formed the core issue, with the intensification of international confrontation against the backdrop of the use of chemical weapons in the war-torn country. The United Nations confirmed that Sarin poison was used in the outskirts of Damascus in August. President Obama, true to his earlier declarations condemning the use of chemical weapons as a red line, announced his decision for a limited military engagement in Syria. The crisis intensified internationally, and Russia played a pivotal role to avert the adoption of a military operation against Syria by the UN Security Council. As American and Russian warships headed to the shores of the Mediterranean, US and Russia reached a last minute agreement to place Syria's arsenal of chemical weapons under an international control body for destruction.

For its part, the interim agreement between Iran and the International Community, represented by the 5 permanent members of the UN Security Council plus Germany (5+1), was considered as one of the most important developments in 2013, in view of its far reaching consequences on the future of the troubled Middle East region. This agreement was reached after the election of Hassan Rohani, the moderate, to succeed the hardliner Mahmoud Ahmadinejad.

As Iran agreed to reduce platinum enrichment to a level that would prevent the production of nuclear weapons, and to open its various nuclear facilities to international inspection, it obtained in return a freeze on new sanctions and a gradual lifting of some of the imposed restrictions over a transitory period of 6 months. If successful, these initiatives will open the door for a comprehensive permanent agreement.

Countries in the region, especially the GCC, welcomed the agreement with persisting suspicion however, calling on Iran to stop its interference in the affairs of its neighbors, as a means of rebuilding confidence.

The world political scene in 2013 was tarnished by spreading unrest. Besides the dangerous escalation in the countries of the so-called Arab Spring, the African continent was rocked by a series of conflicts, often of military nature, on the backdrop of coup-d'états, ethnic and religious differences and terrorist attacks.

Political stability in Asia teetered with problems related to the balance of nuclear power. North Korea announced its intention to abandon the armistice agreed with South Korea following regular military drills held jointly by the US and South Korea, which the North has repeatedly called for them to desist to no avail. This led to a tango of international politics.

Meanwhile, the US has seen its Afghanistan standing deteriorate as President Karzai claimed that the US was trying to extend its military presence in his country by subversively empowering the Taliban and other rebel factions. The US foreign policy magnates reeled in shock at the power mongering shown by their once ardent supporter.

Instability and chaos reigned over the Arab Spring countries. In Libya, the Central Government lost grounds to the armed factions, while in Tunisia the political situation deteriorated on the backdrop of terrorist attacks and skirmishes with the security forces.

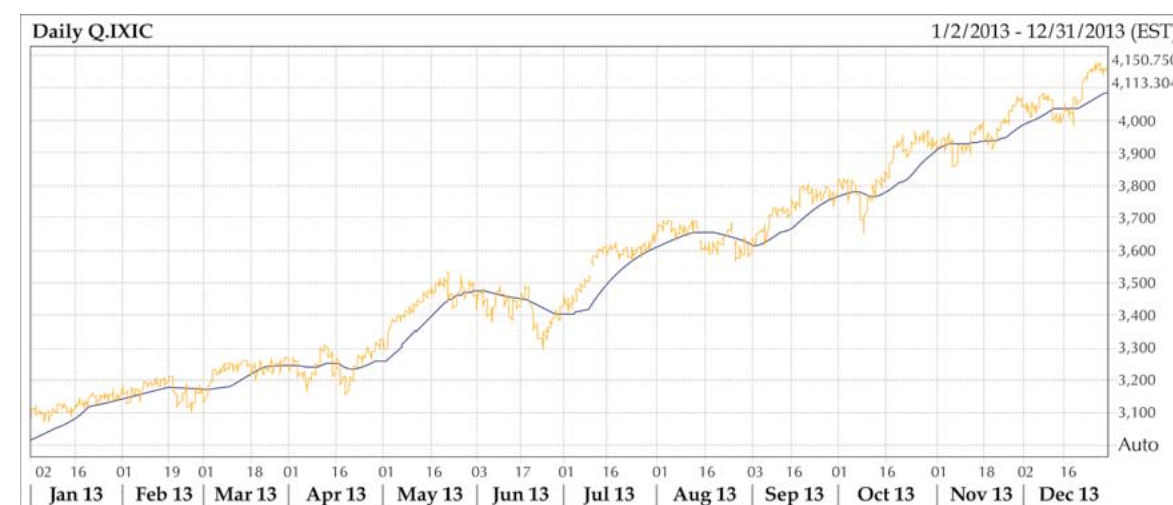
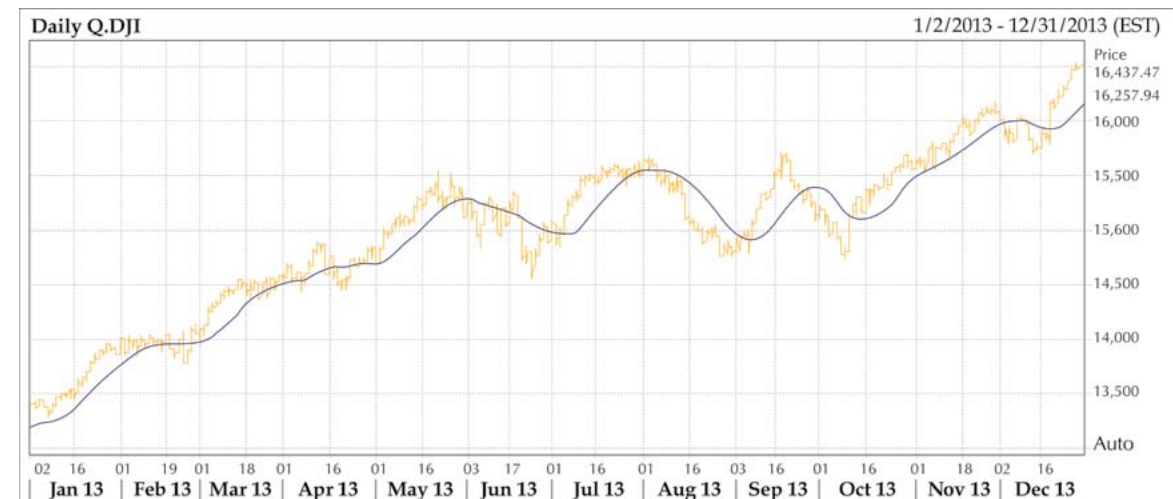
In Egypt, protestors came out in droves against President Mursi and the Muslim Brotherhood. Protests quickly escalated and the Egyptian military ousted Mursi and instated a new temporary President and interim Government. This resulted in bloody confrontations. The army managed finally to impose the authority of the State and the Egyptian Judicial Authorities ended the political presence of the Muslim Brotherhood party and confiscated their assets.

In the United States, the Government of the world's biggest economy had to partially close down some of its Federal services and send home, at least temporarily, 800,000 civil servants following the rejection of the 2014 federal budget by the House of Representatives.

US relations with some of its closest allies were tarnished by the unveiling of surveillance activities by US intelligence agencies that did not spare even the top executive offices of some European and Latin American countries.

The US economy registered a noticeable revival in 2013 as reflected by the solid growth achieved by the indices of the major financial markets. The Dow Jones Industrial Average had surpassed pre-crisis levels last registered in October 2008. This revival was however hampered by the sequestration policies by the US government, initiated in March. Sequestration refers to government wide budget cuts which have come into effect since the US Congress was unable to acquiesce on agreed terms for areas of budget reductions. The effect of this mandate however is hardly similar to the austerity measures put in place by the EU as sequestration measures represent just a fraction of a percent of US GDP.

Accordingly, in one of its most successful years, Nasdaq closed 2013 with a growth of 35% to reach 4,176, while Dow Jones rose by 26% to reach 16,576.



Despite this economic rebound, the banking sector remained subject to the repercussions of the global meltdown and the ensuing stiffened regulations. As such, JP Morgan agreed to pay fines of one billion Dollars following misrepresentation of losses in credit-default swaps from its London offices, while Barclays faced fines by the Financial Conduct Authority of 50 million GBP for failing to disclose a 322 million GBP investment by Qatari investors, and HSBC was fined \$ 1.9 billion for money laundering in Mexico.

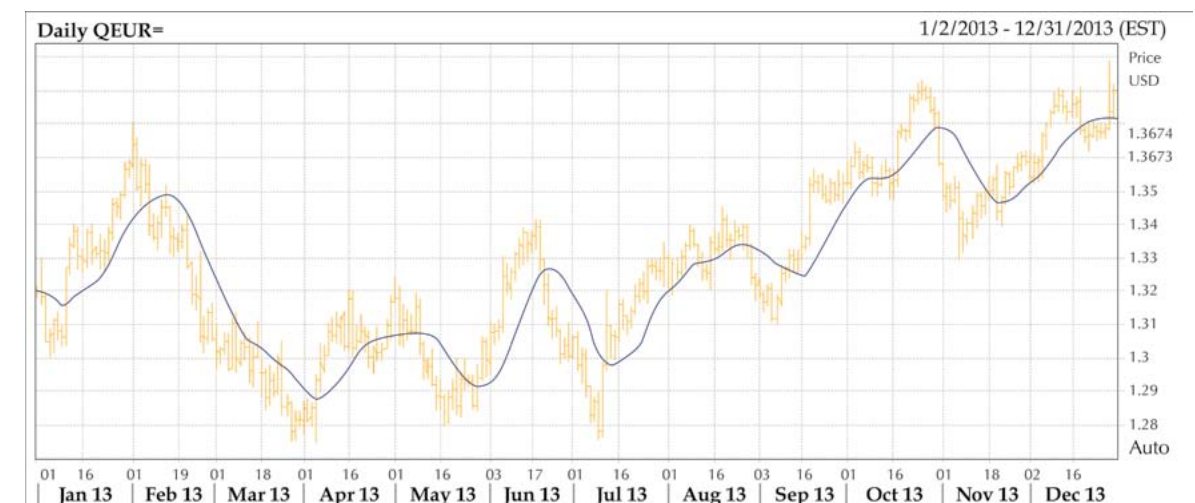
Europe had yet to emerge from the drudgery of a bout of economic recession. Continental Europe saw its unified austerity plans encounter challenges, when it was planned to be administered to Cyprus. The Mediterranean island's 10 billion Euro bailout was solicited to support an economy that faltered and faded under the weight of the poor performance of Greece. The EU-IMF intention to impose a tax on bank deposits held in Cyprus to remunerate the bailout was met with a frenzy of concern which caused banks to shutter themselves for almost two weeks to prevent a run on deposits. A plan was ultimately implemented which levied a high tax on deposits over 100k Euro; which implied a new banking environment for many irritated Russians whose 31 billion dollars of deposits accounted for 35% of the country's total deposits.

In Europe also, cohesion remained tense. For the first time ever, the European Parliament rejected an EU 7-year budget. The budget is a power brokering measure used by members to obtain the least concessions for their own countries and totals just below one trillion Euros. Questions about the stability of the European Union and its ability to surpass the consequences of the crisis and foster economic recovery remained vivid.

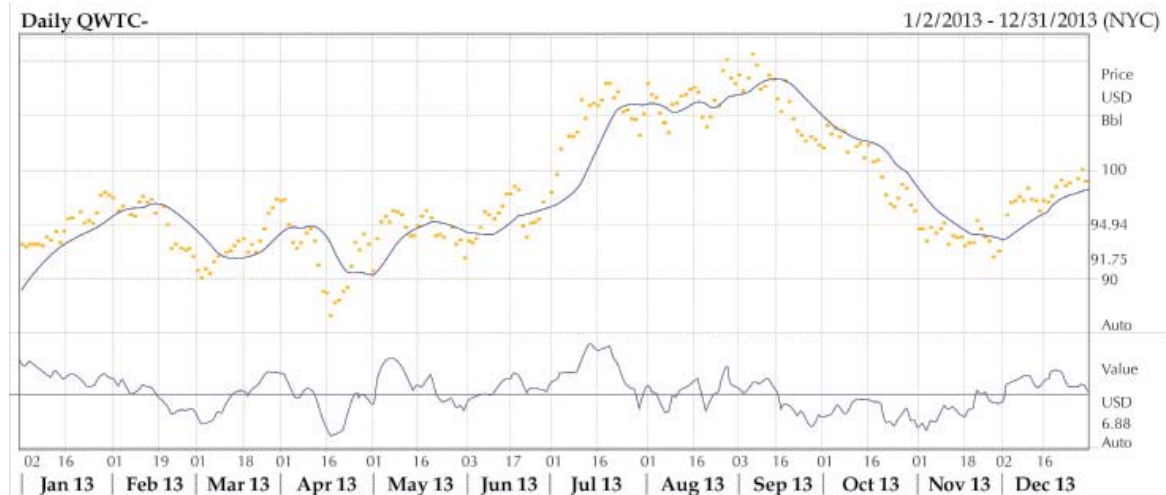
In Germany, Angela Merkel achieved victory in the legislative elections to lead her country for a new 4-year term. Polling data however revealed that the margin of victory was narrow, indicating the growing popular sympathy with criticism of the economic performance of the European Union.

On the other hand, and despite the earlier EU reticence to allow new members, Croatia joined in July 2013, Latvia joined in January 2014, after it was denied entry to the Union in 2007, and Lithuania will join in January 2015.

In agreement with the US, the EU implemented tariffs on some Chinese products in a protective measure of its domestic industry. An accord was reached within the Union to give the European Central Bank the role of supervision and control over the major European banks. Moreover, and despite the continuing economic problems of some member states, the exchange rate of the Euro versus the US Dollar in 2013 pursued its appreciating trend.



Oil prices remained relatively stable throughout 2013; as global demand increased by 1.2 million b/day; while OPEC reduced its daily output by some 900,000 barrels.



The price of gold ended a 12-year streak of shining gains as the ounce closed with a 29% retraction in 2013 to reach \$1,204 per ounce. The quantitative easing in the US and the strong rebounds in the stock markets have obviously diverted money from gold which had shot upward during times of greater uncertainty



Regionally, the annual GCC summit was held in December in Kuwait. HH Sheikh Mohammed Bin Rashid Al Maktoum, presided over the country's delegation. The summit discussed the agreement on the Iranian nuclear file and its regional implications, the planned Geneva 2 conference over the Syrian crisis and the planned launching of a US dollar pledged unified GCC currency, which excludes UAE and Oman.

In the UAE, the celebrations of the 42nd National Day were further intensified by the election of Dubai as the host city for Expo 2020, the biggest world trade fair held once every five years. This success was viewed by nationals and residents alike as a culmination of a long successful path of achievements throughout the 42 years of the Union. Dubai won the nomination after overcoming Turkey's Izmir, Brazil's Sao Paulo and Russia's Yekaterinburg; receiving more than two thirds of the delegate votes in the last electoral round.

The Government approved the 2014-2016 three year budget totaling AED 140 billion; 15% over the previous period. The Federal budget for 2014 was also approved with total expenditure estimated at AED 46.2 billion; 51% of which have been appropriated to development projects and social benefits (AED 23.5 billion), Education was allocated AED 9.8 billion; Health sector AED 3.7 billion and infrastructure AED 1.6 billion.

For the first time since the global financial crisis, Moody's, the international rating agency, altered its negative outlook for the future of the banking sector in the country thanks to the sustained revival in the business environment, notably trade, transport and tourism. For its part, Fitch predicted the GDP growth rate to reach 4.1% driven by the revival of the core economy which will foster bank credit.

As a means to ensure social welfare and stability, the UAE has concentrated on improving the quality of life within the nation. Abu Dhabi announced an investment package of AED 330 billion for capital projects within the Emirate over the next 5 years. Infrastructure improvement works began in Khalifa City A for an amount of AED 396 million, and a new project of AED 267 million to widen the Madinat Zayed to Ghayathi road (80km) was implemented.

The UAE and France signed an agreement to collaborate on an Earth Observation Space Capability initiative, as part of their strategic partnership framework. The agreement would extend the long-standing bilateral relationship between the two countries into a new and very promising area of strategic collaboration.

The Middle East's leading clear energy developer, Masdar, has launched the very first renewable energy plant to be built in Seychelles. The project is financed by Abu Dhabi Fund for Development; the 6 MW Victoria Wind Farm will generate 8% of the energy on Mahe Island, where 90% of the population lives.

The UAE Central Bank issued its revised mortgage cap circular aimed at protecting the financial sector; ensuring financial stability and bolstering end-users confidence. Mortgage finance has been capped at 80% for UAE nationals and 75% for non-nationals of the value of the property.

The Central Bank also issued its revised circular on the regulations for the monitoring of large exposure limits. The amendment to the allowable large exposure limits has been decided after the consultation with the Emirates Banking Federation. Large exposures have been defined as those funded and unfunded outstanding and unused commitments (less provisions, cash collaterals, bank and Federal Government guarantees) which a bank allows to a single borrower or his group which in total equal or exceed 10% of the Bank's capital base with a maximum of AED 750 million.

Large exposures should not exceed 25% of the capital base, inclusive of funded and unfunded facilities after deduction of acceptable securities and the weighing of contingent liabilities. Facilities to board members have been capped at 5%, funded and unfunded. Banks were given a period of 5 years for compliance provided the annual reduction will not be less than 20%.

The Central Bank also issued a new circular on the implementation of the US Foreign Accounts Tax Compliance Act (FATCA) in the UAE.

The capital Abu Dhabi hosted the international conference for security and protection from nuclear radiation; with the participation of 400 specialists from 100 countries. The conference outlined the highest standards that would ensure nuclear safety; especially in areas close to national nuclear reactors. The UAE had signed with the International Agency for the Nuclear Energy a series of protocols pertaining to the safe use of radiating substances and cooperation in the field of nuclear energy for civilian and peaceful applications.

The United Kingdom has decided that beginning 2014, UAE nationals will be exempted from entry visas. This move is expected to boost the traffic from the UAE to the UK for business, tourism or medical reasons by 40 to 50%. It is widely expected that the EU will follow suit.

In Dubai, the Higher Committee for the Expo 2020 estimated that the expenditure on infrastructure, real estate and hospitality projects would total AED 67 billion. Bankers have confirmed the capacity of the UAE banks to provide the needed financing for these mega projects.

HH Sheikh Mohammed Bin Rashid Al Maktoum inaugurated the new Al Maktoum airport in Jebel Ali. The airport city is set to cost AED 120 billion when completed. The new airport will be ready to handle more than 100 million passengers and 12 million tons of cargo by the year 2020. Once completed, the new facility will host 150 airlines and will provide 125,000 job opportunities, adding more than AED 99 billion to the Emirate's GDP.

The Dubai Airshow was held during November. Mega deals exceeding in total US\$ 238 billion were announced during this biennial event. Boeing and Airbus contracted sale orders for 510 aircraft at a combined total of \$196 billion. Etihad Airways of Abu Dhabi, signed a purchase agreement for 87 aircrafts at \$ 67 billion, while Emirates Airlines ordered 200 planes for \$99 billion and Fly Dubai ordered 111 Boeing airplanes for \$11.4 billion.

Citiscap, held in October, was also met with great success as new projects totaling AED 50 billion in value were unveiled during the exhibition. Citiscap, as an annual event, is set to promote the future of the real estate sector in the UAE.

In Sharjah, HH Doctor Sheikh Sultan Bin Mohammed Al Qasimi has approved AED 100 million road project which will extend upon the current array of roads available in the Muwaileh area. HH subsequently ordered that AED 120 million in compensation to be awarded to individuals for ongoing road works and infrastructure upgrades in the Emirate.

The official inauguration of the rehabilitation of the Agardzine Church Complex in Armenia, took place in October. This endeavor supported entirely by HH Doctor Sheikh Sultan Bin Mohammed Al Qasimi cost a total of US\$ 5.5 million. Mr. Hamid Jaafar represented HH the Ruler during this event, which received intensive press coverage by the local and international media.

HH The Ruler also attended the 3rd Economic Conference for the Middle East and North Africa held in Marseille, France under the heading "Participation in Vision and Prosperity". HH attended, for the occasion, the signing of a cooperation agreement between American University of Sharjah and Kedge Business School – France.

HH Doctor Sheikh Sultan Bin Mohammed Al Qasimi inaugurated the Khalifa Round for the General Conference of the Union of UAE writers under the heading "Emirates Culture and Heritage – An overview of Documentation Efforts"; in recognition of the support extended by HH the President to the Emirati culture. HH the Ruler was also honored by the General Secretariat of the Arab League in recognition of his pioneering role in preserving the Arab Documentation.

On the occasion of the Sharjah Cultural Days in Lisbon, Portugal, HH Doctor Sheikh Sultan Bin Mohammed Al Qasimi was honored by the Lisbon Science Academy, who bestowed on him a unique decoration and membership in this highly respected academy. During the festivities, HH stressed on the importance of culture in any nation's heritage and the cultural exchanges among the global population.

The Ruler's wife and most notable supporter of the United Nations Refugees Relief Efforts, HH Sheikha Jawaher Bint Mohammed Al Qasimi, called on the world community during her participation in the 64th session of the Executive Committee of this UN agency, to upgrade and intensify their relief efforts to aid the Syrian refugees and provide support and assistance to the receiving neighboring countries.

The Sharjah Investment and Development Authority (Shurooq), launched the construction of a luxurious 5-star Al Bait Hotel. The traditional hotel project ties in with the initiative to revive heritage in Sharjah and aims to protect and restore the historic fabric within the Emirate. The 54-room project spread over 20,000 sqm, is set to be completed end of 2014, with a cost of AED 100 million. Shurooq in association with Sea Wings announced the launch of new sea plane services in line with its strategy to boost the Emirate as a tourist hub. Shurooq undertook a promotion campaign in the US, visiting Washington and New York. The delegation was headed by HE Sheikh Ahmed Bin Sultan Al Qasimi who expressed his pleasure in the growing interest the US has in Sharjah and in what it may present as investment opportunities for the American ventures. The campaign explored the potential areas of cooperation between the two sides.

Statistics and data released by the Department of Economic Development in Sharjah suggest that the Emirate is firmly on the path towards building a comprehensive and diversified economy, as all the economic sectors, particularly industry, real estate and trade, have witnessed a remarkable revival during the year.

The Middle East Watches and Jewelry exhibition held in Expo Center, Sharjah, attracted more than 450 exhibitors from all over the world and more than 30,000 visitors.

Sharjah Book Fair held its 32nd session; with Lebanon designated as the guest country in recognition of its role in enriching Arab culture in general. The Emirate also hosted the 9th Sea Trade Conference in November. The event was met with great success.



Bank's Activities, Subsidiaries & Emirates Lebanon Bank (Consolidated Results)

Total Assets reached AED 24,973 million as at 31/12/2013, against AED 22,833 million as at 31/12/2012, an increase of 9%.

Total Liabilities reached AED 20,620 million as at 31/12/2013, against AED 18,651 million as at 31/12/2012, up by 11%.

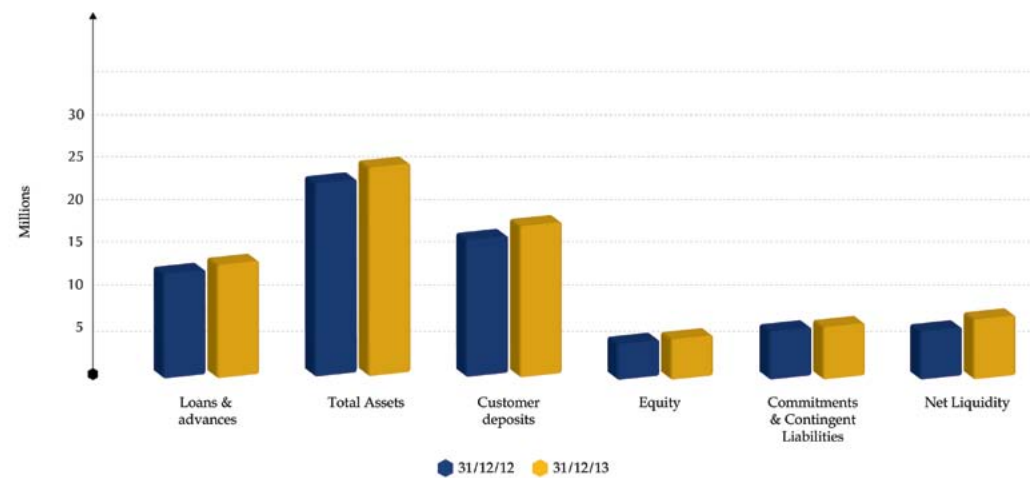
Total Equity reached AED 4,353 million as at 31/12/2013 against AED 4,182 million as at 31/12/2012, up by 4%.

Total Customer Deposits reached AED 18,374 million as at 31/12/2013, compared to AED 16,476 million as at 31/12/2012, up by 12%.

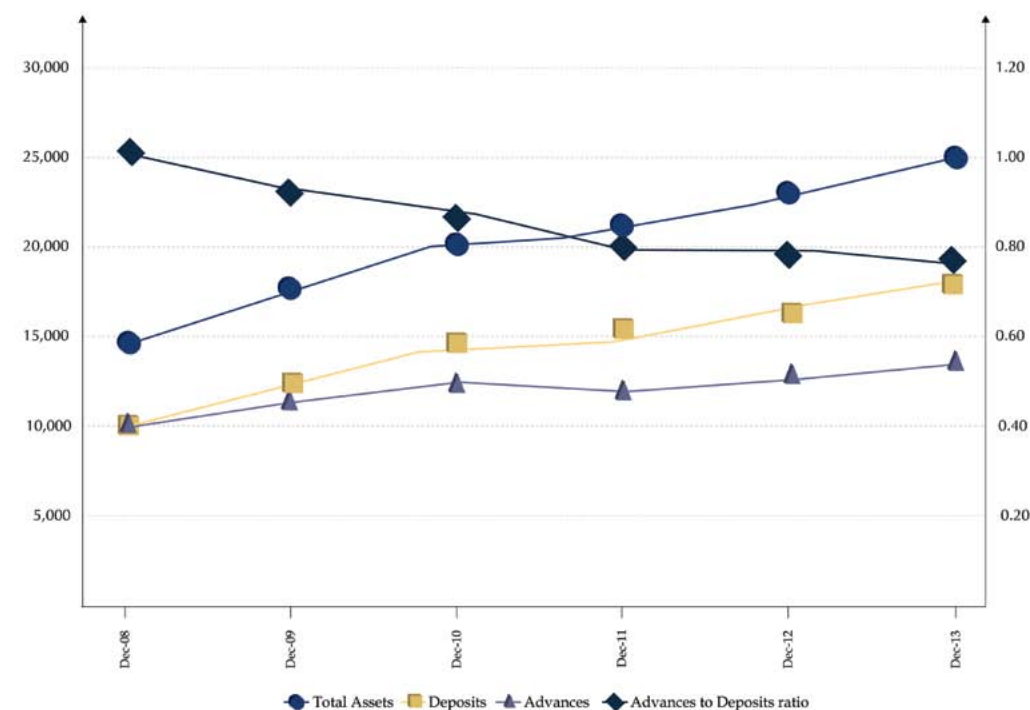
Total Facilities reached AED 13,135 million as at 31/12/2013, compared to AED 12,444 million as at 31/12/2012 up by 6%.

Total Off-Balance Sheet reached AED 5,844 million as at 31/12/2013, against AED 5,714 million as at 31/12/2012, up by 2%.

Net liquidity reached AED 7,414 million as at 31/12/2013, against AED 6,019 million as at 31/12/2012 up by 23%.

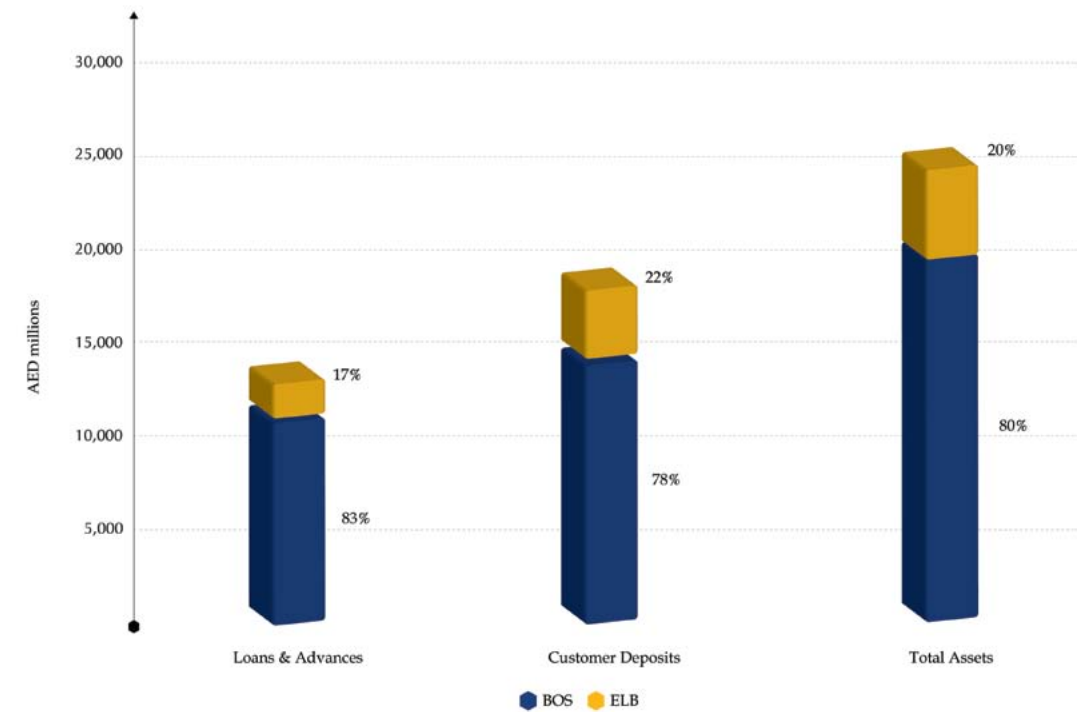


Below is the evolution of the consolidated balance sheet since 2008, the acquisition date of ELB.



Over the years, the Bank has managed to continuously increase its assets, customer deposits and to a lesser extent the advances. This led to the continuous improvement of the advances to deposits ratio which declined from a high of 1.02 in 2008 to 0.71 in 2013.

The contribution of ELB to the consolidated balance sheet has slightly changed with deposits now at 22% instead of 25% of the total deposits and ELB assets are now at 20% instead of 23% of the total assets.



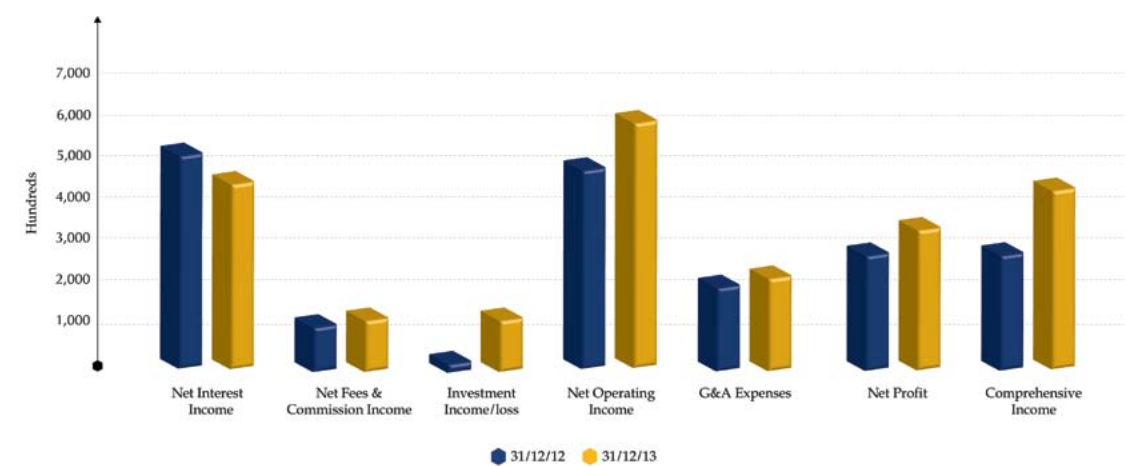
Consolidated Income Statement

Net interest income reached AED 453 million as at 31/12/2013, against AED 520 million as at 31/12/2012, down by 13%.

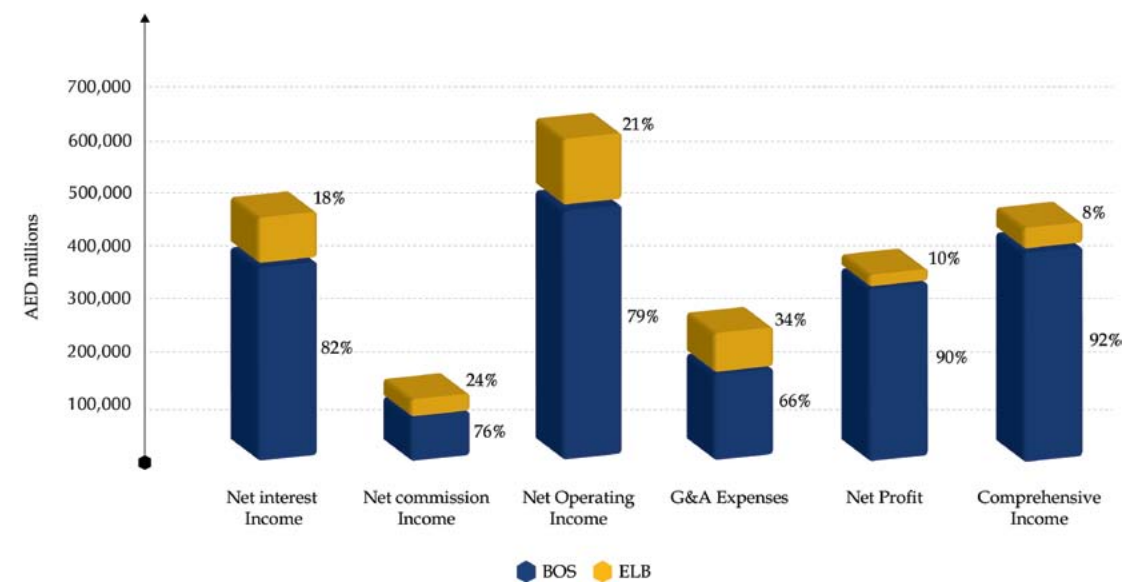
Net operating income reached AED 610 million as at 31/12/2013, against AED 495 million as at 31/12/2012, up by 23%.

Net profit for the year reached AED 353 million as at 31/12/2013, against AED 277 million as at 31/12/2012 up by 27%.

Total comprehensive income reached AED 433 million as at 31/12/2013, against AED 273 million as at 31/12/2012 up by 59%.



The following graphs show the percentage that EL Bank contributes to the consolidated income statement for the year end 2013.



Public Disclosures on Capital Adequacy

The following qualitative and quantitative disclosures are being provided in accordance with the regulatory capital adequacy guidelines promulgated by the Central Bank of the United Arab Emirates. The guidelines are based on the standards established by the Basel Committee on Banking Supervision of the Bank for International Settlements (Basel II). These guidelines support market discipline by providing market participants with disclosures to help them understand the risk assessment and management process, risk exposures, capital structure, and capital adequacy.

Risk Management

Basel II guidelines require banks to have effective mechanisms in place for the active identification, measurement and monitoring of risks across all business lines. Key risks are classified as Credit Risk, Market Risk, Liquidity Risk or Operational Risk. The Bank has implemented appropriate structures to manage and mitigate these and other risks.

Risk Management Structure

Risk Management forms part of the overall governance structure of the Bank. Its aim is to protect the Bank and its stakeholders from exposure to undue losses by ensuring that the Bank's credit and operational activities are constantly monitored and managed within prescribed policies and to ensure that the asset and liability profile is managed and maintained within approved parameters.

To fulfill its obligations to stakeholders, the Bank has established Senior Management committees to oversee risk management. The Executive Committee (EC), under delegation from the Board of Directors, has defined policies, processes and systems to monitor and manage credit risk, operational risk, market risk and liquidity risk. The members of the EC comprise the Chairman and three Board Members, in addition to the Executive Director and General Manager. The EC meets once every 45 days, or more frequently as circumstances dictate. The quorum requires all members to be present at the meeting and decisions taken should be unanimous.

In addition, a "Board Risk Committee" meeting at least quarterly was established in 2011 to assist the Board to ensure that the Bank has implemented an effective policy and plan for risk management that will enhance the Bank's ability to achieve strategic objectives, and that the disclosures regarding risk are comprehensive, timely, and relevant.

Additionally, the Bank has an independent Credit Risk function that monitors and reviews adherence to risk management policies and procedures. The Bank's internal audit function, which is part of the risk framework, primarily evaluates the effectiveness of operational risk controls. This function is outsourced to one of the Big Four audit firms to lend the process greater independence and objectivity.

Credit Risk Management

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

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

Policies relating to credit are reviewed and approved by the Bank's Executive Committee, in accordance with the Bank's credit policy set out in the Credit Policy Manual. Credit and Marketing functions are segregated. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Bank further limits risk through diversification of its assets by economic and industrial sectors and by avoiding a concentration in any one economic sector or sub-sector.

All credit facilities are administered and monitored by the Credit Administration Department. Periodic reviews are conducted by Credit Risk and facilities are risk-graded based on criteria established in the Credit Policy Manual.

Cross-border exposure, financial institutions' exposure and limits for money market and treasury activities are approved as per guidelines established by the Bank's Executive Committee and are monitored by Senior Management on a daily basis.

The Executive Committee is responsible for setting the credit policy of the Bank. It also establishes economic sector/industry caps, approves policy exceptions and conducts periodic portfolio reviews to evaluate portfolio quality.

Commercial/Institutional lending underwriting

All credit applications for commercial and institutional lending are subject to the Bank's credit policies, underwriting standards, industry caps (if any), and to regulatory requirements. The Bank does not lend to companies operating in industries that are considered by the Bank inherently risky or where specialized industry knowledge is required. In addition, the Bank sets credit limits for all customers based on their perceived creditworthiness.

All credit facilities extended by the Bank are made subject to prior approval pursuant to a delegated signature authority system under the ultimate authority of the Executive Committee or the Bank's Executive Director and General Manager under the supervision of the Board. At least two signatures are required to approve any commercial or institutional credit application.

Credit review procedures and loan classification

The Bank's Credit Risk department subjects the Bank's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the UAE and the Bank's internal policies in order to assist in the early identification of accrual and potential performance problems. The Credit Risk department validates the risk ratings of all commercial clients; provides an assessment of portfolio risk by product and industry; and monitors observance of all approved credit policies, guidelines and operating procedures across the Bank.

All commercial/ institutional loan facilities of the Bank are assigned one of nine risk ratings (A-I) with A being excellent and I being loss with no reimbursement capacity and total provisioning. The current risk rating system provides sufficient objectivity and granularity to comply fully with Basel II requirements and the IRB guidelines.

If a credit is impaired, interest suspended will not be credited to the income statement. A specific allowance for impairment of classified assets is made based on recoverability of outstanding balances and the risk ratings of the assets.

The Bank also complies with IAS 39, in accordance with which it assesses the need for any impairment losses on its loan portfolio by calculating the net present value of the expected future cash flows for each loan. As required by the Central Bank of the UAE guidelines, the Bank takes the higher of the loan-loss provisions required by IAS 39 or Central Bank regulations.

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is likely the collectability of all principal and interest due according to the contractual terms of the loan/securities agreement(s) would be doubtful. These loans are graded G to I in the Bank's internal credit risk grading system.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses and its loans and advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets with respect to losses that have been incurred but that have not been identified as loans subject to individual assessment for impairment.

Write-off policy

The Bank writes off a loan/ security balance (and any related allowances for impairment losses) when the Bank determines that the loans/ securities are uncollectable. This determination is reached after considering information such as the occurrence of significant changes in the borrower/ issuer's financial position such that the borrower/ issuer can no longer pay the obligation, or such that proceeds from collateral will not be sufficient to pay back the entire exposure.

The Bank holds collaterals against loans and advances in the form of mortgage interests over properties, vehicles and machinery, cash margins, fixed deposits, guarantees, and others. The Bank accepts guarantees mainly from well-reputed local or international banks, well-established local or multinational corporates and high net-worth private individuals.

Liquidity risk management

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities. The Bank manages its liquidity in accordance with UAE Central Bank requirements and the Bank's own internal guidelines. The UAE Central Bank sets cash ratio requirements on overall deposits ranging between 1% for time deposits and 14% for demand deposits, based upon the tenor of the deposits. The UAE Central Bank also imposes a mandatory 1:1 utilization ratio, whereby loans and advances (combined with inter-bank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the UAE Central Bank.

Stable funds are defined by the UAE Central Bank to mean free own funds, inter-bank deposits with a remaining term of more than six months, and stable customer deposits. To guard against liquidity risk, the Bank diversifies its funding sources and manages its assets with liquidity in mind, seeking to maintain an optimal balance between cash, cash equivalents, and readily marketable securities. The Executive Committee sets and monitors liquidity ratios and regularly revises and updates the Bank's liquidity management policies to ensure that the Bank would

be in a position to meet its obligations as they fall due. Management of Liquidity Risk within the parameters prescribed by the EC has been delegated to an Asset and Liability Committee (ALCO) comprising, a Deputy General Manager and senior executives from Treasury, Finance, Risk, and Investment.

The Bank's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or potential damage to the Bank's reputation.

The Treasury department communicates with other business units regarding the liquidity profile of its financial assets and liabilities and extrapolates projected cash flows arising from projected future business. The Treasury maintains a portfolio of short-term liquid assets to ensure liquidity is maintained within the Bank's operation as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is performed under a variety of scenarios covering both normal and severe market conditions. All liquidity policies and procedures are subject to review and approval by the Executive Committee. The daily Position Sheet reports the liquidity and exchange positions of the Bank and is reviewed by Senior Management. A summary report, including any exceptions and remedial action taken, is submitted to the Executive Committee.

Market risk management

Market Risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into trading, non-trading, or banking-book.

A. Market risk – trading book

The Executive Committee has set limits for acceptable levels of risks in managing the trading book. The Bank maintains a well-diversified portfolio. In order to manage market risk in the trading book, the Bank carries a limited amount of market risk based on policy preference and this is continuously monitored by Senior Management. Proprietary trading for the account of the Bank is managed by a proprietary trading limit with a stop-loss limit.

The Bank's trading book comprises mainly equity instruments in companies listed on the UAE exchanges. As such, market risk in the trading book is limited to equity price risk.

Equity price risk refers to the risk of a decrease in fair values of equities in the Bank's trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the values of individual stocks.

B. Market risk – non-trading or banking book

Market risk on non-trading or banking positions mainly arises from interest and foreign exchange rate changes and equity price changes.

i. Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities. The Bank uses simulation-modeling tools to periodically measure and monitor interest rate sensitivity. The results are analyzed and monitored by Senior Management. Since most of the Bank's financial assets and liabilities follow floating rates, deposits and loans generally re-price simultaneously, providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Bank's assets and liabilities will be re-priced within one year or less, thereby further limiting interest rate risk.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument, excluding non-interest bearing items. The rate is a historical rate for a fixed-rate instrument carried at amortised cost and the current market rate for a floating rate instrument, or for an instrument carried at fair value.

ii. Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily. Hedging instruments are also used to ensure that positions are maintained within the limits.

The Bank's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, in the normal course of business, the Bank takes on foreign currency exposures to finance its client's activities. The Executive Committee sets the limits on the level of exposure by currency for both overnight and intra-day positions, which are closely monitored by Senior Management.

iii. Equity price risk

Equity price risk refers to the risk of a decrease in fair values of equities in the Bank's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the values of individual stocks.

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud, or external events. When controls fail to perform, operational risks can cause damage to reputation, and may have legal or regulatory implications, or lead to financial losses. The Bank would not be able to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank can minimize those risks. Controls include effective segregation of duties, access, authorization, and reconciliation procedures, staff education and assessment processes. The Bank implements a system to capture and track individual internal error/loss data (actual loss, potential loss, near misses and attempted frauds), mapping these into the relevant business lines and operating units. Protocol requires loss data events to be analyzed and any deficiencies in the Bank's processes to be remedied.

Capital Management and Allocation

The Basel II and the UAE Central Bank (CBUAE) guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance-sheet exposure.

Capital is also set aside for operational risk and for market risk associated with trading activities. In accordance with the CBUAE guidelines, UAE banks must maintain a minimum capital adequacy ratio of 12% (compared with the internationally agreed minimum of 8%).

Capital Adequacy Framework (Basel II)

The Basel II framework incorporates three equally important and mutually reinforcing pillars:

Pillar I

Minimum Capital requirements for credit risk-weighted assets, market risk-weighted assets, and operational risk.

Credit risk-weighted assets are measured by means of a hierarchy of risk weightings classified according to the nature of each asset (on and off-balance sheet) and counterparty, taking into account any eligible collateral or guarantees.

Market risk-weighted assets are determined by taking into account market related risks such as foreign exchange, interest rate, and equity position risks.

Credit risk

Basel II has specified three approaches to the calculation of the regulatory capital requirement for credit risk which are (1) the Standardized approach, (2) the Foundation Internal Ratings-Based ('IRB') approach and (3) the Advanced 'IRB' approach.

Bank of Sharjah applies the Standardized approach that uses external credit ratings provided by External Credit Assessment Institutions (ECAI) approved by CBUAE, to determine the risk weightings to be applied to rated counterparties. Risk weightings for non-rated counterparties are assigned at 100%.

Market risk

The Bank assesses Market Risk through the Standardized approach, under which interest rate risk and equity position risks are restricted to the trading book. Foreign exchange, commodity, and option risks are applied on the banking book.

Operational risk

The Bank applies the Basic Indicator Approach.

Pillar II - Supervisory Review Process (SRP)

The SRP requires banks to implement a process for assessing their capital adequacy in relation to their risk profiles as well as a strategy for maintaining their capital levels. Under this pillar, banks' procedures and measures should ensure (1) an appropriate identification and measurement of the risk profile of their activities; (2) an appropriate level of internal capital to cover these risks, and (3) application and further development of suitable risk management systems.

Supervisors are required to intervene at an early stage to prevent capital falling below the minimum levels required to support the risk characteristics of the Bank.

Pillar III - Market Discipline

The purpose behind this pillar is to enhance transparency by expanding public reporting on the risk position of banks, hence increasing comparability among them.

Bank of Sharjah implements all three pillars of the Basel II framework.

Capital Structure:

The Bank's components of Tier 1 and Tier 2 capital base are as follows:

Tier 1 Capital	2013 AED'000	2012 AED'000
CORE CAPITAL		
Share capital	2,100,000	2,100,000
Shares held in treasury	(327,792)	(327,792)
Legal reserves	1,085,357	1,085,357
General reserves	506,125	441,303
Retained earning	579,129	519,305
Minority interests	210,455	257,742
TOTAL CORE CAPITAL	4,153,274	4,075,915
Less: Goodwill and other intangibles	(249,802)	(257,586)
TOTAL QUALIFYING TIER 1 CAPITAL	3,903,472	3,818,329
Tier 2 Capital		
Undisclosed reserves/General Provisions (Note 1)	236,890	222,161
Cumulative changes in fair value (Note 2)	89,706	47,760
TOTAL QUALIFYING TIER 2 CAPITAL	326,596	269,921
TOTAL ELIGIBLE REGULATORY CAPITAL	4,230,068	4,088,250

Note 1: General Provisions are restricted to a maximum of 1.25% of RWA

Note 2:

- a) Limited to a maximum of 45% of the excess of the market value over net book value
- b) Revaluation reserves in respect of a bank's property assets are not to be included
- c) Negative reserves deducted at 100%

Capital Management

The Bank's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of expected growth of the banking facilities (including off-balance sheet) for each business group activity, for future sources and uses of funds, and for the Bank's future dividends policy.

Capital is allocated to different business groups and stress testing is used to ensure that the Bank's internal capital targets are consistent with the risk profile of the Bank.

Capital Adequacy

The table below details the risk-weighted assets, regulatory capital requirements and regulatory capital ratios for Bank of Sharjah as at 31 December 2013.

I - Risk Weighted Assets:

	2013 AED'000	2012 AED'000
PILLAR I		
Credit Risk	18,058,801	16,841,145
Market Risk	5,448	97,399
Operational Risk	886,973	834,356
TOTAL RISK WEIGHTED ASSETS	18,951,222	17,772,900

Asset Classes	AED'000					
	On Balance Sheet	Off Balance Sheet	Credit Risk Mitigation (CRM)			Risk Weighted Assets
	Gross Outstanding	Net Exposure After Credit Conversion Factors (CCF)	Exposure Before CRM	CRM	After CRM	
2013						
Claims On Sovereigns	4,404,549	8,815	4,413,364	-	4,413,364	1,798,301
Claims On Non-Central Government Public Sector Entities (PSEs)	860,960	89,326	950,286	-	950,286	-
Claims On Banks	4,108,704	353,438	4,462,142	-	4,462,142	1,188,472
Claims on Securities Firms	2,526	-	2,526	-	2,526	505
Claims On Corporates	10,170,384	3,507,010	13,517,437	2,452,807	11,064,630	11,064,630
Claims Included In The Regulatory Retail Portfolio	421,910	2,679	424,589	64,862	359,727	345,422
Claims Secured By Residential Property	1,151,205	55,001	1,206,206	171,384	1,034,822	787,643
Claims Secured By Commercial Real Estate	117,256	551	117,807	-	117,807	117,807
Past Due Loans	1,098,424	37	275,640	-	275,640	288,836
Higher-Risk Categories	470,899	-	470,899	-	470,899	706,348
Other Assets	1,989,706	-	1,989,706	-	1,989,706	1,760,837
TOTAL CLAIMS	24,796,523	4,016,857	27,830,602	2,689,053	25,141,549	18,058,801
SETTLEMENT RISK	-	-	-	-	-	-
TOTAL CREDIT RISK						18,058,801
2012						
Claims On Sovereigns	3,891,520	-	3,891,520	-	3,891,520	1,936,087
Claims On Non-Central Government Public Sector Entities (PSEs)	1,049,383	73,296	1,122,679	-	1,122,679	-
Claims On Banks	3,724,125	365,560	4,089,686	-	4,089,686	918,261
Claims on Securities Firms	1,900	-	1,900	-	1,900	380
Claims On Corporates	10,728,282	3,391,795	13,762,578	2,542,863	11,219,715	11,219,715
Claims Included In The Regulatory Retail Portfolio	612,840	2,135	614,975	85,736	529,239	514,126
Claims Secured By Residential Property	32,183	-	32,183	-	32,183	32,183
Claims Secured By Commercial Real Estate	113,790	551	114,341	-	114,341	114,341
Past Due Loans	402,369	72	119,360	-	119,360	122,440
Higher-Risk Categories	364,700	-	364,700	-	364,700	547,050
Other Assets	1,637,377	-	1,637,377	-	1,637,377	1,436,562
TOTAL CLAIMS	22,558,469	3,833,409	25,751,299	2,628,599	23,122,700	16,841,145
SETTLEMENT RISK	-	-	-	-	-	-
TOTAL CREDIT RISK						16,841,145

MARKET RISK	2013 AED'000	2012 AED'000
Interest rate risk-Trading book	249	99
Foreign exchange risk	405	1,147
Equity exposure risk-Trading book	-	10,446
Market risk total capital charge	654	11,692
MARKET RISK-RISK WEIGHTED ASSETS (ABOVE TOTAL X8.33)	5,448	97,399

2- Capital ratios

OPERATIONAL RISK	2013 AED'000	2012 AED'000
Three-year average Gross Income	709,863	667,752
Capital charge (Beta factor (15%))	106,479	100,163
OPERATIONAL RISK-RISK WEIGHTED ASSETS (ABOVE TOTAL X8.33)	886,973	834,356

TIER I RATIO	2013 AED'000	2012 AED'000
Tier I capital	3,903,472 (a)	3,818,329 (a)
Total risk weighted assets	18,951,222 (b)	17,772,900 (b)
TIER I RATIO ((A)/(B))	20.60%	21.48%

CAPITAL ADEQUACY RATIO	2013 AED'000	2012 AED'000
Capital Base	4,230,068 (a)	4,088,250 (a)
Total risk weighted assets	18,951,222 (b)	17,772,900 (b)
CAPITAL ADEQUACY RATIO (A)/(B)	22.32%	23.00%

- 1- The Ordinary General Assembly approved the Board of Directors' report for the year 2013.
- 2- The Ordinary General Assembly approved the Auditors Report for the year 2013.
- 3- The Ordinary General Assembly approved the Financial Statements for the year ending 31st December 2013.
- 4- The Ordinary General Assembly approved the proposed appropriation for the year 2013 as follows:

	2013	2012
	AED'000	AED'000
Transfer to statutory reserve	(35,357)	-
Transfer to contingency reserves	71,262	26,660
Transfer to other reserves	14,095	23,340
Board of Directors remuneration	7,500	7,500
Cash dividend (2012 - 10%) / (2013 – 9.116%)	176,395	193,500
60 million treasury share distribution (representing 2.86% from the paid up capital)	119,197	-
Charity donations	2,500	2,500
Retained earnings	265,020	292,465
TOTAL	620,612	545,965

- 5- The Ordinary General Assembly discharged the Board of Directors and the Auditors of all liabilities of their services during the period ending 31st December 2013.
- 6- The General Assembly approved the Board of Directors Remunerations for the year 2013.
- 7- The Ordinary General Assembly re-appointed M/S Deloitte and Touche as external auditors for the financial year 2014, and fixed their remuneration.
- 8- The Ordinary General Assembly elected a new Board for 3 years, composed of:

Mr. Ahmed Abdalla Al Noman
 Sheikh Mohammed Bin Saud Al Qasimi
 Sheikh Saif Bin Mohammed Butti Al Hamed
 H.E. Humaid Nasser Al Owais
 Mr. Abdul Rahman Bukhatir
 Mr. Abdul Aziz Hassan Al Midfa
 Mr. Abdul Aziz Mubarak Al Hasawi
 Mr. Saud Al Besharah
 Mr. Francois Dauge
 Mr. Jean-Jacques Santini
 Mr. Varouj Nerguizian

Resolutions of the Ordinary General Assembly



Independent Auditor's Report

To the Shareholders
Bank of Sharjah P.S.C.
Sharjah - U.A.E

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management of the Group 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 the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Also, in our opinion, proper books of account are maintained by the Bank, and the information included in the Board of Directors' report relating to the consolidated financial statements is in agreement with the books of account. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions during the year of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended), or the Articles of Association of the Bank which might have a material effect on the financial position of the Bank or its financial performance.

Deloitte & Touche (M.E.)

Anis Sadek
Registration Number 521
1 February 2014

Consolidated Statement of Financial Position as at 31 December 2013

	Notes	2013 AED'000	2012 AED'000
ASSETS			
Cash and balances with central banks	5	3,400,245	2,738,642
Deposits and balances due from banks	6	4,111,230	3,726,026
Loans and advances, net	7	13,134,749	12,444,339
Other financial assets measured at fair value	8	1,217,330	1,069,913
Other financial assets measured at amortised cost	8	539,645	746,434
Investment properties	9	303,678	230,821
Goodwill and other intangibles	10	249,802	257,586
Other assets	11	1,504,605	1,347,998
Property and equipment	13	279,694	270,929
Non-current assets classified as held for sale	14	231,530	-
TOTAL ASSETS		24,972,508	22,832,688
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities			
Customers' deposits	16	18,374,066	16,476,374
Deposits and balances due to banks	17	97,336	445,512
Other liabilities	18	1,394,870	1,232,898
Syndicated loan	19	734,600	495,855
Liabilities directly associated with non-current assets			
Classified as held for sale	14	19,015	-
TOTAL LIABILITIES		20,619,887	18,650,639
EQUITY			
CAPITAL AND RESERVES			
Share capital	20 (a)	2,100,000	2,100,000
Treasury shares	20 (a)	(327,792)	(327,792)
Statutory reserve	20 (b)	1,085,357	1,085,357
Contingency reserve	20 (c)	413,126	378,738
General reserve	20 (d)	92,999	62,565
Investment fair value reserve		199,347	106,134
Retained earnings		579,129	519,305
Equity attributable to owners of the Bank		4,142,166	3,924,307
Non-controlling interests		210,455	257,742
TOTAL EQUITY		4,352,621	4,182,049
TOTAL LIABILITIES AND EQUITY		24,972,508	22,832,688

Ahmed Abdalla Al Noman
Chairman

Varouj Nerguizian
Executive Director & General Manager

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

Consolidated Income Statement for the Year Ended 31 December 2013

	Notes	2013 AED'000	2012 AED'000
Interest income	26	972,135	1,007,323
Interest expense	27	(518,655)	(486,898)
NET INTEREST INCOME		453,480	520,425
Net fee and commission income	28	121,586	110,592
Exchange profit		23,426	21,189
Investment income	29	116,908	12,455
Revaluation gain on investment properties	9	48,475	-
Other income		23,881	9,090
OPERATING INCOME		787,756	673,751
Net impairment loss on financial assets	30	(177,820)	(179,166)
NET OPERATING INCOME		609,936	494,585
General and administrative expenses	31	(239,650)	(202,741)
Amortisation of intangible assets	10 (b)	(7,784)	(7,784)
PROFIT BEFORE TAXES		362,502	284,060
Income tax expense - overseas		(9,661)	(6,947)
PROFIT FOR THE YEAR		352,841	277,113
ATTRIBUTABLE TO:			
Owners of the Bank		343,878	266,605
Non-controlling interests		8,963	10,508
		352,841	277,113
BASIC AND DILUTED EARNINGS PER SHARE (AED)	21	0.17	0.13

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

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2013

	Notes	2013 AED'000	2012 AED'000
PROFIT FOR THE YEAR		352,841	277,113
OTHER COMPREHENSIVE INCOME/(LOSS) ITEMS			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Net changes in fair value of financial assets measured at fair value through other comprehensive income		93,213	9,390
Charity donations	22	(2,500)	(2,500)
Directors' remuneration	22	(10,588)	(10,585)
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		80,125	(3,695)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		432,966	273,418
ATTRIBUTABLE TO:			
Owners of the Bank		424,621	263,901
Non-controlling interests		8,345	9,517
		432,966	273,418

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

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2013

	Share Capital	Treasury Shares	Statutory Reserve	Contingency Reserve	General Reserve	Investment Fair Value Reserve	Retained Earnings	Equity Attributable to Owners of the Bank	Non- Controlling Interests	Total Equity
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
BALANCE AT 1 JANUARY 2012	2,100,000	(230,602)	1,085,357	352,078	30,390	(4,947)	618,820	3,951,096	248,225	4,199,321
Profit for the year	-	-	-	-	-	-	266,605	266,605	10,508	277,113
Other comprehensive loss	-	-	-	-	-	9,373	(12,077)	(2,704)	(991)	(3,695)
Total comprehensive income for the year	-	-	-	-	-	9,373	254,528	263,901	9,517	273,418
Reclassification of realised loss on disposal of financial assets measured at FVTOCI	-	-	-	-	-	101,708	(101,708)	-	-	-
Shares held in treasury	-	(97,190)	-	-	-	-	-	(97,190)	-	(97,190)
Transfer to contingency reserve	-	-	-	26,660	-	-	(26,660)	-	-	-
Transfer to general reserve	-	-	-	-	32,175	-	(32,175)	-	-	-
Dividends paid (Note 22)	-	-	-	-	-	-	(193,500)	(193,500)	-	(193,500)
BALANCE AT 31 DECEMBER 2012	2,100,000	(327,792)	1,085,357	378,738	62,565	106,134	519,305	3,924,307	257,742	4,182,049
Profit for the year	-	-	-	-	-	-	343,878	343,878	8,963	352,841
Other comprehensive income	-	-	-	-	-	93,213	(12,470)	80,743	(618)	80,125
Total comprehensive income for the year	-	-	-	-	-	93,213	331,408	424,621	8,345	432,966
Transfer to contingency reserve	-	-	-	34,388	-	-	(34,388)	-	-	-
Transfer to general reserve	-	-	-	-	30,434	-	(30,434)	-	-	-
Dividends paid (Note 22)	-	-	-	-	-	-	(193,500)	(193,500)	(7,713)	(201,213)
Allocation to non-controlling interests [Note 15 (d)]	-	-	-	-	-	-	(11,147)	(11,147)	11,147	-
Acquisition of subsidiaries [Notes 14 & 15 (d)]	-	-	-	-	-	-	(2,115)	(2,115)	(59,066)	(61,181)
BALANCE AT 31 DECEMBER 2013	2,100,000	(327,792)	1,085,357	413,126	92,999	199,347	579,129	4,142,166	210,455	4,352,621

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

Consolidated Statement of Cash Flows for the Year Ended 31 December 2013

	2013 AED'000	2012 AED'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	352,841	277,113
Adjustments for:		
Depreciation of property and equipment and amortisation of intangible assets	22,827	22,104
Amortisation of premium on debt instruments	2,141	5,622
Loss on sale of property and equipment	16	-
Gain on sale of investments	-	(3,283)
Fair value gain on investments carried at FVTPL	(44,221)	(78)
Fair value gain on revaluation of investment properties	(48,475)	-
Net impairment loss on financial assets	177,820	179,166
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES	462,949	480,644
Increase in deposits and balances due from banks maturing after three months	(95,505)	(702,306)
Increase in statutory reserves with central banks	(83,927)	(27,688)
Increase in loans and advances	(1,068,230)	(584,180)
Increase in other assets	(156,607)	(275,613)
Increase in customers' deposits	1,897,692	1,536,231
Increase in other liabilities	161,972	399,496
CASH GENERATED FROM OPERATING ACTIVITIES	1,118,344	826,584
Payment of directors' remuneration and charity donations	(13,088)	(13,085)
NET CASH GENERATED FROM OPERATING ACTIVITIES	1,105,256	813,499
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(28,286)	(54,891)
Proceeds from sale of property and equipment	4,462	377
Addition to investment properties	(24,382)	-
Purchase of investments	(108,120)	(168,367)
Acquisition of non-controlling interest	(73,696)	-
Proceeds from sale of investments	302,785	207,095
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	72,763	(15,786)
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of treasury shares	-	(97,190)
Dividends paid	(201,213)	(193,500)
Net movement on syndicated facility	238,745	-
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	37,532	(290,690)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,215,551	507,023
Cash and cash equivalents at the beginning of the year	4,373,539	3,866,516
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 24)	5,589,090	4,373,539
NON-CASH TRANSACTIONS:		
Transfer to investment properties	-	104,000
Acquisition of subsidiaries (Note 14)	200,000	-

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

I. GENERAL INFORMATION

Bank of Sharjah P.S.C. (the “Bank”), is a public shareholding company incorporated by an Amiri Decree issued on 22 December 1973 by His Highness The Ruler of Sharjah and was registered in February 1993 under the Commercial Companies Law Number 8 of 1984 (as amended).

The Bank commenced its operations under a banking license issued by the United Arab Emirates Central Bank dated 26 January 1974. The Bank is engaged in commercial and investment banking activities.

The Bank’s registered office is located at Al Hosn Avenue, P.O. Box 1394, Sharjah, United Arab Emirates. The Bank operates through five branches in the United Arab Emirates located in the Emirates of Sharjah, Dubai, Abu Dhabi, and City of Al Ain.

The consolidated financial statements are prepared and presented in United Arab Emirates Dirhams (AED), which is the Group’s functional and presentation currency.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

2.1 New and revised IFRSs affecting amounts reported and/or disclosures in the consolidated financial statements

In the current year, the Group has applied the following new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see note 15 to these consolidated financial statements).

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements in IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurement and disclosures about fair value measurements except for share-based payment transactions that are within the scope of IFRS 2 Share-based payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purpose).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

Other than additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income for the first time in the current year except for the name changes described below. The amendments introduce new

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2013

terminology, whose use is not mandatory, for the statement of income and statement of comprehensive income. Under the amendments to IAS 1, the statement of comprehensive income is renamed as the statement of profit or loss and other comprehensive income and the statement of income is renamed as the statement of profit or loss.

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate, but consecutive statements. However, amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section:

- a. Items that will not be reclassified subsequently to profit or loss; and
- b. Items that may be reclassified subsequently to profit or loss when specific conditions are met.

Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

2.2 New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs have been adopted in these financial statements. The application of these revised new and IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IFRS 1 Government Loans provide relief to first-time adopters of IFRSs by amending IFRS 1 to allow prospective application of IAS 39 or IFRS 9 and paragraph 10A of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance to government loans outstanding at the date of transition to IFRSs.
- Amendments to IFRS 7 Financial Instruments: Disclosures enhances disclosures about offsetting of financial assets and liabilities.
- IFRS 10 Consolidated Financial Statements uses control as the single basis for consolidation, irrespective of the nature of the investee. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. Accordingly, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures have been amended for the issuance of IFRS 10.
- IFRS 11 Joint Arrangements establishes two types of joint arrangements: joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. Accordingly, IAS 28 Investments in Associates and Joint Ventures has been amended for the issuance of IFRS 11.
- Amendments to IAS 19 Employee Benefits eliminate the “corridor approach” and therefore require an entity to recognise changes in defined benefit plan obligations and plan assets when they occur.
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognised as an asset, how the asset is initially recognised, and subsequent measurement.
- Annual Improvements to IFRSs 2009 - 2011 Cycle

The annual improvements include the amendments to five IFRSs which have been summarised below:

- IFRS 1 First Time Adoption of International Financial Reporting Standards - Repeated application of IFRS 1.
- IFRS 1 First Time Adoption of International Financial Reporting Standards - Borrowing costs.
- IAS 1 Presentation of Financial Statements - Clarification of the requirements for comparative information.
- IAS 16 Property, Plant and Equipment - Classification of servicing equipment.
- IAS 32 Financial Instruments: Presentation - Tax effect of the distribution to the holders of equity instruments.

2.3 New and revised IFRSs in issue but not yet effective and not early adopted

The Group has not early adopted the following new standards, amendments and interpretations. They have been issued but are not yet effective:

NEW AND REVISED IFRSs	EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER
• Amendments to IAS 19 <i>Employee Benefits</i> - to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.	1 July 2014
• Amendments to IAS 32 <i>Financial Instruments: Presentation</i> relating to application guidance on the offsetting of financial assets and financial liabilities.	1 January 2014
• Amendments to IAS 36 - <i>recoverable amount disclosures</i> The amendments restrict the requirements to disclose the recoverable amount of an asset or CGU to the period in which an impairment loss has been recognised or reversed. They also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal.	1 January 2014
• Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement, Novation of Derivatives and Continuation of Hedge Accounting</i> . The amendment allows the continuation of dge accounting when a derivative is novated to a clearing counterparty and certain conditions are met.	1 January 2014
• IFRIC 21 - <i>Levies</i> Interpretation was developed to address the concerns about how to account for levies that are based on financial data of a period that is different from that in which the activity that give rise to the payment of the levy occurs.	1 January 2014
• Amendments to IFRS 10, IFRS 12 and IAS 27 - <i>Guidance on Investment Entities</i> . On 31 October 2012, the IASB published a standard on investment entities, which amends IFRS 10, IFRS 12, and IAS 27 and introduces the concept of an investment entity in IFRSs. The amendments establish an exception to IFRS 10's general consolidation principle for investment entities, requiring them to “measure particular subsidiaries at fair value through profit or loss, rather than consolidate them.” In addition, the amendments outline required disclosures for reporting entities that meet the definition of an investment entity.	1 January 2014
• Annual improvements to IFRSs 2010 - 2012 cycle <ul style="list-style-type: none"> • IFRS 2 <i>Share Based Payments</i> - definition of ‘vesting condition’. • IFRS 3 <i>Business Combinations</i> - accounting for contingent consideration. • IFRS 8 <i>Operating Segments</i> - aggregation of segments, reconciliation of segment assets. • IAS 16 <i>Property, Plant and Equipment</i> - proportionate restatement of accumulated depreciation on revaluation. • IAS 24 <i>Related Party Disclosures</i> - management entities. • IAS 38 <i>Intangible Assets</i> - proportionate restatement of accumulated depreciation on revaluation. 	1 July 2014
• Annual Improvements to IFRSs 2011 - 2013 Cycle <ul style="list-style-type: none"> • IFRS 1 <i>First Time Adoption of International Financial Reporting Standards</i> - meaning of effective IFRSs. • IFRS 3 <i>Business Combinations</i> - scope exception for joint ventures. • IFRS 13 <i>Fair Value Measurement</i> - scope of the portfolio exception. • IAS 40 <i>Investment Property</i> - interrelationship between IFRS 3 and IAS 40. 	1 July 2014

As of date of issuance of these consolidated financial statements, management are still in the process of evaluating the impact of these new and revised standards on the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and applicable requirements of the Laws of the UAE

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for assets, goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account when pricing the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value such as value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than that quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands dirham, except when otherwise indicated.

The principal accounting policies are set out below.

3.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved when the Bank has:

- power over the investee,
- exposure, or has rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders and other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributable to the owners of the Parent and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributable to the owners of the parent and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Bank's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Bank are eliminated in full on consolidation.

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Bank's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid/payable or received/receivable is recognised directly in equity and attributed to owners of the Parent.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

When the Bank loses control of a subsidiary, a gain or loss is recognised in the consolidated income statement and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary, and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to income statement or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3.4 Cash and cash equivalents

Cash and cash equivalents disclosed in the consolidated statement of cash flows consist of cash on hand, current accounts and other balances with central banks, certificate of deposits, balances with banks, and money market placements which have original maturity of less than three months.

3.5 Due from banks

Due from banks are stated at cost less any amounts written-off and allowance for impairment, if any.

3.6 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Effective interest method

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

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

Classification of financial assets:

For the purposes of classifying financial assets an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

Financial assets measured at amortised cost

Debt instruments, including loans and advances are 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 instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs [except if they are designated as at fair value through profit or loss (FVTPL)]. They are subsequently measured at amortised cost using the effective interest method less any impairment, with interest revenue recognised on an effective yield basis in other income in the consolidated income statement.

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

The Group may irrevocably elect at initial recognition to classify a debt instrument that meets the amortised cost criteria above as FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost.

Financial assets measured at FVTPL

Debt instrument financial assets that do not meet the amortised cost criteria described above, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL.

Subsequent to initial recognition, the Group is required to reclassify debt instruments from FVTPL to amortised cost if the objective of the business model changes so that the amortised cost criteria starts to be met and

the instruments' contractual cash flows meet the amortised cost criteria. Reclassification of debt instruments designated as at FVTPL at initial recognition is not permitted.

Investments in equity instruments are classified as financial assets measured at FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) at initial recognition.

Financial assets measured at FVTPL are measured at fair value, with any gains or losses arising on re-measurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included in the other income in the consolidated income statement. Fair value is determined in the manner described in note 37.

Interest income on debt instruments at FVTPL is included in the other income. Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated income statement when the Group's right to receive the dividends is established.

Financial assets at FVTOCI

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

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments 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 and accumulated in the investments revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not transferred to consolidated income statement, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in the consolidated income statement when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange component forms part of its fair value gain or loss. For financial assets measured at FVTPL, the foreign exchange component is recognised in the consolidated income statement. For financial assets measured at FVTOCI any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated debt instruments measured at amortised cost, the foreign exchange gains and losses are determined based on the amortised cost of the asset and are recognised in the other income in the consolidated income statement.

3.7 Fair values

All financial instruments are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and
- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

3.8 Loans and advances

Loans and advances are non-derivative financial assets originating from or acquired by the Group with fixed or determinable payments.

Loans and advances are stated at amortised cost less any amounts written off and allowance for doubtful accounts. The carrying values of loans and advances which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged with the resultant adjustment recognised in the consolidated income statement.

Allowance for impairment is made against loans and advances when their recovery is in doubt taking into consideration IFRS requirements for fair value measurement. Loans and advances are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

3.9 Investment properties

Investment properties are held to earn rental income and/or capital appreciation. Investment property includes cost of initial purchase, developments transferred from property under development, subsequent cost of development, and fair value adjustments. Investment property is reported at valuation based on fair value at the end of the reporting period. The fair values are the estimated amounts for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated income statement in the period in which these gains or losses arise.

3.10 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method as follows:

	Years
Buildings	20 - 40
Furniture and office equipment	2 - 6
Installation, partitions and decorations	3 - 4
Leasehold improvements	5 - 10
Motor vehicles	3

Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the consolidated income statement.

Capital work-in-progress is carried at cost, less any accumulated impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

3.11 Intangible assets acquired separately

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Amortisation is charged so as to write off the cost of intangible assets, over their estimated useful lives using the straight-line method as follows:

	Years
Banking license	Infinite
Legal corporate setup in Lebanon	10
Customer base	10
Branch network	10

3.12 Impairment of tangible and intangibles

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangibles to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.13 Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it's becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and advances, where the carrying amount is reduced through the use of an allowance account. When a loan is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment of loans and advances measured at amortised costs are assessed by the Group as follows:

Individually assessed loans

Individually assessed loans mainly represent corporate and commercial loans, which are assessed individually in order to determine whether there exists any objective evidence that a loan is impaired. Loans are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Group in accordance with the original contractual terms. Doubt about the borrower's ability to meet payment obligations generally arises when:

- a. Principal and interest are not serviced as per contractual terms; and
- b. When there is significant deterioration in the borrower's financial condition and the amount expected to be realised from disposal of collateral, if any, is not likely to cover the present carrying value of the loan.

Impaired loans are measured on the basis of the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

Impairment loss is calculated as the difference between the loan's carrying value and its present impaired value.

Collectively assessed loans

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

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

Performing loans

Where individually assessed loans are evaluated and no evidence of loss has been identified, these loans are classified as performing loans portfolios with common credit risk characteristics based on industry, product or loan rating. Impairment covers losses, which may arise from individual performing loans that are impaired at the end of the reporting period but were not specifically identified as such until some time in the future. The estimated impairment is calculated by the Group's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Retail loans with common features and which are not individually significant

Impairment of retail loans is calculated by applying a formulaic approach, which allocates progressively higher loss rates in line with the overdue installment date.

Renegotiated loans

Retail loans, which are subject to collective impairment review and whose terms have been renegotiated, are no longer considered to be past due and consequently impaired only when the minimum required number of payments under the new arrangements has not been received and the borrower has not complied with the revised terms and conditions.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to continuous review to determine whether they remain impaired or are considered to be past due depending upon the borrower complying with the revised terms and conditions and making the minimum required payments for the loans to be moved to performing category.

Loans that are either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

3.14 Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated income statement.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investment's revaluation reserve is not reclassified to the consolidated income statement, but is reclassified to retained earnings.

3.15 Assets acquired in settlement of debt

The Group occasionally acquires real estate and other collateral in settlement of certain loans and advances. Such real estate and other collateral are stated at the lower of the net realisable value of the loans and advances and the current fair value of such assets at the date of acquisition. Gains or losses on disposal and unrealised losses on revaluation are recognised in the consolidated income statement.

3.16 Derivative financial instruments

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date.

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including forward foreign exchange contracts and currency swaps.

Derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

For the purpose of hedge accounting, the Group classifies hedges into two categories: (a) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the derivative and the hedged item are recognised in the consolidated income statement. Fair value adjustments relating to the hedging instrument are allocated to the same consolidated income statement category as the related hedged item. Any ineffectiveness is also recognised in the same consolidated income statement category as the related hedged item. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point to a hedged item, for which the effective interest method is used, is amortised in the consolidated income statement as part of the recalculated effective interest rate over the period to maturity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The ineffective part of any gain or loss is recognised immediately in the consolidated income statement as trading revenue/loss. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in other comprehensive income remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in other comprehensive income are immediately transferred to the consolidated income statement and classified as trading revenue/loss.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement as trading revenue/loss. However, the gains and losses arising from changes in the fair values of derivatives that are managed in conjunction with financial instruments designated at fair value are included in net income from financial instruments designated at fair value under other non-interest revenue/loss.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in the consolidated income statement.

3.17 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

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

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

3.18 Customers' deposits and syndicated loan

Customers' deposits and syndicated loan are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective interest method.

3.19 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date; except for non-current assets (or disposal banks) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated income statement.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3.20 Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

3.21 Employees' end-of-service benefits

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

Pension and national insurance contributions for the UAE citizens are made by the Group in accordance with Federal Law No. 2 of 2000.

3.22 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

3.23 Acceptances

Acceptances are recognised as financial liabilities in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments with respect to acceptances have been accounted for as financial assets and financial liabilities.

3.24 Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantees are initially recognised at their fair value, which is the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable). The premium received on these financial guarantees is included in other liabilities.

3.25 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.26 Recognition and de-recognition of financial instruments

The Group recognises a financial asset or liability in its consolidated statement of financial position only when it becomes party to the contractual provisions of that instrument. Financial assets are derecognised when the right to receive cash flows from the assets has expired; or when the Group has transferred its contractual right to receive the cash flows of the financial assets, and substantially all the risks and rewards of ownership; or where control is not retained. Financial liabilities are derecognised when they are extinguished - that is when the obligation specified in the contract is discharged, cancelled or expired.

3.27 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously.

3.28 Revenue and expense recognition

Interest income, interest expense, and loan commitment fees are recognised on a time proportion basis, taking into account the principal outstanding and the rate applicable. Commission and fee income are generally accounted for on the date the transaction arises. Interest accruing on loans and advances considered doubtful is excluded from income until received. Subsequently, notional interest is recognised on doubtful loans and advances and other financial assets based on the rate used to discount the net present value of future cash flows. Other fees receivable or payable are recognised when earned.

Gain or loss on financial assets measured at fair value through profit and loss comprises all gains and losses from changes in the fair value of the financial assets measured at fair value through profit and loss and from the disposal of those financial assets. Gain or loss on disposal of the financial assets measured at fair value through profit and loss represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs.

Dividend revenue from investments is recognised when the Group's right to receive payments has been established.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

3.29 Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements of the Group are presented in AED, which is the Group's presentation currency.

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the consolidated statement of financial position date. Any resulting exchange differences are included in the consolidated income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using rate of exchange at the date of initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised directly in equity if the gain or loss on the non-monetary item is recognised directly in equity. Any exchange component of a gain or loss on the non-monetary is recognised directly in the consolidated income statement if the gain or loss on the non-monetary item is recognised in the consolidated income statement.

In the consolidated financial statements, the assets, including related goodwill where applicable, and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not AED, are translated into the Group's presentation currency at the rate of exchange ruling at the consolidated statement of financial position date. The results of branches, subsidiaries, joint ventures and associates whose functional currency is not AED are translated into AED at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end, are recognised in other comprehensive income and accumulated in equity in the 'foreign exchange reserve'.

On disposal or partial disposal (i.e. of associates or jointly controlled entities not involving a change of accounting basis) of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the consolidated income statement on proportionate basis except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in consolidated income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3.30 Non-current assets classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a comparable sale within one year from the date of classification.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3.31 Fiduciary activities

The Group acts as trustee/manager and in other capacities that result in holding or placing of assets in a fiduciary capacity on behalf of trusts or other institutions. Such assets and income arising thereon are not included in the Group's consolidated financial statements as they are not assets of the Group.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION OF UNCERTAINTY

While applying the accounting policies as stated in Note 3, the management of the Group has made certain judgments, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i) Impairment of financial assets measured at amortised cost and loans and advances

The Group's accounting policy for allowances in relation to impaired financial assets carried at amortised cost is described in Note 3. Impairment is calculated on the basis of discounted estimated future cash flows or by applying a certain percentage on the performing unclassified loans and advances book based on market trend and historical pattern of defaults. For retail loans and advances impairment is calculated based on a formulaic approach depending on past due installments and payments.

The allowance for loans and advances losses is established through charges to income in the form of an allowance. Increases and decreases in the allowance due to changes in the measurement of the impaired loans and advances are included in the allowance for loans and advances losses and affect the consolidated income statement accordingly.

Loans and advances

The impairment allowance for loan losses is established through charges to the consolidated income statement in the form of an impairment allowance for doubtful loans and advances.

Individually assessed loans

Impairment losses for individually assessed loans are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate loans and advances, which are individually significant accounts or are not subject to the portfolio-based-approach.

The following factors are considered by management when determining the allowance for impairment on individual loans and advances which are significant:

- The amount expected to be realised on disposal of collateral.
- The Group's ability to enforce its claim on the collateral and the associated cost of litigation.
- The expected time frame to complete legal formalities and disposal of collateral.

The Group's policy requires quarterly review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability.

Impaired loans continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable.

Collectively assessed loans

Collective assessment of allowance for impairment is made for overdue retail loans with common features, which are not individually significant and performing loans, which are not found to be individually impaired.

The following factors are considered by management when determining allowance for impairment for such loans:

Retail loans – All the loans falling under similar overdue category are assumed to carry similar credit risk and allowance for impairment is taken on a gross basis.

Other performing loans – The management of the Group assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of loans which may be impaired but not identified as of the end of the reporting period.

ii) Classification of properties

In the process of classifying properties, the management has made various judgments. Judgment is needed to determine whether a property qualifies as an investment property, property and equipment, and/or property held for resale. The Group develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, property and equipment, and property held for resale. In making its judgment, management considered the detailed criteria and related guidance for the classification of properties as set out in IAS 2, IAS 16 and IAS 40, in particular, the intended usage of property as determined by the management.

iii) Fair value of investment properties and investment properties under development

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determined the amount within a range of reasonable fair value estimates. In making its judgment, the Group considered recent prices of similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at those prices. Such estimation is based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

The determination of the fair value of revenue-generating properties requires the use of estimates such as future cash flows from assets (such as leasing, tenants' profiles, future revenue streams, capital values of fixtures and fittings, and the overall repair and condition of the property) and discount rates applicable to those assets. In addition, development risks (such as construction and leasing risks) are also taken into consideration when determining the fair value of investment properties under development. These estimates are based on local market conditions existing at the end of the reporting period.

The continuing volatility in the global financial system and in the real estate industry has contributed to the significant reduction in transaction volumes in the UAE. Therefore, in arriving at their estimates of market values as at 31 December 2013, the valuers have used their market knowledge and professional judgement and have not relied solely on historic transactional comparables. In these circumstances, there is a greater degree of uncertainty than in a more active market in estimating market values of investment property.

iv) Useful lives of property and equipment and intangible assets

Management reviews the residual values and estimated useful lives of property and equipment and intangible assets at the end of each annual reporting period in accordance with IAS 16 and IAS 38. Management determined that current year expectations do not differ from previous estimates based on its review.

4.1 Key sources of estimation uncertainty

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

Valuation of unquoted equity investments

The valuation of unquoted equity investments is normally based on recent market transactions done on an arm's length basis, or the fair value of another instrument that is substantially the same, or the expected cash flows discounted at current rates for similar instruments, or on other valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of the unquoted equity investments. Unquoted equity investments are not materially different from their fair values.

Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

a. The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management's judgement may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and

b. An appropriate discount rate for the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure, and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

Valuation of investment properties

The Group values its investment property at fair value on the basis of market valuations prepared by an independent chartered surveyor and property consultant. The fair values were derived by using appropriate valuation methods. The valuations are based on assumptions such as comparison with sale price of land for comparable developments, plot sizes and the recent value of any expected timing of payments and receipts in short-term to long-term, which are mainly on market conditions existing at the reporting date. Therefore, any future change in the market conditions could change significantly the fair value of these properties.

5. CASH AND BALANCES WITH CENTRAL BANKS

(a) THE ANALYSIS OF THE GROUP'S CASH AND BALANCES WITH CENTRAL BANKS IS AS FOLLOWS:

	2013 AED'000	2012 AED'000
Cash on hand	71,619	69,723
Statutory reserves	1,021,119	937,192
Current accounts	636,428	166,760
Certificates of deposits	1,671,079	1,564,967
	3,400,245	2,738,642

(b) THE GEOGRAPHICAL ANALYSIS OF THE CASH AND BALANCES WITH CENTRAL BANKS IS AS FOLLOWS:

	2013 AED'000	2012 AED'000
Banks abroad	1,278,978	1,362,013
Banks in the UAE	2,121,267	1,376,629
	3,400,245	2,738,642

The Group is required to maintain statutory reserves with various central banks on demand, time and other deposits as per the statutory requirements. The statutory reserves with the Central Banks are not available to finance the day to day operations of the Group. However, as per notice 4310/2008, the Central Bank of the UAE has allowed banks to borrow up to 100% of their AED and US\$ reserve requirement limit. As at 31 December 2013, the statutory reserve with the Central Bank of the UAE amounted to AED 468 million (31 December 2012: AED 378 million).

6. DEPOSITS AND BALANCES DUE FROM BANKS

(a) THE ANALYSIS OF THE GROUP'S DEPOSITS AND BALANCES DUE FROM BANKS IS AS FOLLOWS:

	2013 AED'000	2012 AED'000
Demand	1,007,809	716,841
Time	3,103,421	3,009,185
	4,111,230	3,726,026

(b) THE ABOVE REPRESENT DEPOSITS AND BALANCES DUE FROM:

Banks abroad	1,283,272	841,688
Banks in the UAE	2,827,958	2,884,338
	4,111,230	3,726,026

7. LOANS AND ADVANCES, NET

(a) THE ANALYSIS OF THE GROUP'S LOANS AND ADVANCES MEASURED AT AMORTISED COST IS AS FOLLOWS:

	2013 AED'000	2012 AED'000
Overdrafts	7,308,166	6,408,389
Commercial loans	5,789,356	5,838,064
Bills receivable	538,530	427,880
Other advances	720,364	740,683
	14,356,416	13,415,016
Less: Allowance for impairment	(1,011,629)	(844,053)
Less: Interest in suspense	(210,038)	(126,624)
	13,134,749	12,444,339

(b) THE GEOGRAPHIC ANALYSIS OF THE LOANS AND ADVANCES OF THE GROUP IS AS FOLLOWS:

	2013 AED'000	2012 AED'000
Loans and advances in the UAE	11,930,557	11,186,335
Loans and advances outside the UAE	2,425,859	2,228,681
	14,356,416	13,415,016

(c) LOANS AND ADVANCES ARE STATED NET OF ALLOWANCE FOR IMPAIRMENT. THE MOVEMENT IN THE ALLOWANCE DURING THE YEAR WAS AS FOLLOWS:

	2013 AED'000	2012 AED'000
At 1 January	844,053	683,260
Reversal through credit extension premium	(10,328)	(18,497)
Additions during the year (Note 30)	212,330	182,223
Write offs	(3,151)	(332)
Recoveries	(31,275)	(2,601)
At 31 December	1,011,629	844,053

Additions / (reversal) through credit extension premium represent the fees charged / refunded to clients upon sanctioning / renewing any facilities on the limit and allocated directly to collective impairment provision.

(d) THE MOVEMENT IN THE INTEREST IN SUSPENSE ACCOUNT DURING THE YEAR IS AS FOLLOWS:

	2013 AED'000	2012 AED'000
At 1 January	126,624	106,001
Additions during the year	89,870	22,710
Write offs during the year	(2,665)	(477)
Recoveries	(3,791)	(1,610)
At 31 December	210,038	126,624

At 31 December 2013, the gross amount of loans and advances on which interest is not being accrued, or is suspended, amounted to AED 1,059 million (2012: AED 402 million). Unrecognised interest income for the year relating to such loans amounted to AED 90 million (2012: AED 23 million).

(e) THE COMPOSITION OF THE LOANS AND ADVANCES PORTFOLIO BY INDUSTRY IS AS FOLLOWS:

	2013 AED'000	2012 AED'000
ECONOMIC SECTOR		
Trading	5,484,678	4,958,161
Services	2,739,858	2,340,133
Manufacturing	1,935,435	1,733,939
Construction	1,156,561	849,209
Public utilities	861,767	1,050,744
Personal loans for commercial purposes	581,031	933,906
Government	536,277	476,169
Mining and quarrying	404,319	509,438
Transport and communication	230,446	210,697
Financial institutions	186,281	103,920
Personal loans for individual purposes	140,280	124,209
Agriculture	95,239	121,501
Other	4,244	2,990
	14,356,416	13,415,016
Less: Allowance for impairment	(1,011,629)	(844,053)
Less: Interest in suspense	(210,038)	(126,624)
	13,134,749	12,444,339

8. OTHER FINANCIAL ASSETS

(a) THE ANALYSIS OF THE GROUP'S OTHER FINANCIAL ASSETS AS AT 31 DECEMBER 2013 IS AS FOLLOWS:

	2013 AED'000	2012 AED'000
OTHER FINANCIAL ASSETS MEASURED AT FAIR VALUE		
(i) Investments measured at FVTPL		
Quoted equity	3,115	43,528
Unquoted debt securities	87,636	930
	90,751	44,458
(ii) Investments carried at FVTOCI		
Quoted equity	149,818	72,902
Unquoted equity	976,761	952,553
	1,126,579	1,025,455
TOTAL OTHER FINANCIAL ASSETS MEASURED AT FAIR VALUE	1,217,330	1,069,913
OTHER FINANCIAL ASSETS MEASURED AT AMORTISED COST		
Debt securities	539,645	746,434
TOTAL OTHER FINANCIAL ASSETS	1,756,975	1,816,347

The majority of the quoted investments are listed on the securities exchanges in the UAE (Abu Dhabi Securities Exchange and Dubai Financial Market).

(b) THE COMPOSITION OF THE INVESTMENT PORTFOLIO BY GEOGRAPHY IS AS FOLLOWS:

	2013 AED'000	2012 AED'000
United Arab Emirates	276,692	300,592
G.C.C. countries (other than U.A.E)	5,800	4,774
Middle East (other than G.C.C. countries)	1,474,342	1,505,674
Europe	141	5,307
	1,756,975	1,816,347

(c) Other financial assets measured at FVTOCI are strategic equity investments that are not held to benefit from changes in their fair value and are not held for trading. The management believes therefore that designating these investments as at FVTOCI provides a more meaningful presentation of its medium to long-term interest in its investments than fair valuing through profit or loss.

(d) During the year ended 31 December 2013, dividends received from financial assets measured at FVTOCI amounting to AED 71 million (2012: AED 4 million) have been recognised as investment income in the consolidated income statement.

9. INVESTMENT PROPERTIES

Details of investment properties are as follows:

	Plots of Land in the UAE	Commercial and Residential Units in the UAE	Total
	AED'000	AED'000	AED'000
COST			
At 1 January 2012	61,799	65,022	126,821
Additions during the year	-	104,000	104,000
Fair value at 31 December 2012	61,799	169,022	230,821
Additions during the year	-	24,382	24,382
Increase in fair value during the year	9,029	39,446	48,475
FAIR VALUE AT 31 DECEMBER 2013	70,828	232,850	303,678

The fair value of the Group's investment properties is estimated periodically by considering recent prices for similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at these prices. In estimating the fair value of the properties, the highest and best use of the properties is their current use. As at 31 December 2013, the valuations were carried out by professional valuers not related to the Group who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Details of the Group's investment properties information about the fair value hierarchy as at 31 December 2013 are as follows:

	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
Commercial and residential units in the UAE	-	232,850	-	232,850
Plots of lands in the UAE	-	70,828	-	70,828
TOTAL	-	303,678	-	303,678

There were no transfers between Level 1 and Level 2 during the current year.

10. GOODWILL AND OTHER INTANGIBLES

(a) THE ANALYSIS OF THE GROUP'S GOODWILL AND OTHER INTANGIBLES IS AS FOLLOWS:

	2013 AED'000	2012 AED'000
Goodwill	184,733	184,733
OTHER INTANGIBLES		
Banking license	18,365	18,365
Legal corporate setup in Lebanon	25,769	30,063
Customer base	18,733	21,855
Branch network	2,202	2,570
	65,069	72,853
TOTAL	249,802	257,586

(b) THE MOVEMENT ON OTHER INTANGIBLE ASSETS DURING THE YEAR IS AS FOLLOWS:

OTHER INTANGIBLES	Banking License AED'000	Legal Corporate Setup in Lebanon AED'000	Customer Base AED'000	Branch Network AED'000	Total AED'000
Balance at 1 January 2012	18,365	34,357	24,977	2,938	80,637
Amortisation in 2012	-	(4,294)	(3,122)	(368)	(7,784)
Balance at 31 December 2012	18,365	30,063	21,855	2,570	72,853
Amortisation in 2013	-	(4,294)	(3,122)	(368)	(7,784)
BALANCE AT 31 DECEMBER 2013	18,365	25,769	18,733	2,202	65,069

11. OTHER ASSETS

	2013 AED'000	2012 AED'000
Acceptances - contra	1,147,850	987,308
Assets acquired in settlement of debt	277,324	185,956
Receivable from sale of investments	-	91,825
Clearing receivables	930	29,372
Interest receivable	4,904	6,878
Prepayments	31,112	8,918
Positive fair value of derivatives (Note 12)	-	363
Other	42,485	37,378
	1,504,605	1,347,998

The Group reports under other assets, positive fair value of derivative contracts used by the Group in the ordinary course of business. Refer to Note 12 below for further details about the nature and type of derivative contracts utilised by the Group, together with the notional amounts and maturities.

12. DERIVATIVES

In the ordinary course of business the Group enters into various types of transactions that involve derivatives. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate, or index. Derivative financial instruments, which the Group enters into, include forwards and swaps.

The Group uses the following derivative financial instruments for both hedging and non-hedging purposes.

Forward currency transactions - Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

Swap transactions - Currency swaps are commitments to exchange one set of cash flows for another. Currency swaps result in an economic exchange of currencies. No exchange of principal takes place, except for certain cross-currency swaps. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts, and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Derivative related credit risk - Credit risk with respect to derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. The Group enters into derivative contracts with a number of financial institutions of good credit rating.

Derivatives held or issued for hedging purposes - The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in exchange rates. The Group uses forward foreign exchange contracts to hedge exchange rate risks. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

The following table shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity, and the nature of the risk being hedged.

HELD AS FAIR VALUE HEDGES	NOTIONAL AMOUNTS BY TERM TO MATURITY				
	Positive Fair Value	Negative Fair Value	Notional Amount	Within 3 Months	3-12 Months
	AED'000	AED'000	AED'000	AED'000	AED'000
2013					
Currency swaps	-	-	-	-	-
Forward foreign exchange contracts	-	93	143,752	131,550	12,202
TOTAL	-	93	143,752	131,550	12,202
2012					
Currency swaps	-	-	514,220	514,220	-
Forward foreign exchange contracts	363	-	305,095	170,430	134,665
TOTAL	363	-	819,315	684,650	134,665

The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the fair value of the derivatives, nor market risk.

13. PROPERTY AND EQUIPMENT

	Land & Buildings	Furniture and Office Equipment	Leasehold Improvements Installation, Partitions and Decoration	Motor Vehicles	Capital Work in Progress	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
COST						
At 1 January 2012	211,109	79,963	51,226	4,453	-	346,751
Additions	81	13,402	5,276	1,132	35,000	54,891
Disposals	-	(749)	(1,305)	(750)	-	(2,804)
At 31 December 2012	211,190	92,616	55,197	4,835	35,000	398,838
Additions	190	9,841	18,127	128	-	28,286
Eliminated on disposals	-	(4,171)	(813)	(56)	-	(5,040)
Transfers	35,000	-	-	-	(35,000)	-
At 31 December 2013	246,380	98,286	72,511	4,907	-	422,084
ACCUMULATED DEPRECIATION						
At 1 January 2012	9,384	63,604	40,027	3,001	-	116,016
Charge for the year	2,363	6,697	4,756	504	-	14,320
Disposals	-	(374)	(1,303)	(750)	-	(2,427)
At 31 December 2012	11,747	69,927	43,480	2,755	-	127,909
Charge for the year	2,363	7,344	4,570	766	-	15,043
Eliminated on disposals	-	(392)	(114)	(56)	-	(562)
At 31 December 2013	14,110	76,879	47,936	3,465	-	142,390
NET BOOK VALUE:						
At 31 December 2013	232,270	21,407	24,575	1,442	-	279,694
At 31 December 2012	199,443	22,689	11,717	2,080	35,000	270,929

14. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

During the year, Borealis Gulf FZC a wholly owned subsidiary of the Bank, acquired with a view to reselling an 80% equity interest in each of Pragma Lounge Limited and Red Zone Limited, Jebel Ali Free Zone entities. The entities are in the facilities management business and the assets and associated liabilities from this acquisition transaction have been classified as held for sale. Management has the intention and expects to complete the sale of the business within twelve months. The consideration was settled by offset credit to the seller's overdraft and loans accounts with the Group.

15. SUBSIDIARIES

(A) THE GROUP'S INTEREST HELD DIRECTLY OR INDIRECTLY IN THE SUBSIDIARIES IS AS FOLLOWS:

NAME OF SUBSIDIARY	Proportion of Ownership Interest	Year of Incorporation	Country of Incorporation	Principal Activities
	2013	2012		
Emirates Lebanon Bank S.A.L.	80%	67.33%	1965 Lebanon	Financial institution
BOS Real Estate FZC	100%	100%	2009 UAE	Real estate development activities
BOS Capital FZC	100%	100%	2009 UAE	Investment
Polyco General Trading L.L.C.	100%	100%	2008 UAE	General trading
Borealis Gulf FZC	100%	100%	2011 UAE	Investment & Real estate development activities

(B) NON-CONTROLLING INTEREST:

The Table Below Shows Details Of Non-Wholly Owned Subsidiaries Of The Bank That Have Material Non-Controlling Interests:

NAME OF SUBSIDIARY	Proportion of ownership interests and voting rights held by the non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
	2013	2012	2013 AED'000	2012 AED'000	2013 AED'000	2012 AED'000
Emirates Lebanon Bank S.A.L.	20%	32.67%	8,963	10,508	210,455	257,742

(C) EMIRATES LEBANON BANK S.A.L. SUMMARISED STATEMENTS OF FINANCIAL POSITION, COMPREHENSIVE INCOME AND CASH FLOWS AS AT AND FOR THE YEARS ENDED 31 DECEMBER 2013 AND 2012:

	2013 AED'000	2012 AED'000
STATEMENT OF FINANCIAL POSITION		
Total assets	5,309,727	5,326,425
Total liabilities	4,320,147	4,340,199
Equity	989,580	986,226
Dividends paid to non-controlling interests	7,713	-
STATEMENT OF COMPREHENSIVE INCOME		
Interest income	231,493	224,037
Profit for the year	35,948	32,163
Total comprehensive income	32,856	29,129
STATEMENT OF CASH FLOWS		
Net cash flows used in operating activities	(118,063)	(213,288)
Net cash flows generated from/(used in) investing activities	280,629	(64,675)
Net cash flows (used in)/generated from financing activities	(29,501)	275,018
NET CASH FLOWS GENERATED DURING THE YEAR	133,065	(2,945)

(D) Change in the Group's ownership in a subsidiary

During the year, the Bank increased its shareholding in Emirates Lebanon Bank S.A.L. through acquiring the shares of a non-controlling interest. This transaction increased the Bank's equity in Emirates Lebanon Bank S.A.L. to 80% and the difference between the fair value and the carrying amount of non-controlling interest acquired was recognised in retained earnings. The consideration paid to acquire the non-controlling interest was AED 74 million and carrying amount of the acquired share was AED 72 million, the difference between the consideration paid and the carrying amount of the acquired shares amounting to AED 2 million was recognised directly in retained earnings. Additionally, as a result of this transaction, a further AED 11 million was reallocated from retained earnings of the Group to non-controlling interests.

16. CUSTOMERS' DEPOSITS

THE ANALYSIS OF CUSTOMERS' DEPOSITS IS AS FOLLOWS:

	2013	2012
	AED'000	AED'000
Current and other accounts	4,707,501	3,461,747
Saving accounts	1,577,749	1,511,482
Time deposits	12,088,816	11,503,145
	18,374,066	16,476,374

17. DEPOSITS AND BALANCES DUE TO BANKS

THE ANALYSIS OF DEPOSITS AND BALANCES DUE TO BANKS IS AS FOLLOWS:

	2013	2012
	AED'000	AED'000
Demand	25,289	218,514
Time	72,047	226,998
	97,336	445,512

Due to banks represent due to:

	2013	2012
	AED'000	AED'000
Banks in the UAE	624	157,000
Banks outside the UAE	96,712	288,512
	97,336	445,512

18. OTHER LIABILITIES

	2013	2012
	AED'000	AED'000
Acceptances - contra	1,147,850	987,308
Provision for employees' end of service benefits	53,845	65,687
Interest payable	67,831	80,096
Unearned income	22,355	13,265
Managers' cheques	19,408	11,840
Accrued expenses and others	83,488	74,702
Negative fair value of derivatives (Note 12)	93	-
	1,394,870	1,232,898

THE MOVEMENT IN THE PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS IS AS FOLLOWS:

	2013	2012
	AED'000	AED'000
At 1 January	65,687	59,751
Charged during the year	8,564	6,307
Payments during the year	(20,406)	(371)
At 31 December	53,845	65,687

19. SYNDICATED LOAN

On 8 July 2013, the Bank signed a USD 200 million (AED 735 million) syndicated term loan facility. The purpose of the facility is to finance general corporate activities. The facility has a tenor of two years and is payable at maturity. The facility carries an interest rate of LIBOR plus a margin of 125 basis points which is payable on a quarterly basis. The drawdown on the facility was on 18 August 2013.

On 8 August 2013, a USD 135 million (AED 496 million) syndicated term loan facility matured and was settled.

20. ISSUED AND PAID UP CAPITAL AND RESERVES

(a) Issued and paid up capital and treasury shares

	2013		2012	
	Number of Shares	AED'000	Number of Shares	AED'000
Issued capital	2,100,000,000	2,100,000	2,100,000,000	2,100,000
Shares held in treasury	(165,000,000)	(327,792)	(165,000,000)	(327,792)
	1,935,000,000	1,772,208	1,935,000,000	1,772,208

On 5 June 2010, the Board approved to buy back 10% of the Bank's outstanding shares with approval from the UAE Central Bank. After obtaining the required regulatory approvals, the Group started acquiring its shares on the open market and the allowable period has expired during 2012. As at 31 December 2013, the Group has acquired 165 million shares (31 December 2012: 165 million shares) amounting to AED 328 million (31 December 2012: AED 328 million). As such, the number of shares outstanding as at 31 December 2013 is 1.935 billion shares (31 December 2012: 1.935 billion shares). The market value of the treasury shares as at 31 December 2013 is AED 295 million (31 December 2012: AED 211 million).

(b) Statutory reserve

In accordance with the UAE Union Law, 10% of the profit for the year is to be transferred to statutory reserve. Such transfers to reserves may cease when they reach the levels established by the respective regulatory authorities (in the UAE this level is 50% of the issued and paid up share capital).

(c) Contingency reserve

In accordance with the Articles of Association of the Bank a contingency reserve is calculated at 10% of the profit for the year to be transferred to a contingency reserve until this reserve becomes 50% of the issued and paid up share capital.

(d) General reserve

Transfers to general reserve are made based on the discretion of the Board of Directors and is subject to the approval of the shareholders at the annual general meeting.

21. EARNINGS PER SHARE

EARNINGS PER SHARE ARE COMPUTED BY DIVIDING THE PROFIT FOR THE YEAR BY THE AVERAGE NUMBER OF SHARES OUTSTANDING DURING THE YEAR AS FOLLOWS:

	2013	2012
BASIC AND DILUTED EARNINGS PER SHARE		
Profit attributable to owners of the Bank for the year (AED'000)	343,878	266,605
Charity donations (AED'000)	(2,500)	(2,500)
Directors' remuneration (AED'000)	(9,970)	(9,577)
Profit available to the owners of the Bank	331,408	254,528
Weighted average number of shares outstanding during the year (in thousands shares)	1,935,000	1,936,604
BASIC AND DILUTED EARNINGS PER SHARE (AED)	0.17	0.13

As at the reporting date, the diluted earnings per share is equal to the basic earnings per share as the Group has not issued any financial instruments that should be taken into consideration when the diluted earnings per share is calculated.

22. DIVIDENDS AND DIRECTORS' REMUNERATION

At the Annual General Meeting of the shareholders held on 16 March 2013, the shareholders approved a cash dividend of AED 0.10 per outstanding share (2012: cash dividend of AED 0.10 per outstanding share). In addition to the above, an amount of AED 29.4 million cash dividend was approved by the shareholders of Emirates Lebanon Bank S.A.L., at the Annual General Meeting of the shareholders held on 8 February 2013, a subsidiary of the Bank (2012: Nil) out of which the non-controlling interest share amounted to AED 7.7 million (2012: Nil).

The shareholders also approved Directors' remuneration of AED 7.5 million (2012: AED 7.5 million) and charity donations of AED 2.5 million (2012: AED 2.5 million). In addition to the above, an amount of AED 3.1 million was paid as Directors' remuneration to Emirates Lebanon Bank S.A.L., a subsidiary of the Bank (2012: AED 3.1 million). Further, the shareholders approved to transfer AED 23.3 million to the general reserve (2012: AED 32.1 million), and additional AED 7.1 million were allocated to the general reserve at the subsidiary level "Emirates Lebanon Bank S.A.L."

23. COMMITMENTS AND CONTINGENT LIABILITIES

	2013 AED'000	2012 AED'000
Financial guarantees for loans	1,536,694	1,618,864
Other guarantees	1,610,725	1,393,331
Letters of credit	1,385,260	1,055,267
Capital commitments	69,311	104,333
	4,601,990	4,171,795
Irrevocable commitments to extend credit	1,241,853	1,542,500
	5,843,843	5,714,295

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

Commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit and guarantees commit the Group to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. These contracts would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at zero or floating interest rates.

24. CASH AND CASH EQUIVALENTS

	2013 AED'000	2012 AED'000
Cash and balances with central banks (Note 5)	3,400,245	2,738,642
Deposits and balances due from banks (Note 6)	4,111,230	3,726,026
Deposits and balances due to banks (Note 17)	(97,336)	(445,512)
	7,414,139	6,019,156
Less: Deposits and balances due from banks - maturity more than three months	(803,930)	(708,425)
Less: Statutory reserves with central banks (Note 5)	(1,021,119)	(937,192)
	5,589,090	4,373,539

25. FIDUCIARY ASSETS

The Group holds investments amounting to AED 0.8 billion (31 December 2012: AED 1.10 billion) which are held on behalf of customers and not treated as assets in the consolidated statement of financial position.

26. INTEREST INCOME

	2013 AED'000	2012 AED'000
Loans and advances	878,691	918,233
Certificates of deposit, treasury bills with central banks and debt instruments	87,263	81,534
Placements with banks	6,181	7,556
	972,135	1,007,323

27. INTEREST EXPENSE

	2013 AED'000	2012 AED'000
Customers' deposits	492,800	457,468
Bank deposits	9,706	11,584
Syndicated loan	9,537	11,234
Interest on cash contribution towards capital due to non-controlling interests	6,612	6,612
	518,655	486,898

28. NET FEE AND COMMISSION INCOME

	2013 AED'000	2012 AED'000
Corporate banking credit related fees	29,936	28,210
Trade finance activities	46,283	43,633
Letters of guarantee	41,337	34,238
Other	4,030	4,511
	121,586	110,592

29. INVESTMENT INCOME

	2013 AED'000	2012 AED'000
Dividends	70,509	4,229
Revaluation gain on investments at FVTPL	44,221	3,324
Other investment income	2,178	4,902
	116,908	12,455

30. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2013 AED'000	2012 AED'000
Collective impairment of loans and advances	211,552	144,467
Specific provision of loans and advances	778	37,756
Total charge for the year (Note 7)	212,330	182,223
Recoveries during the year	(34,510)	(3,057)
NET IMPAIRMENT LOSS ON FINANCIAL ASSETS	177,820	179,166

31. GENERAL AND ADMINISTRATIVE EXPENSES

	2013 AED'000	2012 AED'000
Salaries and employees related expenses	158,338	132,549
Depreciation on property and equipment	15,043	14,320
Other	66,269	55,872
	239,650	202,741

32. RELATED PARTY TRANSACTIONS

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

Transactions between the Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

The related parties balances included in the consolidated statement of financial position and the significant transactions with related parties are as follows:

	2013 AED'000	2012 AED'000
Loans and advances	2,470,411	2,098,878
Deposits	313,977	332,259
Letters of credit, guarantee and acceptances	1,041,446	1,171,841
Interest income	136,978	130,544
Interest expense	8,529	18,031
Key Management Compensation	20,416	17,304

The Board of Directors has proposed a remuneration of AED 7.5 million (2012: AED 7.5 million) for the Board Members. This is subject to the approval of the shareholders at the Annual General Meeting.

As at 31 December 2013, entities related to one of the directors accounted for 60% (2012: 56%) of the total aforementioned loans and advances, 22% (2012: 33%) of the total aforementioned deposits, and 97% (2012: 95%) of the total aforementioned financial guarantees for loans.

33. SEGMENTAL INFORMATION

33.1 IFRS 8 Operating Segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14: Segment Reporting) required an entity to identify two segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. However, the business segments reported earlier as per the requirements of IAS 14 Segment Reporting are also used by the General Manager to allocate resources to the segments and to assess their performance.

33.2 Products and services from which reportable segments derive their revenues

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is specifically focused on the type of business activities undertaken as a Group. For operating purposes, the Group is organised into two major business segments:

- (i) Commercial Banking, which principally provides loans and other credit facilities, deposits and current accounts for corporate, government, institutional and individual customers; and
- (ii) Investment Banking, which involves the management of the Group's investment portfolio.

The following table presents information regarding the Group's operating segments for the year ended 31 December 2013:

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated AED'000	Total AED'000
REVENUE FROM EXTERNAL CUSTOMERS				
Net interest income	427,006	26,474	-	453,480
Net fee and commission income	121,586	-	-	121,586
Exchange profit	23,426	-	-	23,426
Investment income	-	116,908	-	116,908
Net revaluation gain on investment properties	-	48,475	-	48,475
Other income	23,881	-	-	23,881
OPERATING INCOME	595,899	191,857	-	787,756
OTHER MATERIAL NON-CASH ITEMS				
Net impairment charge on financial assets	(177,820)	-	-	(177,820)
Depreciation of property and equipment	-	-	(15,043)	(15,043)
General and administrative expenses	(190,915)	(33,692)	-	(224,607)
Amortisation of intangible assets	(7,784)	-	-	(7,784)
Income tax expenses - overseas	-	-	(9,661)	(9,661)
PROFIT FOR THE YEAR AFTER TAXES	219,380	158,165	(24,704)	352,841
SEGMENT ASSETS	22,275,406	2,060,653	636,449	24,972,508
SEGMENT LIABILITIES	19,638,267	734,600	247,020	20,619,887
ADDITIONS TO NON-CURRENT ASSETS	91,368	-	28,287	119,655

The following table presents information regarding the Group's operating segments for the year ended 31 December 2012:

	Commercial Banking AED'000	Investment Banking AED'000	Unallocated AED'000	Total AED'000
REVENUE FROM EXTERNAL CUSTOMERS				
Net interest income	495,624	24,801	-	520,425
Net fee and commission income	110,592	-	-	110,592
Exchange profit	21,189	-	-	21,189
Investment income	-	12,455	-	12,455
Other income	9,090	-	-	9,090
OPERATING INCOME	636,495	37,256	-	673,751
OTHER MATERIAL NON-CASH ITEMS				
Net impairment charge on financial assets	(179,166)	-	-	(179,166)
Depreciation of property and equipment	-	-	(14,320)	(14,320)
General and administrative expenses	(160,158)	(28,263)	-	(188,421)
Amortisation of intangible assets	(7,784)	-	-	(7,784)
Income tax expenses - overseas	-	-	(6,947)	(6,947)
PROFIT FOR THE YEAR AFTER TAXES	289,387	8,993	(21,267)	277,113
SEGMENT ASSETS	20,153,900	2,138,994	539,794	22,832,688
SEGMENT LIABILITIES	17,880,194	495,855	274,590	18,650,639
ADDITIONS TO NON-CURRENT ASSETS	194	-	54,891	55,085

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the year (2012: Nil). Transactions between segments, inter-segment cost of funds and allocation of expenses are not determined by management for resource allocation purpose. The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

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

- All assets are allocated to reportable segments except for property and equipment, goodwill and other intangibles and certain amounts included in other assets; and
- All liabilities are allocated to reportable segments except for certain amounts included in other liabilities.

33.3 Geographical information

The Group operates in two principal geographical areas - United Arab Emirates (country of domicile) and Lebanon (referred to as 'foreign').

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Country of Domicile AED'000	Foreign AED'000	Total AED'000
2013			
Operating income (from external customers)	<u>656,893</u>	<u>130,863</u>	<u>787,756</u>
Non-current assets	<u>884,249</u>	<u>305,680</u>	<u>1,189,929</u>
2012			
Operating income (from external customers)	<u>576,865</u>	<u>101,886</u>	<u>678,751</u>
Non-current assets	<u>825,162</u>	<u>294,863</u>	<u>1,120,025</u>

33.4 Information about major customers

In 2013, one customer accounted for more than 10% of the Group's revenue from external customers (2012: two customers accounted for more than 10% of the Group's revenue from external customers).

34. CLASSIFICATION OF FINANCIAL ASSETS & LIABILITIES

(a) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2013:

	FVTPL AED'000	FVTOCI AED'000	Amortised Cost AED'000	Total AED'000
FINANCIAL ASSETS				
Cash and balances with central banks	-	-	3,400,245	3,400,245
Deposits and balances due from banks	-	-	4,111,230	4,111,230
Loans and advances, net	-	-	13,134,749	13,134,749
Other financial assets measured at fair value	90,751	1,126,579	-	1,217,330
Other financial assets measured at amortised cost	-	-	539,645	539,645
Other assets	-	-	1,473,493	1,473,493
TOTAL	90,751	1,126,579	22,659,362	23,876,692
FINANCIAL LIABILITIES				
Customers' deposits	-	-	18,374,066	18,374,066
Deposits and balances due to banks	-	-	97,336	97,336
Other liabilities	-	-	1,318,670	1,318,670
Syndicated loan	-	-	734,600	734,600
TOTAL	-	-	20,524,672	20,524,672

(b) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2012:

	FVTPL AED'000	FVTOCI AED'000	Amortised Cost AED'000	Total AED'000
FINANCIAL ASSETS				
Cash and balances with central banks	-	-	2,738,642	2,738,642
Deposits and balances due from banks	-	-	3,726,026	3,726,026
Loans and advances, net	-	-	12,444,339	12,444,339
Other financial assets measured at fair value	44,458	1,025,455	-	1,069,913
Other financial assets measured at amortised cost	-	-	746,434	746,434
Other assets	-	-	1,339,080	1,339,080
TOTAL	44,458	1,025,455	20,994,521	22,064,434
FINANCIAL LIABILITIES				
Customers' deposits	-	-	16,476,374	16,476,374
Deposits and balances due to banks	-	-	445,512	445,512
Other liabilities	-	-	1,153,946	1,153,946
Syndicated loan	-	-	495,855	495,855
TOTAL	-	-	18,571,687	18,571,687

35. RISK MANAGEMENT

The Group has Senior Management committees to oversee the risk management. The Executive Committee and the Board Risk Committee, under delegation from the Board of Directors defines policies, processes, and systems to manage and monitor credit risk. It also sets policies, system and limits for interest rate risk, foreign exchange risk, and liquidity risk. The Group also has a Credit Risk function, which independently reviews adherence to all risk management policies and processes. The Group's internal audit function, which is part of risk review, primarily evaluates the effectiveness of the controls addressing operational risk. This function is outsourced to one of the big 4 audit firms to ensure independence and objectivity.

Credit risk management

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

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

Policies relating to credit are reviewed and approved by the Group's Executive Committee. All credit lines are approved in accordance with the Group's credit policy set out in the Credit Policy Manual. Credit and Marketing

functions are segregated. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Group further limits risk through diversification of its assets by economic and industry sectors.

All credit facilities are administered and monitored by the Credit Administration Department. Periodic reviews are conducted by Credit Risk and facilities are risk graded based on criterion established in the Credit Policy Manual.

Cross border exposure and financial institutions exposure limits for money market and treasury activities are approved as per guidelines established by the Group's Executive Committee and are monitored by the Senior Management on a daily basis.

The Executive Committee is responsible for setting credit policy of the Group. It also establishes industry caps, approves policy exceptions, and conducts periodic portfolio reviews to ascertain portfolio quality.

Commercial/Institutional lending underwriting

All credit applications for commercial and institutional lending are subject to the Group's credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Group does not lend to companies operating in industries that are considered by the Group inherently risky and where industry knowledge specialised is required. In addition, the Group sets credit limits for all customers based on their creditworthiness.

All credit facilities extended by the Group are made subject to prior approval pursuant to a delegated signature authority system under the ultimate authority of the Executive Committee or the Group's Executive Director and General Manager under the supervision of the Board. At least two signatures are required to approve any commercial or institutional credit application.

Credit review procedures and loan classification

The Group's Credit Risk department subjects the Group's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the UAE and the Group's internal policies in order to assist in the early identification of accrual and potential performance problems. The Credit Risk department validates the risk ratings of all commercial clients, provides an assessment of portfolio risk by product and industry and monitors observance of all approved credit policies, guidelines and operating procedures across the Group.

All commercial/institutional loan facilities of the Group are assigned one of nine risk ratings (A-I) where A is being excellent and I being loss with no reimbursement capacity and total provisioning.

If a credit is impaired, interest suspended will not be credited to the consolidated income statement. Specific allowance for impairment of classified assets is made based on recoverability of outstanding and risk ratings of the assets.

The Group also complies with IAS 39 in accordance with which it assesses the need for any impairment losses on its loan portfolio by calculating the net present value of the expected future cash flows for each loan. As required by Central Bank of the UAE guidelines, the Group takes the higher of the loan loss provisions required under IAS 39, and Central Bank regulations.

Executive Committee (EC) & Board Risk Committee (BRC)

In addition to its credit related activity, the Executive Committee along with the Board Risk Committee have a broad range of authority delegated by the Board of Directors to manage the Group's asset and liability structure and funding strategy. The EC and BRC review liquidity ratios; asset and liability structure; interest rate and foreign exchange exposures; internal and statutory ratio requirements; funding gaps; and general domestic and international economic and financial market conditions. The EC & BRC formulate liquidity risk management guidelines for the Group's operation on the basis of such review.

The Group's Senior Management monitors the liquidity on a daily basis and uses an interest rate simulation model to measure and monitor interest rate sensitivity and varying interest rate scenarios.

The EC members comprise of the Chairman, three Board Members, in addition to the Executive Director and General Manager. The EC meets once or more every 45 days, as circumstances dictate. The quorum requires all members to be present at the meeting and decisions taken to be unanimous.

Maximum exposure to credit risk

	LOANS AND ADVANCES TO CUSTOMERS	
	2013	2012
	AED'000	AED'000
CARRYING AMOUNT		
<i>Individually impaired</i>		
Grade (G-I) - gross amount	1,059,200	402,368
<i>Neither past due nor impaired</i>		
Grade A	1,602,231	1,787,440
Grade B	6,491,069	5,726,663
Grade C	3,681,888	3,204,096
Grade D	975,857	344,217
Grade E	67,080	46,233
	13,877,325	11,511,017
Past due but not impaired	479,091	1,903,999
Total carrying amount	14,356,416	13,415,016
ALLOWANCE FOR IMPAIRMENT (including interest in suspense)	(1,221,667)	(970,677)

The risk classification of loans and advances

	2013 AED'000	2012 AED'000
Performing loans	12,002,556	11,600,096
Other loans exceptionally monitored	1,294,660	1,412,552
Non-performing loans	1,059,200	402,368
	14,356,416	13,415,016
Less: Allowance for impairment	(1,011,629)	(844,053)
Less: Interest in suspense	(210,038)	(126,624)
	13,134,749	12,444,339

As at 31 December 2013, loans and advances measured at amortised cost include AED 479 million (2012: AED 1,904 million) of loans and advances that are past due but not impaired. Past due but not impaired includes loans and advances that are either fully secured or there is no concern over the credit worthiness of the counterparty as per management's judgment. Out of the balance of AED 479 million of past due loans AED 127 million (2012: AED 337 million) was the installment amounts of principle or interest that is past due.

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is likely the collectability of all principal and interest due according to the contractual terms of the loan/securities agreement(s) would be doubtful. These loans are graded G to I in the Group's internal credit risk grading system.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loan loss allowance established for group of homogeneous assets with respect to losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Group writes off a loan/security balance (and any related allowances for impairment losses) when the Group determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

The Group holds collateral against loans and advances in the form of mortgage interests over properties, vehicles and machineries, cash margins, fixed deposits, guarantees and others. The Group accepts guarantees mainly from well-reputed local or international banks, well-established local or multinational corporate and high net worth private individuals. Management has estimated the fair value of collateral to be AED 8.5 billion (2012: AED 7.8 billion). The fair value of the collateral includes cash deposits which are not under lien and the Group has right to set-off against the outstanding facilities.

No collaterals are held against investment securities.

Liquidity risk management

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

The Group manages its liquidity in accordance with UAE Central Bank requirements and the Group's internal guidelines. The UAE Central Bank sets cash ratio requirements on overall deposits ranging between 1.0 percent for time deposits and 14.0 percent for demand deposits, according to the tenor of the deposits. The UAE Central Bank also imposes a mandatory 1:1 utilisation ratio, whereby; loans and advances (combined with inter-bank placements having a remaining term of 'greater than three months') should not exceed stable funds as defined by the UAE Central Bank. Stable funds are defined by the UAE Central Bank to mean free-own funds, inter-bank deposits with a remaining term of more than six months, and stable customer deposits. To guard against liquidity risk, the Group diversifies its funding sources and manages its assets with liquidity in mind, seeking to maintain a preferable proportion between cash, cash equivalent, and readily marketable securities. The Board Risk Committee sets and monitors liquidity ratios and regularly revises and updates the Group's liquidity management policies to ensure that the Group would be in a position to meet its obligations as they fall due. Management of liquidity risk within the parameters prescribed by the Board Risk Committee has been delegated to an Asset and Liability Committee (ALCO) comprising the Deputy General Manager and senior executives from treasury, finance, corporate credit, and investment departments.

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or potential damage to the Group's reputation.

The Treasury department communicates with other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury maintains a portfolio of short-term liquid assets to ensure liquidity is maintained within the Group's operations as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is performed under a variety of scenarios covering both normal and severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board Risk Committee. The Daily Position sheet, which reports the liquidity and exchange positions of the Group is reviewed by Senior Management. A summary report, including any exceptions and remedial action taken, is submitted to the Board Risk Committee.

The maturity profile of the assets and liabilities at 31 December 2013 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	Within 3 Months	Over 3 Months to 1 Year	Over 1 year	Undated	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
ASSETS					
Cash and balances with central banks	2,435,282	195,650	734,978	34,335	3,400,245
Deposits and balances due from banks	4,023,078	88,152	-	-	4,111,230
Loans and advances, net	7,430,036	1,033,258	4,667,801	3,654	13,134,749
Other financial assets measured at fair value	1,126,579	-	87,636	3,115	1,217,330
Other financial assets measured at amortised cost	-	108,373	420,996	10,276	539,645
Investment properties	-	-	-	303,678	303,678
Goodwill and other intangibles	-	-	-	249,802	249,802
Other assets	1,155,850	294,934	8,027	277,324	1,736,135
Property and equipment	-	-	-	279,694	279,694
TOTAL ASSETS	16,170,825	1,720,367	5,919,438	1,161,878	24,972,508
LIABILITIES AND EQUITY					
Customers' deposits	11,974,233	5,164,733	80,185	1,154,915	18,374,066
Deposits and balances due to banks	38,978	58,358	-	-	97,336
Other liabilities	1,220,765	32,293	33,372	127,455	1,413,885
Syndicated loan	-	-	734,600	-	734,600
Equity	-	-	-	4,352,621	4,352,621
TOTAL LIABILITIES AND EQUITY	13,233,976	5,255,384	848,157	5,634,991	24,972,508

The maturity profile of the assets and liabilities at 31 December 2012 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	Within 3 Months	Over 3 Months to 1 Year	Over 1 year	Undated	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
ASSETS					
Cash and balances with central banks	2,012,624	73,129	630,531	22,358	2,738,642
Deposits and balances due from banks	3,541,285	184,741	-	-	3,726,026
Loans and advances, net	7,194,141	740,539	4,506,895	2,764	12,444,339
Other financial assets measured at fair value	117,965	-	-	951,948	1,069,913
Other financial assets measured at amortised cost	10,650	221,881	501,207	12,696	746,434
Investment properties	-	-	-	230,821	230,821
Goodwill and other intangibles	-	-	-	257,586	257,586
Other assets	946,168	39,555	1,608	360,667	1,347,998
Property and equipment	-	-	-	270,929	270,929
TOTAL ASSETS	13,822,833	1,259,845	5,640,241	2,109,769	22,832,688
LIABILITIES AND EQUITY					
Customers' deposits	11,431,280	3,810,286	467,266	767,542	16,476,374
Deposits and balances due to banks	91,264	354,248	-	-	445,512
Other liabilities	903,974	9,866	43,170	275,888	1,232,898
Syndicated loan	-	495,855	-	-	495,855
Equity	-	-	-	4,182,049	4,182,049
TOTAL LIABILITIES AND EQUITY	12,426,518	4,670,255	510,436	5,225,479	22,832,688

Market risk management

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into trading, or non-trading /banking book.

a) Market risk - trading book

The Executive Committee has set limits for acceptable level of risks in managing the trading book. The Group maintains a well-diversified portfolio. In order to manage the market risk in the trading book, the Group carries a limited amount of market risk based on the policy preference and this is continuously monitored by Senior Management. Proprietary trading for the account of the Group is managed by a proprietary trading limit with a stop-loss limit.

The Group's trading book mainly comprises of equity instruments in companies listed on the UAE exchanges. As such, the market risk in the trading book is limited to equity price risk.

Equity price risk refers to the risk of a decrease in the fair values of equities in the Group's trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The Group's trading portfolio is well-diversified in terms of economic activity with a beta of 0.98 (2012: -0.04) to the Global stock markets. The effect on the Group's equity investments held in the trading book due to a reasonable possible change in UAE equity indices, with all other variables held constant is as follows:

MARKET INDICES	31 December 2013		31 December 2012	
	Change in	Effect on	Change in	Effect on
	Equity Price	Income	Equity Price	Income
	%	AED'000	%	AED'000
GLOBAL STOCK MARKETS	+ 1 %	857	+1%	(17)

b) Market risk - non-trading or banking book

Market risk on non-trading or banking positions mainly arises from the interest rate, foreign currency exposures and equity price changes.

i. Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities.

The Group uses simulation-modeling tools to periodically measure and monitor interest rate sensitivity. The results are monitored and analysed by the Senior Management. Since most of the Group's financial assets and liabilities are floating rate, deposits and loans generally re-price simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Group's assets and liabilities will be re-priced within one year or less, thereby further limiting interest rate risk.

The Group's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at 31 December 2013 was as follows:

	Weighted Average Effective Rate	Within 3 Months AED'000	Over 3 Months to 1 Year AED'000	Over 1 Year AED'000	Non- Interest Sensitive AED'000	Total AED'000
ASSETS						
Cash and balances with central banks	1.68%	1,668,897	41,420	499,906	1,190,022	3,400,245
Deposits and balances due from banks	0.35%	2,271,312	-	-	1,839,918	4,111,230
Loans and advances, net	6.84%	12,821,706	122,193	93,459	97,391	13,134,749
Other financial assets - Debt securities	-	-	-	-	1,129,694	1,129,694
Other financial assets - Equity instruments	6.55%	68,609	-	-	558,672	627,281
Investment properties	-	-	-	-	303,678	303,678
Goodwill and other intangibles	-	-	-	-	249,802	249,802
Other assets	-	1,254	-	-	1,734,881	1,736,135
Property and equipment, net	-	-	-	-	279,694	279,694
TOTAL ASSETS		16,831,778	163,613	593,365	7,383,752	24,972,508
LIABILITIES AND EQUITY						
Customers' deposits	2.43%	9,014,495	4,745,511	3,357	4,610,703	18,374,066
Deposits and balances due to banks	0.11%	61,465	771	514	34,586	97,336
Other liabilities	-	-	-	-	1,413,885	1,413,885
Syndicated loan	1.49%	734,600	-	-	-	734,600
Equity	-	-	-	-	4,352,621	4,352,621
TOTAL LIABILITIES AND EQUITY		9,810,560	4,746,282	3,871	10,411,795	24,972,508
On statement of financial position gap		7,021,218	(4,582,669)	589,494	(3,028,043)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP		7,021,218	2,438,549	3,028,043	-	-

The Group's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at 31 December 2012 was as follows:

	Weighted Average Effective Rate	Within 3 Months AED'000	Over 3 Months to 1 Year AED'000	Over 1 Year AED'000	Non-Interest Sensitive AED'000	Total AED'000
ASSETS						
Cash and balances with central banks	2.36%	1,732,908	36,399	-	969,335	2,738,642
Deposits and balances due from banks	0.20%	2,847,920	184,741	-	693,365	3,726,026
Loans and advances, net	6.89%	12,038,987	103,850	3,710	297,792	12,444,339
Other financial assets - Dept securities	5.48%	930	-	-	746,434	747,364
Other financial assets - Equity instruments	-	-	-	-	1,068,983	1,068,983
Investment properties	-	-	-	-	230,821	230,821
Goodwill and other intangibles	-	-	-	-	257,586	257,586
Other assets	6.00%	91,825	-	-	1,256,173	1,347,998
Property and equipment, net	-	-	-	-	270,929	270,929
TOTAL ASSETS		16,712,570	324,990	3,710	5,791,418	22,832,688
LIABILITIES AND EQUITY						
Customers' deposits	2.76%	9,693,118	3,824,239	-	2,959,017	16,476,374
Deposits and balances due to banks	0.91%	215,832	202,015	-	27,665	445,512
Other liabilities	-	-	-	-	1,232,898	1,232,898
Syndicated loan	1.81%	495,855	-	-	-	495,855
Equity	-	-	-	-	4,182,049	4,182,049
TOTAL LIABILITIES AND EQUITY		10,404,805	4,026,254	-	8,401,629	22,832,688
On statement of financial position gap	-	6,307,765	(3,701,264)	3,710	(2,610,211)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP	-	6,307,765	2,606,501	2,610,211	-	-

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument, excluding non-interest bearing items. The rate is a historical rate for a fixed rate instrument carried at amortised cost and the current market rate for a floating rate instrument or for an instrument carried at fair value.

The following table depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Group's consolidated income statement or equity. The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2013, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at 31 December 2013 for the effect of assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in AED thousands.

2013	SENSITIVITY OF EQUITY						Total 2013
	Increase in basis	Sensitivity of interest income	6 months or less	1 year or less	1-5 years or less	Over 5 years	
Currency							
AED	+25	10,637	-	-	-	-	10,637
USD	+25	(2,817)	-	-	-	-	(2,817)
Others	+25	(317)	-	-	-	-	(317)

2012	SENSITIVITY OF EQUITY						Total 2012
	Increase in basis	Sensitivity of interest income	6 months or less	1 year or less	1-5 years or less	Over 5 years	
Currency							
AED	+25	9,984	-	-	-	-	9,984
USD	+25	(2,496)	-	-	-	-	(2,496)
Others	+25	(676)	-	-	-	-	(676)

ii. Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging instruments are also used to ensure that positions are maintained within the limits.

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, in the normal course of business the Group takes on foreign currency exposures to finance its client's activities. The Executive Committee sets the limits on the level of exposure by currency for both overnight and intra-day positions, which are closely monitored by Senior Management. As at 31 December 2013, the Group's net currency position was not material, and all the positions were within limits approved by the Executive Committee. The table below shows the foreign currencies to which the Group has a significant exposure to:

	2013 AED'000 Equivalent long (short)	2012 AED'000 Equivalent long (short)
US Dollar	(87,638)	(130,393)
Euro	1,046	(2,961)

The analysis below calculates the effect of a possible movement of the currency rate against AED, with all other variables held constant, on the consolidated income statement (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in consolidated income statement or equity; whereas a negative effect shows a potential net reduction in consolidated income statement or equity.

(AED'000)			
Currency Exposure as at 31 December 2013	Change in currency rate in %	Change on net Profit	Change on Equity
USD	+5%	(4,382)	-
EUR	+5%	52	-
(AED'000)			
Currency Exposure as at 31 December 2012	Change in currency rate in %	Change on net Profit	Change on Equity
USD	+5%	(6,520)	-
EUR	+5%	(148)	-

iii. Equity price risk

Equity price risk refers to the risk of a decrease in the fair value of equities in the Group's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's quoted equity investments held as financial assets at FVTOCI due to reasonable possible change in equity prices, with all other variables held constant is as follows:

MARKET INDICES	31 December 2013		31 December 2012	
	Change in Equity Price %	Effect on Income AED'000	Change in Equity Price %	Effect on Income AED'000
GLOBAL STOCK MARKETS	+ 1 %	1,464	+1%	(29)

Operational risk

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

36. CAPITAL ADEQUACY AND CAPITAL MANAGEMENT

Capital management process

The Group's objectives when managing capital, which is a broader concept than the 'equity' in the consolidated statement of financial positions, are:

- To comply with the capital requirements set by the Central Bank of United Arab Emirates;
- To safeguard the Group's ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the authority on a quarterly basis.

The UAE Central Bank vide its circular No.27/2009 dated 17 November 2009 informed all the Banks operating in the UAE to implement the Standardised Approach of Basel II from the date of the circular. For credit and market risks, the Central Bank has issued draft guidelines for implementation of the Standardised Approach and banks are expected to comply and report under Pillar 2- Internal Capital Adequacy Assessment Process (ICAAP) requirements by March 2010. For operational risk, the Central Bank has given banks the option to use the Basic Indicators Approach or the Standardised Approach and the Group has chosen to use the Basic Indicator Approach. The capital adequacy ratio required under Basel II is 12% to be maintained at all times.

The ratios calculated in accordance with Basel II are as follows:

	Basel II	
	2013 AED'000	2012 AED'000
TIER I CAPITAL		
Share capital	2,100,000	2,100,000
Shares held in treasury	(327,792)	(327,792)
Statutory reserve	1,085,357	1,085,357
Contingency and general reserves	506,125	441,303
Retained earnings	579,129	519,305
Non-controlling interest in equity of subsidiaries	210,455	257,742
Goodwill and other intangibles	(249,802)	(257,586)
	3,903,472	3,818,329
TIER 2 CAPITAL		
Collective impairment allowance on loans and advances	236,890	222,161
Cumulative change in fair value	89,706	47,760
	326,596	269,921
TOTAL REGULATORY CAPITAL	4,230,068	4,088,250
RISK-WEIGHTED ASSETS		
Credit risk	18,058,801	16,841,145
Market risk	5,448	97,399
Operational risk	886,973	834,356
TOTAL RISK-WEIGHTED ASSETS	18,951,222	17,772,900
CAPITAL ADEQUACY RATIO	22.32%	23.00%

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments held at fair value through profit and loss

Investments held for trading or designated at fair value through profit and loss represent investment securities that present the Group with opportunity for returns through dividend income, trading gains and capital appreciation. Including in these investment listed equity securities for which the fair values are based on quoted prices at close of business as of 31 December 2013, and unlisted bonds for which the fair values are derived from internal valuation performed based on generally accepted pricing models, all inputs used for the valuation are supposed by observable market prices or rates.

Unquoted investments held at fair value through other comprehensive income

The consolidated financial statements include holdings in unquoted securities amounting to AED 977 million (2012: AED 953 million) which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalisation of sustainable earnings basis or comparable ratios depending on the investment and industry. The valuation model includes some assumptions that are not supported by observable market prices or rates.

For determining the fair value of those investments that are valued using the discounted cash flow analysis, a long term earnings growth factor of 2% and risk adjusted discount or capitalisation rates in the range of 14% to 20% were used. If the long term earnings growth factor were 100 basis points higher/lower while all other variables were held constant, then the carrying amount of the shares would increase/decrease by AED 2.4 million (2012: AED 2.9 million). Similarly, if the risk adjusted discount or capitalisation rates were 100 basis points higher/lower while all other variables were held constant, then the fair value of the securities would decrease/increase by AED 5.2 million (2012: AED 6.2 million).

For investments valued using comparable ratios, share prices of comparable companies represent significant inputs to the valuation model. If the share prices of the comparable companies were 5% higher/lower while all other variables were held constant, then the fair value of the securities would increase/decrease by AED 47 million (2012: AED 48 million).

The impact of the change in fair valuation from previously existing carrying amounts have been recognised as a part of cumulative changes in fair value in equity.

Fair value of financial assets carried at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values.

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	AED'000	AED'000	AED'000	AED'000
FINANCIAL ASSETS				
Other financial assets measured at amortised cost	<u>539,645</u>	<u>547,583</u>	<u>746,434</u>	<u>751,533</u>

The fair value for other financial assets measured at amortised cost is based on market prices.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value. They are banked into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices, including over-the-counter quoted prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
AT 31 DECEMBER 2013				
Other financial assets measured at fair value				
INVESTMENT MEASURED AT FVTPL				
Quoted equity	3,115	-	-	3,115
Unquoted debt securities	-	87,636	-	87,636
INVESTMENTS CARRIED AT FVTOCI				
Quoted equity	149,818	-	-	149,818
Unquoted equity	-	-	976,761	976,761
TOTAL	152,933	87,636	976,761	1,217,330
OTHER ASSETS /LIABILITIES				
Negative fair value of derivatives	-	(93)	-	(93)
At 31 December 2012				
Other financial assets measured at fair value				
INVESTMENT MEASURED AT FVTPL				
Quoted equity	43,528	-	-	43,528
Unquoted debt securities	-	930	-	930
INVESTMENTS CARRIED AT FVTOCI				
Quoted equity	72,902	-	-	72,902
Unquoted equity	-	-	952,553	952,553
TOTAL	116,430	930	952,553	1,069,913
OTHER ASSETS				
Positive fair value of derivatives	-	363	-	363

There were no transfers between Level 1 and Level 2 during the current year.

Reconciliation of Level 3 fair value measurements of other financial assets measured at FVTOCI

	2013 AED'000	2012 AED'000
Opening balance	952,553	935,142
Additions	7,910	12,679
Gains recognised in other comprehensive income	16,298	4,732
Closing balance	976,761	952,553

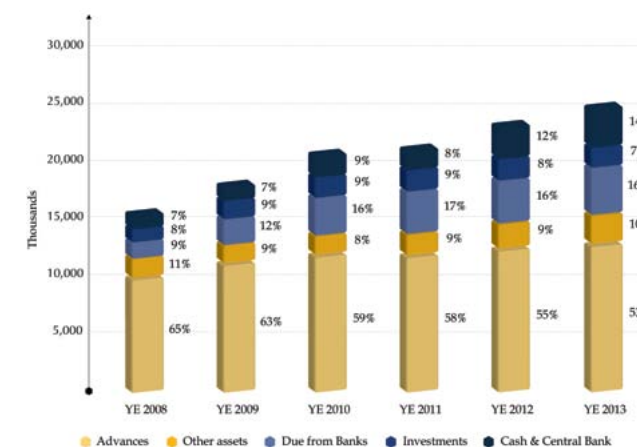
38. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 1 February 2014.

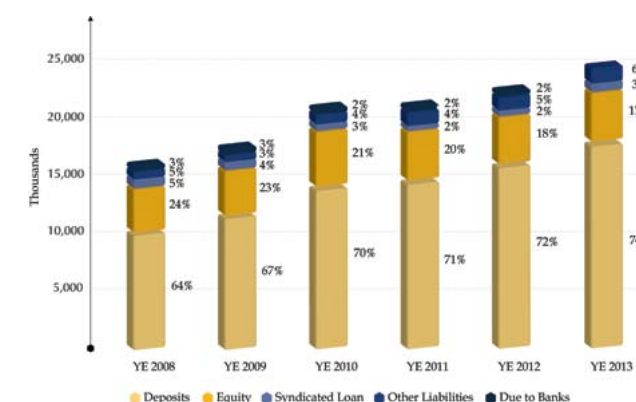


Graphs

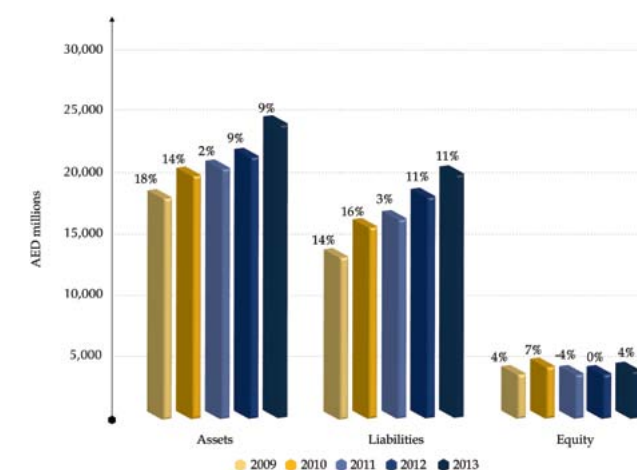
Consolidated Balance Sheet Structure-Assets



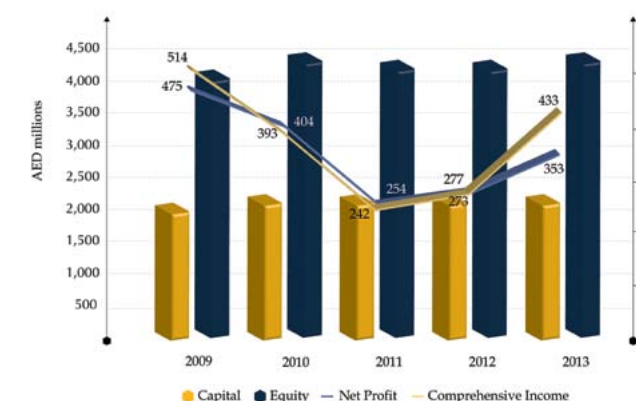
Consolidated Balance Sheet Structure-Liabilities



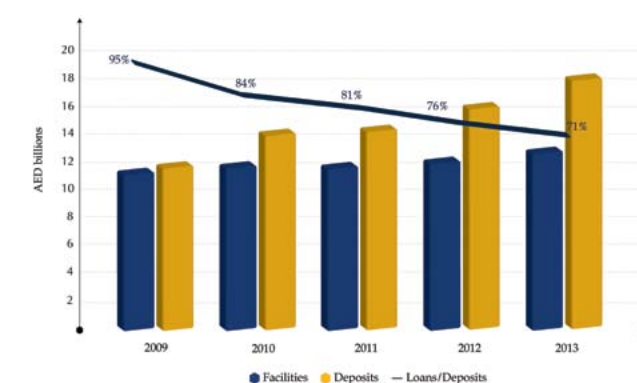
Evolution of Total Assets, Liabilities and Shareholders Equity



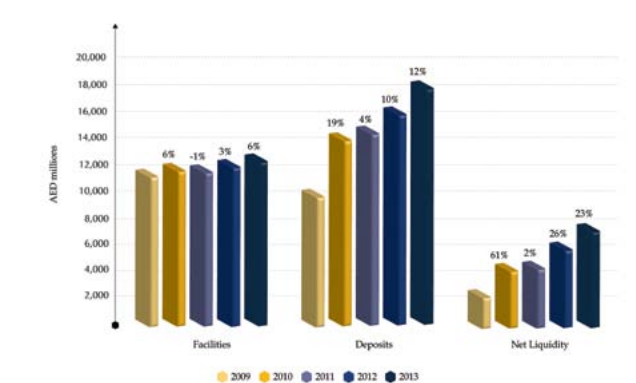
Evolution of Capital, Equity & Profit



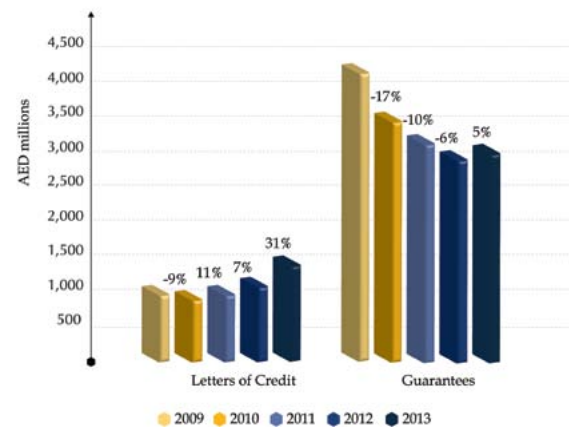
Evolution of Deposits and Advances



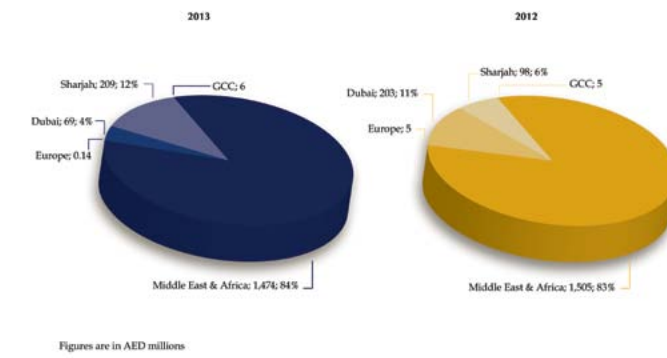
Evolution of Total Facilities, Deposits, Net Liquidity



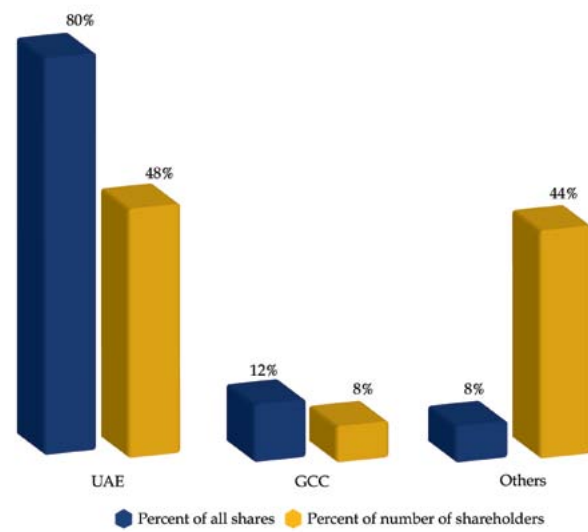
Evolution of Documentary Credits & Guarantees



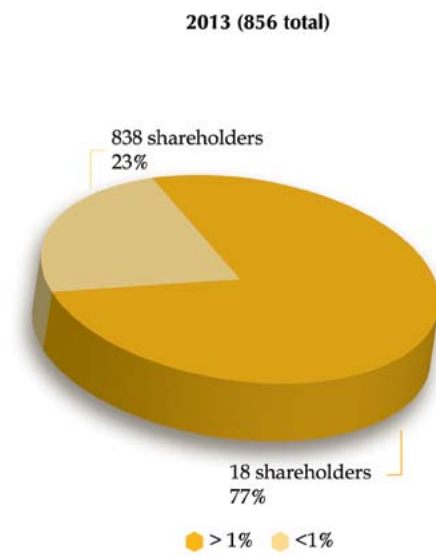
Investment Breakdown by Region



Shareholding by Nationality



Capital Structure



Evolution of number of shareholders during 2013



Trading Price Bank of Sharjah Shares



الرسوم البيانية

